

**CHINA-US RELATIONS:
WORSENING TIES OR
MOMENTARY DOWNTURN?**

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Executive Summary

1. China-US relations began on an acrimonious note in 2010. The US took Beijing to task for a sophisticated cyber attack on Google and other large corporations. It then blasted China for not supporting tougher action against Iran.
2. Beijing refrained from overreacting on these two issues. But its response was swift and furious when the US Department of Defense notified Congress of an arms sale package to Taiwan amounting to US\$6.4 billion.
3. From Beijing's perspective, its harsh reaction is largely motivated by the US' apparent disregard of China's core interests. Chinese State Councilor Dai Bingguo had stated during the Strategic and Economic Dialogue with the US last year that a sound basis for bilateral ties is to respect each other's core interests.
4. China is also particularly irked that the arms package has undermined the positive momentum in bilateral relations since President Obama took office. In 2009, both countries were keen to expand common space and downplay differences. Beijing, it seemed, had expectations of a new era in US-China relations.
5. The US has further ignored China's enhanced international stature and the due respect that Beijing expects from this. Beijing wants the US to be more sensitive to its concerns, especially its core interests. This would require the US to make necessary adjustments to its policy towards China.
6. It seems to China that the arms package goes against the 1982 China-US communiqué that commits the US to scale down its arms transfer to Taiwan over time. It has been almost 30 years since the communiqué was signed. Yet, the Obama administration has gone the opposite direction by its first ever and biggest arms package since 2008.

7. Chinese leaders also cannot appear to be soft when its core interests are challenged. Given China's raised stature and the growing national pride among Chinese within and outside China, its leaders are expected to be seen as being able to stand up to the US.
8. The two countries show no signs of backing down on the arms sale issue. Bilateral ties are likely to become more tense. President Obama wants to meet the Dalai Lama when the latter visits the US, much to China's chagrin as it considers Tibet as another of its core interests.
9. Henceforth, Beijing can be expected to be more assertive and even take punitive measures against the US or any other country that disregards its core interests. This, however, does not mean that China is out to pursue an aggressive policy. Its preoccupation remains on growing the economy and ensuring domestic stability.
10. It is not in the long term interest of China and the US to be confrontational to each other. Both have much to gain by focusing on their respective domestic agendas while also working together on the international stage to address pressing global challenges.
11. On China-US ties, Deng Xiaoping used to say that there are inherent limits to their better relations and also inherent limits to their bad relations. In other words, there will be ups and downs, and there is no necessity to be too sanguine or pessimistic about them.
12. Relations between the two countries are likely to settle to a new equilibrium at some future point. This may provide a more realistic basis for the two countries to take stock and move on from there.

CHINA-US RELATIONS: WORSENING TIES OR MOMENTARY DOWNTURN?

L YE Liang Fook & BO Zhiyue*

A Bumpy Start to 2010

- 1.1 China-US relations hit a rough patch in early 2010. First, the US State Department and White House took China to task for a cyber attack on Google and other large corporations.¹ Thereafter, US Secretary of State Hillary Clinton berated China for its reluctance to support tougher action by the United Nations to curb Iran's nuclear ambitions.² China barely flinched on these two counts.
- 1.2 Then came China's turn to talk tough. It reacted vehemently after the US Congress was notified of an arms sale package worth US\$6.4 billion to Taiwan. Various key Chinese institutions have voiced their strong objections and China even threatened economic sanctions for the first time. The US has refused to rescind the arms package.
- 1.3 The sudden downturn in bilateral ties stands in stark contrast to the state of affairs in 2009, the first year of President Obama's administration. Both countries talked about shared responsibilities and were keen to work together on a wide range of issues from climate change, world economic recovery, anti-piracy, counter-terrorism to nuclear non-proliferation. The US also

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¹ "A new approach to China", Statement by David Drummond (Senior Vice President, Corporate Development and Chief Legal Officer, Google) on Googleblog, 12 January 2010 at <http://googleblog.blogspot.com/2010/01/new-approach-to-china.html>.

² "Clinton warns China to stay the course on Iran's nuclear sanctions", *Los Angeles Times*, 30 January 2010.

downplayed sensitive topics like human rights and democracy to pursue cooperation with China.

- 1.4 Yet, this collaborative framework seems to have unraveled overnight. The Obama administration has signaled a tougher approach towards China. The underlying message is that the US, while remaining committed to working with China on various global issues, is prepared to be candid and firm over areas where they disagree.
- 1.5 To a large extent, the US' recalibrated approach is prompted by the realization that China does not play by the rules of the game at times. This was most evident at the Climate Change Conference in Copenhagen in December 2009 when President Obama was snubbed by Premier Wen Jiabao. The US administration was led to believe that China had deliberately set out to belittle its President.³ Also, with President Obama facing intractable domestic challenges, there is more reason for the US to act tough on China.⁴
- 1.6 Not surprisingly, China's response to the Google episode and arms sale issue has been markedly different. It regards the former as a purely commercial matter that would not affect China-US trade ties. In contrast, China regards the arms sale to Taiwan as an affront to its core interests of maintaining its sovereignty and territorial integrity. There is no room for compromise on this.
- 1.7 China's strong response is also motivated by the fact that it is already a major player on the world stage, equivalent in status to, if not almost on par with the US. Most notably, China has out-performed other developed countries (US included) in weathering the global economic crisis. With its enhanced global

³ Premier Wen twice sent two lower level officials to attend the leaders' meeting in Copenhagen. Later, President Obama even had to track down Premier Wen, surprising him and appearing at the doorway of a conference room where Wen was meeting separately with the leaders of Brazil, South Africa and India. "As China asserts itself, US starts to push back", *International Herald Tribune*, 2 February 2010.

⁴ These challenges include striking a balance among the competing objectives of generating jobs, reducing government spending and raising taxes. An indication of public dissatisfaction towards the Obama administration was the democrats' loss of the Massachusetts Senate seat to little known Republican state senator Scott Brown. See "Obama under pressure to produce jobs, faces daunting economic and political challenges in 2010", *Associated Press*, 23 January 2010.

power status and growing confidence of its leaders, China expects the US to accord it more respect, including being more sensitive to its core interests.

- 1.8 China-US relations look set to dip further. Indications are that President Obama intends to meet with the Dalai Lama whom Beijing perceives as an advocate of Tibetan independence. By treading on another of Beijing's core interests, prospects for a stable relationship do not look bright in the immediate future.
- 1.9 Yet, the reality is that both China and the US need each other to prosper and progress on a range of global issues. With greater interdependence, tensions between the two countries will affect their political, economic and business interests. Bilateral ties will be in a state of flux before they settle to a new equilibrium. This may not be a bad thing as it would provide a more realistic basis for relations to move forward.

Arms Sale Notification

- 2.1 The US had provided early indications that it would pursue the issue of arms sale to Taiwan. Most notably, following President Obama's high profile visit to China in November 2009 that capped several months of productive China-US relations, Raymond Burghardt (Chairman of the American Institute in Taiwan, the *de facto* US Embassy) visited Taiwan a few days later.⁵ Among other things, Burghardt reassured Ma that the US "will fulfill the self-defense needs of the Taiwan people".⁶
- 2.2 Sometime in mid-December 2009, Burghardt was more direct when he reportedly said that the sale of arms to Taiwan is consistent with what White

⁵ Burghardt visited Taiwan from 22 to 25 November 2009.

⁶ "President Ma Meets American Institute in Taiwan Chairman Raymond F. Burghardt", News Release by Office of the President of the Republic of China, 24 November 2009 at http://www.president.gov.tw/en/prog/news_release/document_content.php?id=1105500087&pre_id=1105500087&g_category_number=145&category_number_2=145.

House officials have been saying is President Obama's policy. He added that "no one should be surprised when we move forward with them".⁷

- 2.3 Separately, in early January 2010, the US Department of Defense announced that it had awarded a contract to Lockheed Martin to sell an unspecified number of advanced Patriot air defense missiles to Taiwan.⁸
- 2.4 The biggest bombshell came on 29 January 2010 when the US Defense Security Cooperation Agency of the Department of Defense notified Congress of an arms sale package of about US\$6.4 billion to Taiwan. The arms package includes two mine-hunting ships, 60 UH-60 Black Hawk helicopters, 12 Harpoon anti-ship missiles, 114 Patriot Advanced Capability-3 anti-missile systems and 35 ship-based communications systems.⁹ In an apparent bid to pre-empt Beijing's reaction, the package does not include F-16 C/D fighter jets or a design plan for diesel submarines – both long sought by Taiwan.
- 2.5 The latest arms sale notification is part of a package first pledged by the Bush administration in October 2008. This notification, required by US law, marks the final step in the process of arms transfer. If Congress does not pass a joint resolution of disapproval 30 calendar days after the notification, the Executive Branch can then proceed with the arms sales to Taiwan. Congress usually supports such deals.
- 2.6 The US has argued that the arms sale, the first under the Obama administration, falls under the 1979 Taiwan Relations Act. This act commits the US to make available to Taiwan "defense articles and defense services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability".¹⁰ Various US officials have enunciated this position.

⁷ "Arms sales to Taiwan will proceed, US says", *New York Times*, 15 December 2009.

⁸ "US clears arms sale to Taiwan despite China's ire", *Reuters*, 7 January 2010.

⁹ "Arm sales to Taiwan provoke Beijing's ire", *The Washington Times*, 1 February 2010.

¹⁰ Section 3 of the Taiwan Relations Act (1 January 1979) at http://www.ait.org.tw/en/about_Ait/tra/.

- 2.7 US State Department spokesman P.J. Crowley reportedly reiterated that the arms sale reflected “long-standing commitments to provide for Taiwan’s defensive needs”.¹¹ Earlier, Laura Tischler, another State Department spokesperson was quoted as saying that “such sales contribute to maintaining security and stability across the Taiwan Strait”.¹²
- 2.8 Other US officials have urged Beijing to put things in perspective and not overreact. US Secretary of Defense Robert Gates reportedly expressed the hope that China’s decision to protest by curtailing bilateral military contacts would be temporary and said that he still planned to visit China later in the year. White House spokesman Robert Gibbs was separately quoted as saying that the US-China relationship was important and “I don’t think that either country can afford to simply walk away from the other”.¹³

China’s Unusually Vehement Response

- 3.1 Beijing has in the past voiced strong objections whenever the US Congress is notified of arms sales to Taiwan. In particular, on those notifications that are regarded by China to constitute major weapons sales, Beijing has gone beyond mere words to show their displeasure.
- 3.2 A notable example was the notification by the Bush (Senior) administration in September 1992 to sell 150 F-16A/B fighters and three Patriot Modified Air Defense System (MADS) fire units amounting to US\$7.1 billion to Taiwan. Beijing sharply criticized the US and suspended its participation in international talks on curbing arms sales to the Middle-East. Beijing further

¹¹ “US seeks calm as China fumes over Taiwan arms”, *Reuters*, 1 February 2010.

¹² “US defends Taiwan arms sales in teeth of Chinese anger”, *Reuters*, 30 January 2010.

¹³ “US seeks calm as China fumes over Taiwan arms”, *Reuters*, 1 February 2010.

rejected a US proposal to establish a two-nation human rights commission and hinted at further action.¹⁴

3.3 In more recent years, Beijing has continued to raise strong objections whenever the US Congress is notified of an arms transfer to Taiwan. It has variously accused the US of reneging on its “One China” principle in the three existing China-US communiqués,¹⁵ encroaching upon China's sovereignty and territorial integrity, and interfering in China’s internal affairs. At times, China further stated that it reserved the right to take further action, although the exact type of action was not specified (see Table 1).

3.4 In October 2008, when the Bush (Junior) administration notified Congress of its biggest ever arms sale to Taiwan since 1992 amounting to US\$6.5 billion, Beijing went beyond harsh words and suspended senior level diplomatic ties and military-to-military relations with the US administration. Military-to-military ties resumed after Secretary of State Hillary Clinton’s visit to China in February 2009.

3.5 This time round, Beijing’s response to Obama administration’s arms sale notification marks a departure from the past on two counts. First, various key governmental institutions have come out publicly, akin to taking a united front, to voice strong objections. These include the Defense Ministry,¹⁶ the Foreign Ministry including Foreign Minister Yang Jiechi,¹⁷ the National People’s

¹⁴ “Chinese angered by French arms sales to Taiwan”, *The New York Times*, 20 November 1992. See also “F-16 sale to Taiwan dominates US-China talks”, *Global Security*, 25 September 1992 at <http://www.globalsecurity.org/wmd/library/news/taiwan/1992/920925-taiwan-usia.htm>.

¹⁵ They are the Shanghai Communiqué (1972), the Joint Communiqué on the Establishment of Diplomatic Relations between the People's Republic of China and the United States of America (1978) and the China-US Joint Communiqué (1982).

¹⁶ “Chinese defense ministry lodges stern protest against US arms sales to Taiwan”, *Xinhuanet*, 30 January 2010 at http://news.xinhuanet.com/english2010/china/2010-01/30/c_13157191.htm.

¹⁷ “Chinese FM urges US to stop selling weapons to Taiwan”, *Xinhuanet*, 31 January 2010 at http://news.xinhuanet.com/english2010/china/2010-01/31/c_13157384.htm.

Congress,¹⁸ the Chinese People's Political Consultative Conference and the Taiwan Affairs Office.¹⁹ Such an extensive response is unprecedented.

TABLE 1 MAJOR US ARMS SALES TO TAIWAN AS NOTIFIED TO CONGRESS (FROM 2002-2008)+

Time	US Notifications	Amount (US\$)	China's Response
4 Jun '02	AN/MPN-14 air traffic control radars	108 million	.*
4 Sep '02	AAV7A1 assault amphibious vehicles, AIM-9M 1/2 Sidewinder air-to-air missiles, AGM-114M3 Hellfire II anti-armor missiles, and maintenance of material and spare parts for aircraft, radar systems, Advanced intermediate range air-to-air missiles (AMRAAMs) and other systems	520 million	No apparent public response although China branded the visit of Taiwan's Deputy Defense Minister Kang Ning-Hsiang to the US several days later (9 Sep) as "gross interference" in its internal affair
11 Oct '02	TOW-2B anti-tank missiles	18 million	.*
21 Nov '02	Kidd-class destroyers	875 million	.*
24 Sep '03	Multi-functional Information Distribution System (for Po Sheng C4ISR data link upgrades)	775 million	.*
30 Mar '04	Ultra high frequency long range early warning radars	1.78 billion	Foreign Ministry said it is seeking "clarification" on this issue and urged the US to live up to its commitments to observe the "One-China" policy
25 Oct '05	AIM-9M Sidewinder and AIM-7M Sparrow air-to-air missiles, and continuation of pilot training and logistic support for F-16 fighters	280 million	.*
28 Feb '07	AMRAAMs and Maverick air-to-ground missiles for F-16 fighters	421 million	Strongly worded remarks by the Foreign Ministry
8 Aug '07	AGM-84L Harpoon Block II anti-ship missiles	125 million	.*
12 Sep '07	P-3C Orion maritime patrol/anti submarine warfare aircraft, and, SM2-Block IIIA standard air-defense missiles	1.96 billion	Strongly worded remarks by the Foreign Ministry. They include the reference that China reserves the right to take further measures
9 Nov '07	Patriot configuration II ground systems upgrade	939 million	Strongly worded remarks by the Foreign Ministry. They include the reference that China reserves the right to take further measures
3 Oct 08	Six out of eight pending arms sales (including Patriot PAC-3 missiles, Harpoon anti-ship missiles, AH-64D Apache Longbow Attack Helicopters, and Javelin anti-armor missiles)	6.46 billion	Besides strong language, China suspends senior-level diplomatic and military-to-military ties.

Source: "Taiwan: Major US Arms Sales Since 1990", Congressional Research Service Report for Congress, dated 2 December 2009 at <http://www.fas.org/sfp/crs/weapons/RL30957.pdf>; and other published sources

+ Not all of these approved sales were necessarily purchased by Taiwan

* No apparent public response from Beijing

¹⁸ "Chinese top legislature bashes US planned arms sales to Taiwan", *Xinhuanet*, 30 January 2010 at http://news.xinhuanet.com/english2010/china/2010-01/30/c_13157088.htm.

¹⁹ "China opposes US arm sales plan to Taiwan", *CCTV*, 31 January 2010 at <http://english.cctv.com/program/worldwidewatch/20100131/101095.shtml>.

- 3.6 Second, Beijing has announced a more intrusive set of retaliatory measures it is prepared to take. These include postponing military exchange programs and ministerial talks on security and arms control with the US. It has also indicated that collaboration with the US on various international and regional issues would be affected. Most significantly, going beyond the suspension of military-to-military ties, Beijing indicated for the first time that it will impose economic sanctions on US companies that transfer arms to Taiwan.²⁰

Beijing's Considerations

- 4.1 There are several reasons behind China's unusually strong response this time round. Foremost among them is China's perception that the US has deliberately trampled on its core interests.
- 4.2 Not long ago, China's State Councilor Dai Bingguo had said that for China-US relations to develop soundly, it was important for both sides to "mutually understand, respect and support each other, and to safeguard one's core interests" (相互理解、尊重支持对方, 维护自己的核心利益).²¹ Dai then defined China's core interests as safeguarding its basic systems and national security, maintaining its sovereignty and territorial integrity as well as ensuring its sustained economic and social development. As Taiwan concerns China's sovereignty and territorial integrity, selling arms to Taiwan contravenes China's core interests.
- 4.3 China's harsh response can also be attributed to the fact that the latest arms package has undermined the positive momentum in bilateral relations under President Obama. In 2009, both sides had consciously sought to expand common space and downplay differences including over human rights, democracy and trade. Beijing, it seemed, had very positive expectations of a

²⁰ US companies that could face sanctions include Boeing, United Technologies, General Electric, Lockheed Martin and Raytheon.

²¹ Dai Bingguo had said this at the first China-US Strategic and Economic Dialogue in July 2009 held in Washington. See "Shoulun zhongmei jingji duihua (First round of China-US Economic Dialogue), *Chinanews Net*, 29 July 2009 at <http://www.chinanews.com.cn/gn/news/2009/07-29/1794984.shtml>.

new era in US-China relations, one where the two countries respected each other's core interests and worked together for mutual benefit.

- 4.4 Another factor to explain China's reactions is the US' apparent disregard of China's enhanced international stature and the due respect that Beijing expects from this. China has outperformed other developed countries (US included) in weathering the world economic crisis. Besides helping in world recovery efforts, China also played an active role in global issues like climate change and counter-terrorism, and pushed for a greater voice for developing countries in the International Monetary Fund. By all these counts, China would expect the US to be more sensitive to China's concerns, especially on its core interests.
- 4.5 In particular, the arms package goes against the 1982 China-US communiqué: The US stated that it does not seek to carry out a "long-term policy of arms sales to Taiwan" and that it intends to "reduce gradually its sales of arms to Taiwan, leading over a period of time to a final resolution". Instead of scaling down its arms sales to Taiwan gradually and over time, the Obama administration had done the exact opposite by announcing its first ever and biggest arms package.
- 4.6 Yet another factor accounting for China's vehement response is that its leaders cannot appear to be soft when its core interests are challenged. Given China's raised status and the growing national pride among Chinese within and outside China, its leaders are expected to be seen as being able to stand up to the US. Not doing so would erode their legitimacy in the eyes of the Chinese public.
- 4.7 It is also worth noting that the arms package comes just after the Google episode where the US pressed China to account for the cyber attack (that reportedly originated from China) and to safeguard Internet freedom. By taking a tough stand, Beijing is saying to the US that Taiwan is a far more important issue to China than the Google episode. The US administration should therefore, in China's view, focus on properly managing this issue than raise a storm in a teacup over the Google episode.

Implications for China-US Relations

- 5.1 Relations between the US and China are likely to become more tense in the short run. China appears ready to back up its tough words with actions to punish the US for encroaching on its core interest by selling arms to Taiwan. On its part, the US seemed prepared for a tougher approach towards China.
- 5.2 Tensions will escalate further when another core interest of China is challenged: the impending meeting of President Obama with the Dalai Lama later this month in the US. Already, China has said that the meeting would “seriously undermine the political foundation of China-US relations” and has vowed to “take corresponding action to make relevant countries see their mistakes”.²² The US has said that it would not budge on this issue.²³
- 5.3 Henceforth, Beijing can be expected to be more assertive and even take punitive measures against the US or any other country that disregards its core interests. This, however, does not mean that China is out to pursue an aggressive policy. Officially, Beijing will still adhere to Deng Xiaoping’s policy of keeping a low profile and to achieve something in the process (韬光养晦，有所作为).
- 5.4 Complicating bilateral relations further are China’s other differences with the US that have come to the fore as well. These include Beijing’s reluctance to support tougher action by the United Nations to curb Iran’s nuclear ambitions and the still inconclusive Google episode. Also, the trade issue and the related matter of an undervalued RMB seemed to become even more salient. However, unlike the core issues of Taiwan and Tibet, China is expected to be more willing to adopt a give-and-take approach with the US on these matters.
- 5.5 It is not in the long term interest of China and the US to be confrontational to each other. Both will have much to lose and little to gain. The two countries

²² “China warns Obama not to meet Dalai Lama”, *BBC*, 2 February 2010.

²³ “Obama to meet Dalai Lama despite Chinese warnings”, *Reuters*, 2 February 2010.

will benefit more if they can focus on their respective domestic agendas and also work together on the international stage to address pressing global challenges. This would require both sides to be more sensitive to each other's concerns, particularly on matters which are core.

- 5.6 The prophetic words of Deng Xiaoping bear mentioning here. On China-US ties, Deng used to say that there are inherent limits to their better relations and also inherent limits to their bad relations (好也好不到哪里，坏也坏不到哪里). Hence, the US and China, as the world's No. 1 and No. 2 economy respectively, will continue to have roller-coaster relations for a long time to come.
- 5.7 While ties are currently tense, the relationship between China and the US will likely settle to a new equilibrium at some point in the future. This may not necessarily be a bad thing as it will provide a more realistic basis for the two countries to take stock and move on from there.