



**U.S.-China Relations:**

## **Katrina Wreaks Diplomatic Havoc, Too**

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The quarter opened with a 20-hour stopover in Beijing by Secretary of State Condoleezza Rice. In early August, her deputy Robert Zoellick visited China to launch a senior-level dialogue on strategic issues. The devastation wrought by Hurricane Katrina resulted in the postponement of Chinese President Hu Jintao's long-planned visit to the United States. Instead, Presidents Hu and Bush met on the sidelines of the UN General Assembly (UNGA) meeting. China played an instrumental and assertive role in forging consensus on a joint statement at the fourth round of the Six-Party Talks. U.S.-China military exchanges picked up this quarter with an exchange of visits by Gen. Liu Zhenwu, the commander of China's Guangzhou military region, and Adm. Fallon, the commander of U.S. military forces in the Pacific. The economic and trade picture was mixed. Some progress was made on strengthening the protection of intellectual property rights in China. Three rounds of textile negotiations failed to produce an agreement. In July, China abandoned the decade-old peg of the yuan against the dollar, and revalued its currency 2.1 percent.

### **Hu's visit is diplomatic casualty of Katrina**

President Hu's long-anticipated visit to Washington, planned to take place on Sept. 7, became a diplomatic casualty of Hurricane Katrina. Just two days prior to his scheduled departure from Beijing, President Bush won the Chinese leader's understanding for a decision to devote his undivided attention to the devastation wrought by the natural disaster. After speaking by phone early Saturday morning, Sept. 3, the White House issued a statement announcing that the two presidents had agreed to postpone their meeting in Washington, meet in New York on the sidelines of the UNGA later that month, and reschedule President Hu's visit for another mutually convenient time.

Hu offered the sympathies of the Chinese people on the hardships suffered by Americans in the aftermath of the hurricane, and Beijing immediately gave \$5 million in aid and sent rescue workers to assist with medical treatment and epidemic prevention in the disaster-stricken areas.

The postponement was regrettable, but was undoubtedly the right decision. Given the fiercely anti-China mood in Congress and much of the rest of the country, Bush would have been severely criticized had he proceeded to host China's president on the South Lawn and in the Oval

Office instead of attending to the needs of the victims of Katrina. Moreover, Bush would have been both ill-prepared and distracted for their substantive talks, which could have been a diplomatic calamity.

For different reasons, Chinese and U.S. officials may welcome the decision to put off the trip, despite the painstaking preparations. Haggling over venue and protocol for the meeting consumed an inordinate amount of time for the past half year, leaving many in Washington with the impression that Beijing cared more about symbols than substance. The Chinese turned down offers of an informal and intimate summit at President Bush's Crawford ranch or Camp David, which would have allowed a more relaxed atmosphere and more time for a comprehensive and candid discussion. Instead, they insisted on a 21-gun salute and a South Lawn reception that left precious little time for serious conversation.

China was miffed by the U.S. refusal to bestow the title of "state visit" to Hu Jintao's first trip to Washington as head of state. Adding to Chinese irritation, an agreement to permit each side to use their respectively preferred monikers for the summit was breached when a White House spokesman declared that the Chinese president would not be hosted for an official state visit. Beijing unquestionably hopes to avoid another such gaffe when new dates for Hu's trip are set.

The U.S. likely hopes for quicker agreement on the arrangements for a rescheduled summit, which due to hectic presidential calendars for the remainder of this year and the intense planning required for a head-of-state visit, is likely to take place in 2006. An early settlement on the locale and protocol matters would allow for increased attention to the myriad issues in the bilateral relationship that require presidential discussion and an opportunity for the two leaders to establish greater rapport and trust.

The Bush-Hu New York meeting, albeit relatively short, was fruitful nonetheless. In a rather lengthy statement to the press prior to the closed-door discussion, President Hu highlighted the "effective coordination and cooperation" between the two countries on a wide range of important issues, including counterterrorism, nonproliferation, UN reform, Asia-Pacific affairs, as well as boosting global and regional economic growth. He characterized the mainstream of the relationship as "win-win cooperation," but conceded that rapidly expanding bilateral trade had brought "inevitable" frictions and promised to work hard to address the widening trade imbalance through the purchase of more American-made products.

In an unprecedented public statement, Hu pledged to step up China's efforts to combat piracy and "protect the legitimate rights and interests of all international intellectual property rights owners, including those in the United States." He also proposed that Washington and Beijing work together to safeguard peace and stability in the Taiwan Strait and reaffirmed China's commitment to a denuclearized Korean Peninsula.

According to Michael Green, special assistant to the president for national security affairs and senior director for Asian affairs at the National Security Council who provided a press briefing on the summit, President Bush used the hourlong session to elaborate on the issues that he raised briefly in the photo op: North Korea, Iran, economics and trade, and avian flu. The two leaders reaffirmed the consensus reached by Hu's predecessor, Jiang Zemin, and President Bush at Crawford in 2002 that nuclear weapons and related programs should be banned from the Korean

Peninsula. Hu also detailed some of the diplomatic missions and personal messages that China has sent to Pyongyang to achieve that goal and indicated a willingness to step up those efforts. On Iran, Bush enlisted China's help to pressure Tehran to cooperate with the International Atomic Energy Agency (IAEA). Hu asserted that Beijing wants to see Iran live up to its international obligations, but didn't offer explicit support for moves to refer the question of the compliance of its nuclear program with IAEA rules to the UN Security Council.

President Bush also raised the currency issue, welcoming Beijing's decision in July to slightly revalue the yuan while urging China to move toward a flexible and market-determined exchange rate. The two leaders agreed to cooperate to bring the Doha round of world trade talks to a successful conclusion and to jointly strengthen enforcement of intellectual property rights in China. On avian flu, Bush secured Hu's commitment to work with U.S. health and agriculture experts as well as the international community to enhance early warning, detection, and containment capabilities.

Green also revealed that the U.S. passed a list of concerns on human rights and religious freedom to China's foreign minister that includes cases, specific names, as well as issues. U.S. officials plan to follow up and hope to quietly resolve these matters through discussions with the Chinese.

President Hu devoted a significant portion of the meeting to explaining the numerous challenges that China faces domestically, which, he argued, makes the preservation of a peaceful international environment essential for China's development. Although China ranks seventh in the world in terms of GDP, it ranks 100<sup>th</sup> in GDP per capita. He also maintained that fewer than half of the 24 million workers that enter the work force each year are able to find jobs; 60 million disabled people require care; and 26 million people live below the poverty line in the rural areas.

For a discussion that barely exceeded 60 minutes, including translation, the talks were extremely comprehensive, and as Green noted, "very frank" and "very strategic."

### **Rice's whirlwind four-nation Asia tour**

On July 10, Secretary of State Condoleezza Rice arrived in Beijing for a 20-hour visit as part of an Asian tour that also included Japan, South Korea, and Thailand. It was her second trip this year since assuming the post of top diplomat in the second term of George W. Bush. Rice met with President Hu, Foreign Minister Li Zhaoxing, Premier Wen Jiabao, and State Councilor Tang Jiaxuan.

The precipitating event of the trip was agreement by North Korea to join a fourth round of the Six-Party Talks at the end of July and thus a good deal of the secretary's discussions with Chinese leaders focused on how to achieve progress toward the shared U.S.-Chinese goal of persuading North Korea to relinquish its nuclear ambitions. Economics and trade were also on the agenda. While admitting that the Chinese economy is transitioning in ways that create problems for the U.S. economy, Rice described the bilateral economic relationship as "very healthy, robust, and active."

In a press conference following her meetings, Rice indicated that she prodded Chinese leaders to “reach out” to the Dalai Lama, who she publicly described as a man of considerable moral authority and “no threat to China.” The secretary also appealed to Beijing to have contacts with the government of Taiwanese President Chen Shui-bian following visits to China by Chen’s political opponents. “We do think that cross-Straits contacts are a good thing,” Rice said, alluding to the recent visits to the mainland by former KMT Chairman Lien Chan and PFP Chairman James Soong. “We would hope that that would extend to contacts with the elected government of Taiwan.” The secretary also raised questions of human rights and religious freedom, inquired about a few individual cases, and encouraged China’s leaders to work with the U.S. “toward a resolution of some of the structural issues in human rights and religious freedom.”

Another topic raised in the private meetings was China-U.S. cooperation on counterterrorism, which, Rice told the press, comprises an important part of the active multilateral counterterrorism coalition. It was unclear, however, whether the secretary reproved Chinese leaders for their country’s role in supporting the inclusion in a joint statement by the six-nation Shanghai Cooperation Organization (SCO) a call for U.S.-led coalition forces to set a deadline to withdraw from bases in Central Asia. In response to a query at the press conference in Beijing, Rice insisted that Afghanistan still needs help to fight terror groups. “It is our understanding that the people of Afghanistan want and need the help of U.S. armed forces,” she said, without commenting on whether she had conveyed U.S. dissatisfaction to the Chinese leadership for Beijing’s backing of the SCO statement.

The goal of the U.S., Rice maintained, is “to see the rise of a China that is a positive force in international politics.” Concerns about the size and pace of the Chinese military buildup – which Rice insisted are held throughout the U.S. government, not just in the Pentagon – does not mean that the Bush administration views China as a threat, the secretary told the press. Rather, the U.S. “just take[s] note of the fact that there is a significant military buildup going on, that is concerning,” she explained, and continues to modernize its own forces so that it can remain a force for stability and peace in the region.

### **Zoellick-Dai dialogue: senior-level AND strategic**

A new bilateral dialogue mechanism was launched in early August that holds promise as a forum for in-depth, frank discussion of U.S.-Chinese relations in a global context. Deputy Secretary of State Robert Zoellick traveled to Beijing to inaugurate the dialogue, which was first proposed by Hu Jintao to President Bush at the APEC meeting in Santiago, Chile last November. Although the U.S. declined to label the talks a “strategic dialogue” as requested by Beijing – insisting that the term “strategic” is reserved for talks with U.S. allies – Zoellick nevertheless portrayed the discussions as an exchange on “the strategic and conceptual framework” for China-U.S. relations that goes “beyond the operational day-to-day work” and seeks to “integrate across issues” in an effort to “better understand one another’s respective interests” as well as domestic considerations.

In the initial round of the talks, which Washington dubbed the “Senior Dialogue,” Zoellick engaged his Chinese counterpart, Executive Vice Foreign Minister Dai Bingguo, in a wide-ranging and unscripted discussion that weaved together various regions, including the Middle

East, East Asia, Africa, and Latin America, with functional issues such as energy security, terrorism, economic development and trade, and democracy and human rights. He challenged Beijing to use its diplomatic interactions, aid, and investments to advance rule of law, good governance, and other purposes that bolster regional and global security, rather than pursue parochial interests and short-term needs. Citing energy as an example, Zoellick urged the Chinese to work with the U.S. to oppose genocidal policies of the Sudanese government instead of engaging in a mercantilist effort to negotiate uncertain future oil supplies. Having accomplished the goal of integrating China into the world's security, economic, and political systems, Zoellick proclaimed a new objective of promoting cooperation between the U.S. and China, as "common stakeholders" in these systems and pressed for joint efforts to preserve and strengthen them.

Dai Bingguo, for his part, emphasized the daunting challenges of development that China faces. Providing details on unemployment, health, and environmental problems that plague the country, Dai attempted to reassure his interlocutor that China's leadership will be inwardly focused for decades to come and has no intention to confront U.S. interests around the globe.

In addition to his daylong meeting with Dai, Zoellick discussed economic issues, again in a broad strategic context, with officials at the National Development and Reform Commission and had a separate meeting with Chinese Foreign Minister Li Zhaoxing. Both the U.S. and Chinese sides positively appraised the first round of the new dialogue mechanism – which Beijing continues to refer to as "strategic talks" – and Zoellick agreed to host Dai in Washington D.C. for another round before the end of the year.

On Sept. 21, Zoellick delivered a speech on China-U.S. relations to the National Committee on U.S.-China relations entitled "Whither China: from Membership to Responsibility?" in which he echoed the same themes that he addressed in his talks with Dai. He urged the Chinese to recognize how their actions are perceived by others and cautioned that uncertainties about how Beijing will use its power may cause the U.S. and other nations to hedge relations with China. Zoellick elaborated the new policy of encouraging China to become a "responsible stakeholder" in the international system. Cooperation as stakeholders will enable management of differences between the U.S. and China within a larger framework where both parties understand that common benefits flow from sustaining existing political, economic, and security systems, he explained.

Chinese officials and analysts alike quietly praised the speech, but the government nevertheless felt compelled to object to the portion of Zoellick's remarks emphasized the need for greater democracy in China, despite the avowal that the U.S. does not promote the cause of freedom to weaken China. It was likely the deputy secretary of state's explicit call for a "political transition" that would make the government responsible and accountable to its people that irked the Chinese and provoked the rejoinder. Chinese Foreign Ministry spokesman chastised the U.S. for dictating political morality to China and insisted that any country's internal affairs should be handled by its government and people. The spokesman also noted that communism had brought substantial benefits to China's 1.3 billion people.

## **Military ties progress**

U.S.-China military exchanges picked up this quarter with an exchange of visits by Gen. Liu Zhenwu, the commander of China's Guangzhou military region, and Adm. William J. Fallon, the commander of U.S. military forces in the Pacific. In mid-July, Gen. Liu led a six-member delegation to the Pacific Command in Hawaii, the U.S. Military Academy at West Point, and Washington D.C., where they met acting Deputy Defense Secretary Gordon England. Adm. Fallon traveled to China in early September, his first visit since assuming his position as commander. In Beijing, Fallon met with Vice Chairman of the Central Military Commission Guo Boxiong, Chief of the PLA's General Staff Liang Guanglie, Deputy Chief of the PLA General Staff Xiong Guangkai, and Foreign Minister Li Zhaoxing. He also toured military facilities in Shanghai, Guangzhou, and Hong Kong.

At a news conference held at the end of his visit, Fallon acknowledged that military contacts between the U.S. and China have lagged behind the development of political and economic contacts, adding "I think it's time to change that." He specifically proposed closer cooperation between the U.S. and Chinese militaries on avian influenza. Meeting with journalists in Shanghai, Fallon underscored the importance of increasing transparency and mutual exchanges. He also indicated that the U.S. hoped to someday invite Chinese military experts to observe a U.S.-ROK military exercise and noted that Defense Secretary Donald Rumsfeld is looking forward to visiting China in October.

Echoing a theme raised by Rumsfeld at the Fourth Annual IISS Asia Security Conference, "The Shangri-La Dialogue," in Singapore in early June, Fallon told a news conference in Beijing that China does not face any particular threats and therefore its development of military capabilities "ought to be commensurate with the growth and development of a country." Secretary Rice voiced similar concerns in an interview with *CBS News* in mid-September. She commented that China's military buildup appears "outsized" for its regional concerns and is an "issue" for the U.S., which shares a concern for the defense of the Pacific with its allies in South Korea and Japan.

As Adm. Fallon wrapped up his tour in China, the *USS Curtis Wilbur*, an *Arleigh Burke*-class *Aegis* guided missile destroyer docked at Qingdao, kicking off a four-day goodwill visit. *Xinhua* reported that the crew of 311 would visit vessels from China's North China Fleet as well as play basketball and hold tug-of-war contests with Chinese naval officers.

After a several month delay, the Pentagon released its long-awaited 2005 report on "The Military Power of the People's Republic of China" on July 19, providing a comprehensive assessment of China's military policies, emergent capabilities, and national strategies. The report characterized China as a country facing a "strategic crossroads." Its future course, which the report claimed is yet to be decided, will be either "peaceful integration and benign competition"; "dominant influence in an expanding sphere"; or a "less confident and ... inward policy [focused] on challenges to national unity and the Chinese Communist Party's claim to legitimacy."

In a notable departure from previous DoD assessments, the 2005 report charged that in addition to generating military capabilities for a Taiwan contingency that is resulting in a shift in the cross-Strait balance of power toward Beijing, the PLA's expanding arsenal of ballistic and cruise missiles, submarines, and advanced aircraft might pose a "credible threat" to other modern military operating in the region, including China's neighbors, "over the long term, if current trends persist." At present, however, the 2005 assessment concluded that China's ability to project conventional military power beyond its periphery remains limited. Foreign Minister Li dismissed the report's contention that Beijing's military poses a threat. "China not only poses no threat to anyone, we also are willing to establish friendship and all kinds of win-win cooperation with other countries to push forward cooperative development," he stated.

### **China's active diplomacy aids in producing six-party accord**

Accounts of the Six-Party Talks, which resumed their fourth round Sept. 13 and announced an agreement on a joint statement of principles six days later, suggest that Beijing played an instrumental and assertive role in forging a consensus. In a fifth draft proposal, the Chinese crafted a delicately worded compromise that left open the possibility that North Korea could acquire a light-water reactor at some point in the future, which the U.S. had adamantly opposed. Rather than seek U.S. comments on the draft, the Chinese chief negotiator, Wu Dawei, told his counterpart Christopher Hill that it was a "take it or leave it" proposition.

China resisted Hill's efforts to incorporate a clear sequence of events in the proposal – denuclearization first, then discussion about a reactor. In the end, the U.S. signed onto what it judged to be a less than optimal joint statement to make possible the next phase of the talks that will focus on declaration of North Korea's nuclear weapons, reprocessed nuclear material, and existing nuclear programs, and to avoid being blamed for the collapse of the six-party process. To prevent Pyongyang from making an end run around the U.S., Secretary of State Rice solicited and received pledges from the foreign ministers of South Korea, Russia, Japan, and China that dismantlement would precede delivery of a light-water reactor. With secure commitments from all the other players, President Bush signed off on the deal.

The agreement is an important, but only preliminary, step toward the elimination of nuclear weapons from the Korean Peninsula. Details such as the scope of inspections of North Korean nuclear facilities, verification, the sequence of implementation of the commitments outlined in the agreement, and decisions on how the cost of energy aid will be shared have yet to be worked out. Negotiations are likely to be prolonged and arduous, and the U.S.-China relationship will continue to be tested in the process. Possible areas of sharp divergence between Washington and Beijing include the scale of North Korea's uranium enrichment program and the verification measures required to ensure full compliance.

### **Economic tensions simmer**

Although disputes in economic relations persisted this quarter, a few positive developments – combined with a series of high-level dialogues – served to ease bilateral friction and temper congressional furor, if only temporarily. Senior U.S. and Chinese officials communicated frequently on currency, trade, and intellectual property rights (IPR) issues on occasions such as

Secretary Rice's visit to Beijing and State Councilor Tang Jiaxuan's visit to Washington. At the 16<sup>th</sup> annual meeting of the U.S.-China Joint Commission on Commerce and Trade attended by Secretary of Commerce Carlos Gutierrez, U.S. Trade Representative (USTR) Rob Portman, and Secretary of Agriculture Mike Johanns, progress was made on IPR enforcement, facilitating increased U.S. exports to China, opening markets for U.S. agriculture, and removing barriers to U.S. services exports. Deputy Secretary Zoellick addressed the linkages between economics, trade, and national security in his talks with the Chinese Foreign Ministry and the National Development and Reform Commission. Elevating discussion on economics and trade to the highest level, the U.S. and Chinese presidents addressed IPR protection, currency, and WTO issues when they met on the sidelines of UNGA on Sept. 13.

Congressional concern about trade frictions with China was high at the opening of the quarter as the trade deficit swelled to \$107.7 billion year-to-date in July, well above the \$83.3 billion reached in July 2004. Before the Congress went into its August recess, numerous congressional hearings were held to investigate Chinese policies and protectionist legislation was introduced. For example, the House of Representatives passed the U.S. Trade Rights Enforcement Act on July 27 by a vote of 255 to 168 that would allow the government to impose duties on Chinese products in retaliation for trade restrictions and require that USTR closely monitor China's compliance with its WTO obligations defined by the JCCT agreement. Congressional attention was diverted from China after lawmakers reconvened in September, both by the devastating hurricane Katrina and the confirmation hearings for Chief Justice John Roberts.

In a 2005 member survey conducted by the U.S.-China Business Council that was released at the end of August, U.S. companies operating in China overwhelmingly rated China's implementation of its WTO obligations as "fair" or "good," and expressed optimism about their China business in the next five years. Echoing concerns from U.S. policymakers and congress, however, they cited IPR enforcement, regulatory transparency, and market access as key areas where improvement is needed.

In the face of mounting U.S. pressure, China severed the decade-long peg of the yuan to the dollar on July 21 and allowed it to move in a restricted float. Several weeks later Zhou Xiaochuan, China's Central Bank governor, disclosed the composition of a basket of 11 currencies used to set the yuan's value, without revealing the weightings of each currency, although he specified the dollar, euro, yen, and won as most important. At the same time that China abandoned the peg of the yuan to the dollar, it revalued its currency 2.1 percent, a far smaller percentage than called for by Bush administration officials and congresspersons, inviting criticism from some quarters.

U.S. officials nevertheless welcomed Beijing's decision. Treasury Secretary Snow contended that the new mechanism put in place by Beijing provides room for significant movement in the currency over time, calling China's decision "extremely positive." Federal Reserve Chairman Alan Greenspan told the Senate Banking Committee that China's move was "a good first step." Two months later, China widened the yuan's trading band against non-dollar currencies to 3 percent from 1.5 percent, but kept the 0.3 percent band against the dollar. In the absence of



further adjustments, pressure is likely to increase to formally cite China as a currency manipulator. In his meeting with Hu in New York, President Bush urged the Chinese leader to make further moves toward a flexible and market-oriented exchange rate.

On Chinese textile imports, another focal point of trade disputes this year, no deal has been struck despite three rounds of intense bilateral negotiations in August and September to stem the flood of imports from China. The two sides made progress on product coverage and quota levels, according to chief U.S. negotiator David Spooner, but remained divided at the end of the third round on the duration of the accord and the number of products covered. In the meantime, the U.S. textile industry kept petitioning the administration to impose quotas on additional textile products from China. Some observers are hopeful that another round in Beijing will close the deal between the two sides.

On Aug. 2, China National Offshore Oil Corp. Ltd. (CNOOC) withdrew its \$18.5 billion bid to acquire Unocal Corp., ending a whirlwind of intense congressional scrutiny. At a heated House Armed Services Committee hearing in mid-July, many lawmakers had charged that CNOOC's bid was part of a Chinese effort to gain economic and military advantages over the U.S. Subsequently, a bill was introduced in the Senate to block the merger, acquisition, or takeover of Unocal by the Chinese company. CNOOC representatives blamed this "unprecedented political opposition" for forcing the withdrawal, which was announced just days before Unocal shareholders were scheduled to vote on the takeover. The repercussions from the attempt to acquire a U.S. company will be long felt. In the aftermath, the U.S.-China Economic and Security Commission recommended to Congress mandating additional disclosures by state-owned Chinese companies seeking to tap U.S. capital markets. The Chinese maker of household appliances, Haier, also dropped out of the race for Maytag in July when rival Whirlpool topped its bid.

### **A full plate for the final quarter**

The fourth quarter of 2005 is chock-full of planned China-U.S. interactions that will provide numerous opportunities to strengthen the bilateral relationship through frank discussion between high-level U.S. and Chinese officials. In mid-October, Secretary Rumsfeld is scheduled to make his first trip to China since assuming his position at the head of the Department of Defense almost five years ago. President Bush will visit China following the Asia Pacific Economic Cooperation forum meeting in Pusan, South Korea in the third week of November. A visit to the U.S. by Guo Boxiong, vice chairman of the Central Military Commission, which was supposed to have taken place in August but was postponed, may be rescheduled for the end of the year or will take place in early 2006. In December, a second round of strategic talks between Zoellick and Dai Bingguo is planned to take place in Washington, D.C.

## **Chronology of U.S.-China Relations July-September 2005<sup>1</sup>**

**July 7, 2005:** Adm. William J. Fallon, commander of U.S. forces in the Pacific, says the U.S. faces “significant challenges” in dealing with China because of issues like the Taiwan Strait, but he hopes to deepen bilateral understanding by boosting defense ties.

**July 10, 2005:** U.S. Secretary of State Condoleezza Rice arrives in Beijing on a four-nation visit to Asia and meets with President Hu Jintao, Premier Wen Jiabao, and Foreign Minister Li Zhaoxing.

**July 11, 2005:** U.S. manufacturers petition the Bush administration to impose quotas on additional imports of Chinese textiles and clothing, saying they will keep filing cases until the two countries negotiate a comprehensive agreement on Chinese imports.

**July 11, 2005:** Luo Gan, member of the Standing Committee of the Politburo in China, meets U.S. Supreme Court Justice Ruth Bader Ginsburg, who is visiting China at the invitation of the Supreme People’s Court of China.

**July 11, 2005:** The 16<sup>th</sup> annual Joint Commission on Commerce and Trade (JCCT) meeting opens in Beijing to discuss disagreements over trade and investment policies. The U.S. delegation is represented by JCCT co-chairs Secretary of Commerce Carlos Gutierrez and USTR Rob Portman, and Secretary of Agriculture Mike Johanns.

**July 12, 2005:** Tim Hauser, U.S. acting under secretary of commerce for international trade, and Wan Jifei, chairman of the China Council for the Promotion of International Trade, sign a Memorandum of Understanding during the JCCT meeting to launch a new U.S.-China International Partner Network in 14 major business centers across China.

**July 13, 2005:** Senate Finance Committee Chairman Charles Grassley and Sen. Max Baucus of Montana say in a letter to President George Bush that they are pleased he would order a review by the Committee on Foreign Investments in the U.S. if Unocal were to accept CNOOC’s offer.

**July 13, 2005:** Witnesses tell the House Armed Services Committee that CNOOC’s bid for Unocal is part of a Chinese effort to gain economic and military advantages over the United States. Rep. Duncan Hunter (R-Calif.), the chairman of the House committee, vows to introduce a bill to block acquisition by CNOOC.

**July 14, 2005:** House rejects the East Asia Security Act giving the president the authority to bring sanctions against European companies that sell arms to China after U.S. business groups came out strongly against it. The final vote is 215-203, short of the two-thirds majority needed.

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<sup>1</sup> Compiled by Cheng Sijin, CSIS intern and Ph.D candidate, Boston University

**July 14, 2005:** Rep. Charles B. Rangel and others introduce the Fair Trade with China Act of 2005 that would require the USTR to investigate currency practices of China, make applicable determinations, and implement any appropriate action. It is referred to the Subcommittee on Domestic and International Monetary Policy, Trade, and Technology.

**July 15, 2005:** At a function for foreign journalists organized in part by the Chinese government, Maj. Gen. Zhu Chenghu, a dean at China's National Defense University, warns that in a conflict in the Taiwan Strait, "If the Americans draw their missiles and position-guided ammunition on to the target zone on China's territory, I think we will have to respond with nuclear weapons."

**July 15, 2005:** Sen. Byron Dorgan introduces a bill that would prohibit the merger, acquisition, or takeover of Unocal by CNOOC to prevent the risk of "strategic assets of Unocal Corporation being preferentially allocated to China by the Chinese Government." It is referred to the Committee on the Judiciary.

**July 16, 2005:** Gen. Liu Zhenwu leads a delegation of PLA military officers to Hawaii to meet with Adm. Fallon, the commander of U.S. forces in the Pacific.

**July 19, 2005:** President Bush, in a meeting with Prime Minister John Howard, says Australia and the U.S. can work together to encourage China to accept values such as minority rights and the freedoms of speech and religion and to take a more active role in East Asia to prevent nuclear proliferation.

**July 19, 2005:** After a several month delay, the Pentagon releases its 2005 report on "The Military Power of the People's Republic of China" as mandated by Congress.

**July 19, 2005:** Defense Secretary Donald Rumsfeld asserts that the report on China's military power supports the government position that a European arms embargo against the Chinese should be kept in place.

**July 21, 2005:** China's central bank announces that the yuan will appreciate against the dollar by 2 percent and says that it will peg the yuan to a basket of currencies and allow it to fluctuate within a narrow 0.3 percent range.

**July 21, 2005:** Chinese appliance maker Haier America drops its \$1.28 billion bid to purchase Maytag after Whirlpool announced a higher offer at \$1.37 billion.

**July 21-22, 2005:** The U.S.-China Economic and Security Review Commission holds hearings on China's growing global influence, from China's global strategy to its relations with African and Latin American countries.

**July 26, 2005:** The U.S. House of Representatives votes 240-186, short of the two-third majority needed for bills introduced under special procedures that limit debate, on the U.S. Trade Rights Enforcement Act that would allow the government to impose duties on Chinese products in response to trade restrictions by Beijing and address currency manipulation and intellectual property issues.

**July 27, 2005:** Republicans bring the U.S. Trade Rights Enforcement Act legislation back to the House floor under normal House rules, and it passes 255 to 168. It is subsequently referred to the Senate Committee on Finance.

**July 27, 2005:** Tang Jiaxuan, China's State Councilor, meets with President Bush, Secretary of State Condoleezza Rice, National Security Advisor Stephen Hadley, and Treasury Secretary John Snow while visiting Washington. Tang delivers a letter from Chinese President Hu to Bush during the meeting.

**July 30, 2005:** Deputy Secretary of State Robert Zoellick meets with Hong Kong Chief Executive Donald Tsang and discusses the economic evolution in Hong Kong, its relations with the U.S., and cooperation on aviation and intellectual property protection.

**July 30, 2005:** An official U.S. House delegation leaves for a 10-day trip to China. The delegation is composed of 12 U.S. House members, most of whom belong to the U.S.-China Working Group, an organization dedicated to building diplomatic relations with China and promoting congressional and national awareness U.S.-China issues.

**Aug. 1, 2005:** Deputy Secretary Zoellick arrives in Beijing to launch the Senior Dialogue on strategic issues.

**Aug. 1, 2005:** The Committee for the Implementation of Textile Agreements announces its decision to extend until Aug. 31 the period for making determinations in six textile market disruption cases on Chinese imports.

**Aug. 1, 2005:** China and the U.S. hold the seventh parliamentary dialogue in Beijing, focusing on political and trade issues.

**Aug. 2, 2005:** CNOOC withdraws its \$18.5 billion bid to buy Unocal Corp., citing "unprecedented political opposition" in the U.S.

**Aug. 3, 2005:** China's ambassador to the U.N. Wang Guangya says that the U.S. and China have agreed to work together to block a plan to expand the U.N. Security Council.

**Aug. 3, 2005:** Chinese FM Li and Secretary Rice talk by phone.

**Aug. 4, 2005:** Chinese top legislator Wu Bangguo and Dennis Hastert, speaker of the U.S. House of Representatives, hold talks and agree to further regular parliamentary exchanges and cooperation at all levels.

**Aug. 11, 2005:** The U.S.-China Economic and Security Review Commission holds hearing on China's strategy and objectives in global capital markets and recommends to Congress additional disclosures by state-owned Chinese companies seeking to tap U.S. capital markets.

**Aug. 16-17, 2005:** U.S. and Chinese textile negotiators hold talks in San Francisco. U.S. officials say that the two sides are close to a comprehensive agreement to limit imports of Chinese clothing and textiles.

**Aug. 30, 2005:** Results of the 2005 Member Survey by the U.S.-China Business Council are released.

**Aug. 30, 2005:** U.S. and Chinese officials resume negotiations in Beijing to reach a comprehensive agreement on textile trade. The following day the talks end without resolving the dispute.

**Sept. 1, 2005:** The Bush administration announces that it is re-imposing import quotas on two types of Chinese clothing and textiles and extending until Oct. 1 a deadline for making decisions in four other cases.

**Sept. 4, 2005:** Chinese President Hu's visit to the U.S. is postponed as President Bush deals with the aftermath of Hurricane Katrina. Both leaders agree by phone to meet on the margins of the UN General Assembly meeting later in the month.

**Sept. 4, 2005:** The Chinese government announces it will give up to \$5 million in relief supplies to victims of Katrina. It also offers rescue workers and medical personnel.

**Sept. 5, 2005:** Commander of U.S. forces in the Pacific, Adm. Fallon, arrives in China at the invitation of Guangzhou Military Region Commander Liu Zhenwu.

**Sept. 8, 2005:** Wu Bangguo, chairman of the Standing Committee of the Chinese National People's Congress, meets with U.S. Senate President Pro Tempore Ted Stevens at the UN headquarters and holds a phone conversation with U.S. House Speaker Dennis Hastert. They discuss Sino-U.S. relations and the next round of regular exchange between the Chinese NPC and the U.S. Senate.

**Sept. 9, 2005:** Ma Delun, deputy governor of the People's Bank of China, says that China will not sell large quantities of U.S. Treasury bills despite its recent decision to cease pegging the yuan to the dollar.

**Sept. 13, 2005:** Presidents Bush and Hu meet in New York on the sidelines of the UNGA.

**Sept. 13, 2005:** In its annual testimony for the Office of the U.S. Trade Representative on China's WTO compliance, the U.S.-China Business Council states that China has adopted policies resulting in a far more open and profitable business environment for many U.S. companies, but has fallen short in areas such as intellectual property rights enforcement, transparency, and the granting of rights to distribute products in China made elsewhere.

**Sept. 13, 2005:** *USS Curtis Wilbur*, an *Arleigh Burke*-class *Aegis* guided missile destroyer, arrives in Qingdao for a four-day port visit.

**Sept. 15, 2005:** The U.S. textile industry re-files nine petitions to extend safeguards on 16 categories of textile products from Chinese imports through 2006.

**Sept. 15, 2005:** Chinese Foreign Ministry spokesman Qin Gang announces that President Bush will visit China in November after a summit of the Asia Pacific Economic Cooperation in the Republic of Korea.

**Sept. 16, 2005:** While accompanying Hu to Canada, Chinese FM Li has a telephone conversation with Secretary Rice. They exchange views on implementing the consensus reached between the heads of state of the two countries at the New York meeting on Sept. 13. They also discuss issues concerning the ongoing Six-Party Talks in Beijing.

**Sept. 19, 2005:** The Bush administration invites Chinese Finance Minister Jin Renqing and Zhou Xiaochuan, the head of China's central bank, to attend a luncheon as part of the G-8 meeting.

**Sept. 20, 2005:** FM Li holds talks with Secretary Rice on the sidelines of the 60th session of the UNGA in New York.

**Sept. 20-25, 2005:** At the invitation of U.S. Attorney General Alberto Gonzales, Meng Hongwei, Chinese vice minister of public security, leads a Chinese public security delegation to the U.S. In addition to Gonzales, Meng meets with Randy Beardsworth, acting undersecretary at the Department of Homeland Security, Nancy Powell, acting assistant secretary of state, Robert Mueller, director of the Federal Bureau of Investigation, and Thomas Collins, commandant of the Coast Guard, as well as responsible persons of the Secret Service, the Bureau of Immigration and Customs Enforcement, and other law enforcement agencies.

**Sept. 21, 2005:** Deputy Secretary of State Robert Zoellick delivers a speech on China-U.S. relations to the National Committee on U.S.-China relations entitled "Whither China: from Membership to Responsibility?"

**Sept. 23, 2005:** China's central bank widens the yuan's trading band against non-dollar currencies to 3 percent from 1.5 percent, further loosening restrictions on the yuan's foreign exchange regime.

**Sept. 24, 2005:** U.S. Treasury Secretary John Snow meets with China's top central banker Zhou Xiaochuan and Finance Minister Jin in Washington and notes the need for greater exchange rate flexibility.

**Sept. 26, 2005:** U.S. and Chinese negotiators begin another round of talks on textile products from China, but industry officials are pessimistic the two sides can find common ground.

**Sept. 28, 2005:** The U.S.-China textile talks conclude with no agreement. Negotiators say the next round will be held in October.