



U.S.-China Relations

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Chairman Faleomavaega, Representative Manzullo, Members of the Subcommittee, thank you for inviting me to discuss with you the extremely important topic of U.S.-China relations.

President Bush has stated that he welcomes a China "that is peaceful and prosperous." And, he has called for a U.S.-China relationship that is "candid, constructive, and cooperative." The relationship as a whole has a solid foundation and has improved in recent years in some key areas of cooperation. That said, we continue to engage China candidly where we have real differences and concerns, including in areas such as human rights, trade, and military affairs. We engage China through a broad array of dialogues. In all of our interactions with China, we seek to further U.S. national interests by encouraging China to adopt measures at home and abroad that will benefit the United States, the international community, and China itself as it seeks long-term, stable development and greater integration into the international economy and multilateral institutions. Rather than trying to contain China, we are trying to help shape its choices as it rises in influence so that China plays a responsible and stabilizing role in the international system. Despite some areas of real friction, U.S.-China relations are far from a zero-sum game, and if we manage the relationship well on both sides of the Pacific, we should be able to keep it that way.

There is little to debate in the proposition that China is a growing power – a leader in the Asia Pacific region with significant influence around the globe. We witnessed China's impact on the international system late last month: A sharp drop in the Shanghai stock market helped set off a wave of stock selling around the world. Fortunately, the global sell-off was a short-term phenomenon, but the Chinese market drop was a factor in triggering it, something hard to imagine just a few years ago. That event reminds us that what now happens in China can affect us and the rest of the world. The stock sell-off in Shanghai should serve as a lesson for China, as well. To ensure continued prosperity, China must continue down the path of reform of its financial and other sectors in its economy, while also embracing change in its society. More broadly, China – having integrated into and benefited from the global system – must ensure that its actions and its policies are good not just for China, but also for the world community, on which China's economic progress so heavily depends.

After almost 30 years of unprecedented, increasingly market-driven, economic growth, China has become one of the world's largest economies. It is now the world's third-largest trading nation. China has become one of the world's top manufacturers. Its middle class seeks all the material benefits of a modern economy. The flow of its overseas direct investment increased 81 percent in 2005 to \$7 billion, according to China's Ministry of Commerce.

It is also important, however, to note that China faces enormous challenges at home. In general, it remains a poor country, with per-capita GDP about one twenty-fifth that of the United States. The income gap between rural and urban residents is large and widening, and there is significant social unrest, particularly in semi-rural areas surrounding China's booming industrial centers. By the Chinese government's own count, there were some 87,000 disturbances of public order in China in 2005. Environmental degradation is widespread and has only belatedly emerged as a public issue. More than 300 million Chinese do not have access to clean water. The country lacks an adequate social safety net, amid an aging society. It is deficient in the energy resources and infrastructure it needs to fuel continued economic growth. China's leaders are struggling to root out systemic corruption.

The choices that Chinese leaders make to promote continued economic growth, while addressing the very real challenges at home, will have repercussions around the globe. China must address its growing global trade surplus and increase the flexibility of its currency, to ensure the health of its own economy as well as that of the world. China's voice matters on key international issues, such as ensuring a denuclearized Korean Peninsula, stemming Iran's nuclear weapons ambitions, and ending the violence in Darfur. China also needs to play a positive role in international efforts to promote energy security; combat terrorism, proliferation, and organized crime; and safeguard against pandemic disease. And, China has increasing interests in areas where it did not have a significant presence before, such as Africa, the Middle East, and Latin America.

As China's integration into the international system deepens and as its diplomatic influence increases, it becomes even more important that we encourage China to join us in actions to strengthen and support global security and prosperity for both our countries and the world. Our goal is to help China frame its choices, to encourage it to act responsibly in a manner commensurate with its growing wealth, stature, and influence. It is also important that we address the issues that divide us in a forthright and constructive manner. With that goal in mind, we have dozens of ongoing dialogues with China, on issues ranging from international security to investment regulations, to rule of law, to health care to nonproliferation to science and technology cooperation. Two of the most important are the Senior Dialogue, which focuses on broad political and strategic themes and is led by Deputy Secretary of State Negroponte, and the Strategic Economic Dialogue, led by Treasury Secretary Paulson. Our discussions are frank and candid, and where we have found common ground, we have made progress. Where we have differences, we encourage China to understand our concerns and change its behavior in ways that will advance not only our interests, but also its own.

When our differences cannot be resolved through dialogue, we turn to other mechanisms available to us, such as seeking resolution of trade disputes through the World Trade Organization or imposing sanctions on Chinese companies that sell to other countries materials and technology for weapons of mass destruction. We press China hard on matters we believe are fundamental to the world's security and peace.

We maintain a robust presence throughout Asia and strong bilateral alliances in the region. This posture is the bedrock of our Asia policy, and it is fully in keeping with our efforts to encourage China to engage responsibly in the international community. Through our diplomatic interaction and in our regional presence, we provide strong incentives for Beijing to use its rising influence in ways that will benefit China, the region, and the world.

Please allow me to outline the areas in which we are working with China to advance global peace and security, to strengthen respect for human rights and religious freedom, and to foster our countries' economic prosperity.

Toward global peace and security

The United States encourages China to work with us to build and strengthen the global system and advance global peace and security. We appreciate China's positive contributions, and we urge China to do more. China has played a critical role as host of the Six-Party Talks aimed at achieving a denuclearized Korean Peninsula. China was instrumental in brokering the September 19, 2005, Joint Statement, which, when implemented, will get North Korea out of the nuclear business. In February of this year in Beijing, China again played a key role in helping get North Korea back to the Six-Party Talks and reaching agreement on the Initial Actions plan. China has supported strong measures, including sanctions, in the United Nations to press North Korea to end its nuclear program and has been key to getting Pyongyang to negotiate on a multilateral basis. The Administration is committed to continuing to work closely with China to achieve North Korea's complete, irreversible, and verifiable denuclearization; adopt more responsible behavior; and, implement the September 2005 Joint Statement.

As Assistant Secretary Hill has pointed out, the Six Party Talks process is focused on denuclearization but also has broader goals. Through working groups and the prospect of a future Northeast Asia security mechanism following on from a successful Six-Party process, the talks aim to reduce mistrust and tensions between former enemies, including China and Japan, over the long haul.

China shares our assessment that Iran must not obtain nuclear weapons capability. Last week, China joined the United States and other P-5 members in urging quick approval by the UN Security Council of a draft resolution that would impose additional Chapter VII sanctions on Iran as a result of its failure to comply with UNSCR 1737, which required Iran to completely and verifiably suspend its uranium enrichment activities. We also expect China, as a permanent member of the UN Security Council, to expand its efforts to increase targeted pressure on the Iranian regime through bilateral financial measures, by increasing efforts to block transit of proliferation sensitive materials to and from Iran, including between Iran and North Korea, and by ending its unhelpful weapons sales to Tehran. On this last point, we expect China will implement its obligations under UNSCR 1747 to curtail sales of certain arms equipment to Iran. We, of course, remain concerned over reports that Chinese companies may be moving toward investments in Iran's oil and gas sector. We have made clear to Beijing that these types of investments, along with continued arms sales, send the wrong signal to the Iranian regime and raise serious concerns under U.S. law.

China needs to do more on vital multilateral issues. This is particularly true on Sudan, where China, with some justification, is seen as Khartoum's patron and benefactor. We appreciate China's public support of the conclusions of the November 16 high-level consultations in Addis Ababa and the three-phase plan for the deployment of a robust UN/AU hybrid peacekeeping force under UN command and control. At the same time, we expect China, which purchases the majority of Sudan's oil exports, to do much more to exercise its significant leverage with Khartoum to persuade President Bashir to unequivocally accept the UN/AU force. Such action has gained urgency with Bashir's March 6 letter to UN Secretary-General Ban Ki-moon, which represents a rejection of the Addis Ababa conclusions and commitments under the Darfur Peace Agreement.

There are other areas where we have differences. China has resisted international efforts to put pressure on the military regime in Burma, vetoing a related UNSC resolution. It has a mixed record on efforts to stem the proliferation of weapons, especially those related to missile technology and weapons of mass destruction. It needs to do more to rein in the proliferation activities of its own companies. We, and its neighbors, view with increasing concern China's lack of transparency on the pace, scope, and direction of its military modernization. Its January 11 test of a direct ascent anti-satellite weapon – a test that China still has not sufficiently explained highlighted these concerns. The development and deployment of such an offensive system appears inconsistent with China's stated goal of "peaceful rise." We also remain deeply concerned about the growing arsenal of missiles and other military systems arrayed against Taiwan, as well as Beijing's refusal to renounce the use of force against Taiwan. We believe these circumstances constitute important factors for instability in cross-Strait relations. We continue to urge China to reduce those threats and increase cross-Strait dialogue, including direct talks with Taiwan's democratically elected leaders. At the same time, we remain mindful of our obligations under the Taiwan Relations Act (TRA) to make available to Taiwan defense articles and services necessary for Taiwan to maintain a sufficient self-defense. We will continue to implement our successful and quite stabilizing one-China policy – based on the three U.S.-China Joint Communiqués and the TRA. We insist on a peaceful resolution of cross-Strait differences; we do not support Taiwan independence; and we oppose unilateral changes to the status quo by either side of the Taiwan Strait.

With China seeking markets for its products and looking for new or untapped sources of energy and other raw materials to meet growing domestic demand, its involvement in Africa and other regions has broadened and intensified. While we welcome many positive features of this engagement, we also have expressed our concerns about potentially negative impacts of China's approach to development assistance and lending. We are concerned that China's stepped-up lending to developing countries risks saddling them with additional debt, and we would like China to do more to coordinate its aid programs with other donors. In addition, we are troubled by China's continuing close relations with problematic regimes, relations that may be encouraged by China's legitimate need for energy and resources, but that do not always take into account larger ramifications for peace and security. Sudan and Iran are obvious examples, but we could point to Beijing's relations with Zimbabwe and Venezuela as well. We encourage China to become involved overseas in ways that enhance rather than undercut international efforts to nurture good governance, democracy, human rights, and sustainable growth.

These issues – together with human rights, which I will address later – are among the important matters that we discuss in the Senior Dialogue, which grew out of a commitment made in 2004 between President Bush and President Hu to develop a regular forum to discuss longer-term political and security issues. We have held three rounds of the Senior Dialogue, and Deputy Secretary Negroponte is scheduled to host the next round in Washington in June. The dialogue allows both sides not only to discuss the pressing issues of the day, but also to take a broader look at our relations and discuss how we might better cooperate and coordinate actions in various regions of the world and on transnational issues that affect us all. In addition, the State Department has held regional sub-dialogues under the Senior Dialogue framework.

As we focus on China's rising power, we must not neglect mention of China's relationship with its western and southern neighbors, India, the nations of Central Asia, and ASEAN. We find it helpful that India and China are talking about a range of issues, including economic cooperation, combating terrorism, and efforts to settle outstanding border disputes. China also has sought improved relations with Central Asian countries and has supported regional efforts to promote greater economic cooperation and security, goals we support. China offers the potential to serve as an economic partner, particularly by providing an additional route for the export of the region's energy to world markets. We encourage China to work jointly with the United States and others to facilitate new trade links that will further integrate Central Asian countries into the global economy. We support World Trade Organization membership for all Central Asian countries and believe China, as a member, can help to encourage reforms and policies consistent with its principles. As with China's robust multilateral and bilateral engagement with Southeast Asia, we do not perceive a zero-sum competition between Chinese and American diplomatic efforts in South and Central Asia.

Respect for human rights

The United States and China engage in frank exchanges of views on issues on which we have strong disagreements. This is particularly true in regards to human rights. We urge China at every opportunity to respect the basic human rights of its people, rights that not only are provided in China's own constitution, but also are internationally recognized standards. We have expressed our concerns about the monitoring, harassment, intimidation, and arrest of journalists, Internet writers, defense lawyers, religious and social activists, and human rights defenders seeking to exercise their rights under Chinese and international law. We also have consistently called on China to respect its people's right to speak, assemble, and publish; worship; and plan their families as they choose, free of coercion. We will continue to raise these and other issues of concern, as well as individual cases of political prisoners. We also will support efforts by China and its people to engage in systemic reform, through our rule of law and civil society programming.

Under Secretary Dobriansky recently testified on our ongoing efforts to promote greater dialogue by the PRC government with the Dalai Lama and his representatives and to safeguard Tibet's unique cultural and religious heritage. Let me simply reiterate that Tibet issues remain important human rights and religious freedom concerns for the United States, as does the treatment of minority communities in areas such as Xinjiang.

On all of these fronts, our message is clear: Whenever China restrains its people's freedoms, it limits their ability to achieve their full potential and to contribute to the "harmonious society" that President Hu has invited all Chinese citizens to build. China cannot be considered a leader in the international system until it develops a more open, transparent, and free society, unleashing the innovation and creativity of its own people. There also are clear international benefits for China. Much has been said and written about China's "peaceful rise." However, without a more open and democratic domestic system, based on the rule of law, and, therefore, a predictable political environment, it will be more difficult for China to achieve and maintain the internal stability and the trust among its neighbors necessary to achieve a smooth transition to a leading role in the international community.

Fostering economic prosperity

Together, the United States and China accounted for more than 50 percent of the world's economic growth over the last five years. Increasingly, China's continued economic success is tied to our own success. Since joining the WTO, China has been our fastest growing major export market, demonstrating the benefits of engagement with China on trade issues. U.S. exports to China grew 32 percent last year, while imports from China grew 18 percent. Clearly, our companies are finding increasing opportunities in China, and these provide important economic benefits to U.S. investors, U.S. producers that benefit from low-cost inputs to production, American workers in companies that are increasing profits and competitiveness by capitalizing on the efficiencies involved in our economic interactions with China, and consumers who benefit from the low cost of goods. A growing number of U.S. firms are seeking to take advantage of the opportunity to provide goods and services to the rapidly increasing Chinese middle class.

That said, there are significant challenges in the U.S.-China economic relationship, brought about by China's incomplete transition to a market economy and underscored by our \$232.5 billion trade deficit. To meet those challenges, we work with China on economic and trade issues in a number of forums. The high-level Strategic Economic Dialogue addresses the entire range of our economic relations and how our respective policies affect the global economy as a whole. Other dialogues, including the Joint Commission on Commerce and Trade and the State Department's dialogue with China's National Development and Reform Commission, continue to address important issues and produce significant accomplishments. The essential goal is to ensure that the benefits of our growing economic relationship are fairly shared by citizens of

both countries.

In many of our economic dialogues, we address some of the underlying causes of the imbalances in our economic relations, and we do so in ways that we believe will benefit not only the United States, but also China itself over the longer run. For example, China needs to do more to protect and enforce intellectual property rights. Its failure to do so not only causes our companies to incur millions of dollars in losses through counterfeiting and piracy and raises health and safety concerns, but also deters certain foreign investments in China and removes incentives for its own industries to innovate. In the near term, we continue to encourage China to increase the flexibility of its exchange rate and strengthen and reform its financial markets. As Secretary Paulson has said, "Strengthening and reforming financial markets will ultimately allow the Chinese to freely float their currency."

Perhaps the best long-term answer to large-scale deficits lies in the long-term restructuring of China's economy, so that domestic demand, not exports, will fuel its growth. Chinese leaders have outlined the goal of weaning their country off excessive dependence on exports and fixed-asset investment and toward a more consumption-based society. China also must face up to serious domestic problems, including the need for a public/private social safety net with health and retirement programs that would instill in Chinese families the confidence to spend more and save less. But, as Secretary Paulson has argued, Beijing is moving cautiously and perhaps too slowly as it attempts to rebalance the economy.

We work with China to promote balanced and strong growth and prosperity in our two nations. We seek ways to ensure that our economic relationship is mutually beneficial. At every opportunity, we remind the Chinese that their market-opening reforms not only are beneficial to us and the world, but also serve their own long-term interests. Staying on the reform path will ensure the continued growth and stability of their economy – something we underscore when we see Beijing backslide or pursue mercantilist-style policies.

Through this cooperative approach, we have seen positive results. Tomorrow, United Airlines will launch the first direct flight between Washington and Beijing – a symbol of the increased interaction between our countries. To further expand civil aviation and tourism, we have been pressing for an "open skies" agreement within the Strategic Economic Dialogue.

We are working in other ways to increase exchanges between China and the United States, for example, making our system for processing visa applications as efficient as possible, in a manner that facilitates legitimate travel by China's rapidly growing middle class, yet maintains security. Meanwhile, China needs to bring home the more than 40,000 Chinese who have been convicted of crimes or are in the United States illegally and have received final orders for their deportation.

We also are witnessing progress in our cooperation on energy and environment issues. The United States and China are the world's largest energy consumers, both heavily dependent on coal and oil. We both understand the need to work together to ensure stable energy markets and to support energy-efficient and cleaner technologies and the common goal of energy security. We encourage China to continue its cooperation with the International Energy Agency and coordinate with IEA and other major consuming countries as it develops its Strategic Petroleum Reserves, which will contribute to global energy security and minimize shocks to the energy market. China's commitment to clean energies, including nuclear power, was demonstrated in its decision in December to purchase four nuclear reactors from Westinghouse in a deal valued at between \$8 billion and \$10 billion – a deal signed, not coincidentally, in conjunction with the Strategic Economic Dialogue in Beijing in December. China has said it plans to build 30 more reactors over the next 15 years.

China's dependence on industrial expansion to achieve fast economic growth has hurt its environment. Chinese leaders have begun to take notice, but solutions that would improve energy efficiency and reduce pollution have moved more slowly than China's recent economic growth. A shift to market pricing in China's energy sector – including the elimination of remaining price controls on fuels and liberalization of electricity prices – would spur more efficient use of energy.

More broadly, China's leaders have come to recognize that inefficient energy use restrains the nation's economic growth. China is starting to address pollution issues as it prepares to host the 2008 Olympics in Beijing. Through our dialogues, we are working with them on ways to tackle environmental problems throughout China. We also believe that American firms, with world-leading technologies, can profitably work in China on these problems.

We are engaged with China in a multitude of bilateral and multilateral forums dealing with energy and the environment. China brought together the United States, South Korea, Japan, and India in the first Five-Party Energy Ministerial in December, which addressed energy stability, security, and sustainability. We are partners in the Asia-Pacific Partnership on Clean Development and Climate, a collaborative effort with the private sector to implement projects that will improve energy security, air pollution, climate change, and efficiency in a variety of energy-intensive sectors. We work together in the APEC Energy Working Group in pursuit of the goals of the APEC Energy Security Initiative.

Although we believe that we have many common interests with China, we are realistic and recognize that dialogue does not always produce desired results. So, whenever appropriate, we take tough action to resolve our economic and trade disputes with China. Under this Administration, 31 anti-dumping orders have been issued against China. We requested consultations with China through the WTO over China's discriminatory treatment of imported auto parts and its use of prohibited subsidies. A month after filing our complaint on subsidies, China abolished one of the disputed subsidy programs, and we hope China will follow with action on the remainder soon. In addition, USTR is in discussions with China about our concerns over China's compliance with its WTO obligations in the area of IPR enforcement.

Conclusion

We seek China's continuing integration as a responsible member of the global economy and international system. With China's rise to global prominence, its leaders must heed how their security, economic, environmental, and social policies affect not just China's population of 1.3 billion, but the 5.2 billion people beyond its borders. As a regional power with increasing global reach, China will be expected to use its increasing influence to support international efforts to safeguard peace and security. As a mature trading partner, China will be expected to play a greater role in strengthening the global trading system – including the Doha round. We continue to work hard to ensure China recognizes the benefits of these roles.

We also work hard to ensure that China recognizes the mutual benefits of cooperation. I have outlined this afternoon the numerous areas where we cooperate. I also have identified the serious differences we continue to discuss with the Chinese. We seek to build a mature relationship with China based on an increasing sense of mutual trust and to confront and resolve our differences. Whenever possible, we will continue in the spirit of cooperation in our ties with China, aiming for a relationship that is productive and prosperous and benefits not just the United States and China, but also the world.

Thank you for the opportunity to speak before you. I would be pleased to take your questions.

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