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## An Especially Delicate Phase in U.S.-China Relations

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Issues that could disrupt U.S.-China relations keep festering. Last month, the Obama administration modestly placated Beijing<sup>[3]</sup> by refraining from selling Taiwan the most advanced versions of the F-16 fighter. Now two other measures threaten to re-ignite tensions. Later this week, the Senate is scheduled to vote on legislation that would impose trade penalties<sup>[4]</sup> on countries that supposedly undervalue their currencies, thereby giving the products of their firms an artificial, unfair pricing advantage over the products of U.S. firms in the global marketplace. Although this legislation might impact a number of countries, there is no doubt that China is the principal target. The anger that Beijing's critics have expressed about alleged currency manipulation has been mounting steadily for years, and it is now coming to a head.

But Chinese officials, including, most recently, Vice Foreign Minister Cui Tiankai, have warned<sup>[5]</sup> that if the proposed legislation becomes law, there will be retaliation and the onset of a trade war between the United States and China. Perhaps that is a bluff, but the tone of Beijing's statements lately suggest that it is not. Economically, such a confrontation would be, as Cui concedes, a "lose-lose" proposition for both countries, but economic factors alone do not always determine a government's response. Nationalist sentiments—especially for a rising great power like China—can sometimes override economic logic.

The Taiwan issue also is resurfacing as a source of irritation in the bilateral relationship. Although the Obama administration's retreat on the F-16 issue soothed Beijing to some extent, it did not resolve the overall matter of arms sales to the island. Indeed, another request from Taipei is still pending. That request includes sophisticated radars, lasers, and GPS-guided bombs. Cui and other officials have made it clear that any sale of those weapon systems would seriously impact relations between Washington and Beijing.

As with the warnings about China's response to passage of the currency legislation, the warning about arms sales is probably not a bluff. Beijing reacted to a modest arms sale package in early 2010 by severing nearly all military-to-military contacts<sup>[6]</sup> with the United States for an extended period. Given the number of security issues in East Asia—and beyond—that require close

cooperation between the United States and China, that was not a minor development, and a repetition [7] would be most unwelcome.

More broadly, President Hu Jintao's speech [8] over the weekend made it clear that Beijing remains firmly committed to securing Taiwan's political reunification with the mainland. Although there were elements of that speech that suggested a reasonably conciliatory attitude toward Ma Ying-Jeou and the governing Kuomintang Party in Taiwan, the ultimate objective was clear. And that has to worry Washington [9], since the United States has a vague, but still very real, commitment [10] to Taiwan's defense under the provisions of the 1979 Taiwan Relations Act. What happens if the Taiwanese continue to refuse to consider reunification? And there is no more sentiment than before for merging with the mainland while it is governed by a one-party dictatorship—even if Ma's administration is less bombastic and confrontational than its predecessor toward Beijing.

Washington is being gradually boxed-in regarding relations with China. There are growing domestic political constituencies that favor a more hard-line policy toward Beijing—especially on currency valuation and other economic issues, but to some extent on the arms sale question and other security issues as well. Yet, adopting policies on those matters to placate domestic critics of China risks a major disruption in the bilateral relationship and a spike of overall tensions in East Asia. The Obama administration, as did previous administrations, has been able to finesse matters thus far, but the latitude for such maneuvers is clearly narrowing.

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[4] [http://www.washingtonpost.com/business/worldbusiness/congress-takes-up-china-currency-free-trade-and-obama-jobs-bill/2011/10/10/gIQA3aHRaL\\_story.html](http://www.washingtonpost.com/business/worldbusiness/congress-takes-up-china-currency-free-trade-and-obama-jobs-bill/2011/10/10/gIQA3aHRaL_story.html)

[5] <http://www.reuters.com/article/2011/10/10/china-usa-currency-idUSL3E7LA1GC20111010>

[6] <http://www.csmonitor.com/World/2010/0202/US-arms-sales-to-Taiwan-stifle-US-China-military-engagement>

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