

position paper

**Trade, Taiwan, Tibet and technology:
A bad start to China-US relations**

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This year did not begin well for Sino-US relations. Given the radically different social, political, and economic circumstances that prevail in the two countries, it would be naïve to expect US-China relations to ever really be truly cordial and friendly. Despite the mutual distrust – and, at times, disdain at the political level, however, trade between the two nations has grown at an astounding pace since 1979, the year Washington formally recognized the Communist regime in Beijing as the true representative People’s Republic of China (PRC).

China had officially opened up its economy a year earlier, with stunning results (which continue to amaze), turning the nation into what many describe today as a superpower in waiting. But China’s growing economic and political clout comes at a cost for that country in the form of friction with the world’s existing superpower.

Over the years, the two sides have agreed to disagree over certain issues, like human and intellectual rights, political, personal and economic freedom and the status of Taiwan and Tibet. These have been debated and discussed in an almost predictable bilateral format over the years. The US has raised some of these issues at various forums and the Chinese have responded with a polite snub. But, this year, things seem different. The cracks in the relationship seem to be developing faster than diplomatic damage control can handle.

In January, internet giant Google announced that it had “detected a highly sophisticated and targeted attack on [its] corporate infrastructure originating from China that resulted in the theft of [Google’s] intellectual property. However, it soon became clear that what at first appeared to be solely a security incident – albeit a significant one – was something quite different.

“At least twenty other large companies from a wide range of businesses – including the Internet, finance, technology, media and chemical sectors – have been similarly targeted,” the company said. It added, “We have evidence to suggest that a primary goal of the attackers was accessing the Gmail accounts of Chinese human rights activists.”

Also, according to Google, “the accounts of dozens of US, China and Europe-based Gmail users who are advocates of human rights in China appear to have been routinely accessed by third parties.” Google subsequently announced its intention to pull its Beijing-censored search engine out of China.

Soon afterwards, Go Daddy, the world’s largest internet domain registration company, said it too was rejecting China’s censorship rules after regulators began demanding more detailed information — including photographs — about its customers in China. The attack on Google and several other firms stoked long-standing fears about China’s ability to penetrate commercial and government networks in the US.

An article in Pworld, headlined “Google-China Spat Sets Stage for Cyberwar”, said: “If a full-fledged cyberwar were to break out, the nation’s economy would be hit hard. Banks might not be able to function, electricity, water and other utilities could be shut off, air travel would almost certainly be disrupted, and communications would be spotty at best – in a word, chaos.” The article quoted several US experts, including Mike McConnell, the former director of the National Security Agency (NSA), and director of national intelligence during the Bush administration, as saying that the US was “not only fighting such a war, it’s also losing the battle”.

As more reports poured in about the activities of Chinese hackers, there was increasing pressure to forge a strategic response to the situation. The reports included one by the Munk Centre for International Studies at the University of Toronto, which claimed that a cyber-espionage group based in southwest China stole thousands of sensitive and secret documents from the Indian Defence Ministry and emails from the Dalai Lama's office, as well as documents about NATO movements in Afghanistan. An angry China reacted by accusing the US of "information imperialism" and strongly refuted charges that its government participated in these cyber attacks.

An editorial in the state-run news agency, Xinhua, noted that before entering the Chinese market, Google had promised to filter its search engine for "harmful content" in accordance with the law. "Now Google suddenly wants to break its promise, and if it's not satisfied it will criticise China for a worsening of the investment environment. This is entirely unreasonable. What has changed is not China's investment environment. It is Google itself."

Simultaneously, tension is brewing on the economic front. The US has built up a massive trade deficit with China. According to the US Census Bureau Foreign Trade Division, in September 2009, while US exports to China stood at \$5,800 million, its imports from China were valued at \$ 27,914 million. The US argues that this huge deficit exists partly because China has kept its currency, the Yuan, artificially weak, thus making its products cheaper overseas. China has steadfastly kept the Yuan at 6.83 per US dollar since mid-2008, and refused to adjust it against the massive contraction in global trade.

This year, Washington stepped up its demand that Beijing raise the value of the Yuan, and even threatened to mark China as a currency manipulator, which would allow the US to impose huge taxes on imports from China. Additionally, US businesses are finding it increasingly difficult to do business in China. As the Wall Street Journal put it, "A growing number of US companies feel unwelcome in China, according to a new survey by the American Chamber of Commerce in China." The article warned that, "Negative sentiment among Amcham's members, which traditionally have been a strong lobby in Washington arguing for more engagement with China, adds to wider risks in US-China relations."

Insisting that the Yuan was not undervalued, Chinese premier Wen Jiabao warned that Beijing was "opposed to countries pointing fingers at each other or taking strong measures to force other countries to appreciate their currencies... If the United States uses the exchange rate to start a new trade war, China will be hurt. But the American people and US companies will be hurt even more."

Also in January, the US announced that it proposed to sell Taiwan, which Beijing sees as a renegade province, nearly \$7 billion worth of military equipment. These include: 114 Patriot missiles, 60 Black Hawk helicopters, two Osprey mine-hunting ships, 12 Harpoon missiles and high technology communication equipment. Despite switching diplomatic recognition from Taipei to Beijing in 1979, the US remains Taiwan's leading arms supplier. China reacted with unprecedented outrage, threatening to suspend military exchanges with the US, impose sanctions on the companies selling arms and review co-operation on major issues. "How would [the US] react if China would sell weapons to Alaska or Hawaii?" asked an editorial in China Daily.

To compound matters, US president Barack Obama hosted the Tibetan spiritual leader, the Dalai Lama, at the White House in February. "On February 18, 2010 (EST), the US side was bent on arranging the meeting between President Obama and Dalai Lama in the Map Room of the White House in disregard of the repeated solemn representations from the Chinese side," fumed Chinese Foreign Ministry Spokesperson Ma Zhaoxu in Beijing the next day.

“The US Secretary of State Hillary Clinton also met with Dalai Lama on the same day. The action of the US side has seriously interfered in China’s internal affairs, seriously hurt the national feelings of the Chinese people, and seriously undermined China-US relations. Chinese Vice Foreign Minister Cui Tiankai has summoned the US Ambassador to China, Jon Huntsman, to lodge a solemn representation,” he said, adding that the meetings with the Dalai Lama “violated the US government’s repeated acceptance that Tibet is a part of China and it does not support Tibetan independence.”

Rumblings about China retaliating by selling a huge chunk of the almost one trillion dollars worth of its US bonds and treasury bills became louder in China. In December, China had sold \$34 billion worth of US government bonds, sparking concerns that it was signalling its lack of confidence in US economic policy. The sale left it with \$755.4bn worth of US government debt, compared to Japan’s \$768.8bn. But if one factors in treasury bills and Chinese stakes in American companies, that figure is well over a trillion dollars. US officials, however, believe that this threat to dump treasury bills is an empty one, since it would impact China adversely as well.

Apart from killing the American market for Chinese products, it would also lead to a huge drop in the value of China’s remaining holdings in the US. A freeze on Chinese holdings in the US as a retaliatory measure would become a distinct possibility, putting the relationship into a dangerous spiral. Thus, to avoid further friction, both sides engaged in damage control. Washington pointed out that the arms sold to Taiwan were purely defensive weapons, and of an earlier generation, and reiterated its “One China” policy.

Beijing, while steadfastly refusing to raise the value of the Yuan, agreed seriously to discuss the possibility of new sanctions on Iran. As a permanent member of the UN Security Council, China has the right to veto any plans to impose sanctions. Trade between oil-rich Iran and China is expected to cross \$30 billion this year, up from \$12 billion in 1997. China is also set to become the largest importer of Iranian crude, surpassing Japan. Therefore, while “we share international concerns over Iran’s nuclear program, we are not prepared to give up our interests there,” a Chinese commentator was quoted as saying.

Chinese President Hu Jintao also agreed to attend a meeting on nuclear security convened in Washington from April 12-13, where he held a 90 minute meeting with US President Obama. While nothing conclusive emerged from the meeting, the very fact that it was held was seen as a positive indication that both sides wanted to avoid a showdown, while sticking to their positions on “core issues”. Chinese media reports on the meeting merely skimmed over the possibility of China agreeing to sanctions against Iran. Instead, they stressed a “five-point proposal” to improve bilateral ties put forward by President Hu. The key to healthy relations, according to these proposals, was respect for “each other’s core interests and major concerns”.

“The Taiwan and Tibet issues concern China’s sovereignty and territorial integrity and its core interests,” said Xinhua. “China hopes the United States would keep its promises and handle these issues with caution, so that further setbacks in China-US ties could be averted.”

In other words, while an immediate crisis seems to have been averted, China and the United States are likely to remain what some commentators describe as “frenemies” for a long time to come.

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