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Before the

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The Future of U.S.-China Relations

Introduction

Chairman Menendez, Ranking Member Corker, Members of the Committee, thank you for the opportunity to testify today on U.S.-China relations. It is also a great honor to be participating in today's hearing with one of our nation's most accomplished diplomats, Ambassador Stapleton Roy – a friend, former colleague, and one of the foremost experts on U.S.-China relations. Ambassador Roy's contributions to the U.S.-China relationship have been invaluable, and I look forward to hearing his insights.

I would also like to take this opportunity to thank you, Mr. Chairman, for your leadership and to acknowledge this Committee's contributions to the rich bipartisan tradition of engaging China. I have found it extremely valuable to work closely with the Committee's Members, and in particular with the Asia Subcommittee, in advancing U.S. interests vis-à-vis China and the Asia-Pacific region as a whole.

Overall Bilateral Relations

This year marks the 35th anniversary of the establishment of official diplomatic relations between the United States and China. We have made remarkable progress since the era of back-channel messaging and secret trips. The scope of today's U.S.-China relationship was unimaginable when President Nixon made his historic visit in 1972 to China.

Yet there is still enormous potential for progress in the U.S.-China relationship. Progress that will yield benefits to the citizens of both countries, our neighbors, and the world. To realize this progress and these benefits, we seek to ensure that the relationship is not defined by strategic rivalry, but by fair and healthy competition, by practical cooperation on priority issues, and by constructive management of our differences and disagreements. Where interests overlap, we will seek to expand cooperation with China. These areas include economic prosperity, a denuclearized Korean Peninsula, peaceful resolution of the Iranian nuclear issue, and a reduction in the emission of greenhouse gases. Where they diverge – and we have significant and well-known areas of disagreement – we will work to ensure that our differences are constructively managed.

Mr. Chairman, there are those who argue that cold war-like rivalry is inevitable and that the United States and China are condemned to a zero-sum struggle for supremacy, if not conflict. I reject such mechanistic thinking. As anyone who has served in government can tell you, this deterministic analysis overlooks the role of leaders who have the ability to set policy and to shape relationships. It gives short shrift to the fact that our two economies are becoming increasingly intertwined, which increases each side's stake in the success of the other. It undervalues the fact that leaders in Washington and Beijing are fully cognizant of the risk of unintended strategic rivalry between an emerging power and an established power and have agreed to take deliberate actions to prevent such an outcome. And it ignores the reality of the past 35 years – that, in spite of our differences, U.S.-China relations have steadily grown deeper and stronger – and in doing so, we have built a very resilient relationship.

We view China's economic growth as complementary to the region's prosperity, and China's expanded role in the region can be complementary to the sustained U.S. strategic engagement in the Asia-Pacific. We and our partners in the region want China's rise to contribute to the stability and continued development of the region. As President Obama and Secretary Kerry have made very clear, we do not seek to contain China; to the contrary, we welcome the emergence of a stable, peaceful, and prosperous China. We believe all countries, and particularly emerging powers like China, should recognize the self-benefit of upholding basic rules and norms on which the international system is built; these are rules and norms which China has participated in formulating and shaping, and they are rules and norms that it continues to benefit from. In this context, we are encouraging China to exercise restraint in dealing with its neighbors and show respect for universal values and international law both at home and abroad.

A key element of our approach to the Asia-Pacific region, often called the rebalance, is strengthening America's alliances and partnerships in the region. This contributes directly to the stable security environment that has underpinned the region's – and China's – dramatic economic growth and development.

A second element is working to build up regional institutions in order to uphold the international rules-based system and create platforms for the countries and leaders to work on priority strategic, economic, and other issues. These institutions help develop habits of cooperation and promote respect for the interests of all parties.

A third key element has been expanding and deepening our relationships with important emerging countries such as China, including through regular and high-level dialogue.

In just two weeks, our countries will hold the sixth round of the U.S.-China Strategic and Economic Dialogue – the “S&ED” – in Beijing. This annual dialogue is unique in its level and scope. It is led on the U.S. side by Secretaries Kerry and Lew and brings a number of Cabinet-level and other senior U.S. government officials together with their Chinese counterparts to work on the major issues facing us. The breadth of the agenda in the two tracks – strategic and economic – reflects the breadth of modern U.S.-China relations. The S&ED is an important vehicle for making progress in the pursuit of a cooperative and constructive relationship; for building a “new model” that disproves the thesis that the United States and China are somehow destined for strategic rivalry and confrontation.

The S&ED is an important forum for the United States and China to take stock of and set goals for the bilateral relationship, to review regional and international developments and explain our respective policies, to coordinate and seek practical areas of cooperation on important issues of mutual interest, and to constructively manage areas of difference through candid, high-level discussions.

Let me preview of some of the topics for upcoming discussions at this year's S&ED:

- We will exchange views and explore prospects for progress on regional challenges, including Sudan, Afghanistan, Iran, North Korea, Ukraine, Iraq, and maritime disputes in the South and East China Seas;
- The world's two largest economies will work on strengthening the global economic recovery;

- The world's two biggest energy consumers and carbon emitters will work on combating climate change, and expand cooperation on clean energy;
- We will discuss global challenges ranging from cyber security to counterterrorism to wildlife trafficking, and the United States will raise our concerns over human rights;
- Secretary Kerry will co-chair the annual U.S.-China High-Level Consultation on People-to-People Exchange, which supports exchange programs that build the foundation for mutual understanding and trust;
- And Deputy Secretary of State Bill Burns and his Chinese counterpart will hold the U.S.-China Strategic Security Dialogue (SSD), our highest-ranking joint civilian-military exchange with China, where we will conduct frank discussions on some of the most sensitive strategic issues in the relationship.

The S&ED and our numerous other dialogues and official exchanges with the Chinese each year reflect the importance we attach to managing this relationship. This level and pace of engagement show the commitment of both sides to producing tangible benefits for our two peoples, the Asia-Pacific region, and the global community.

The United States and China have a vital stake in each other's success. That is why we maintain an intensive schedule of engagement; President Obama and President Xi met in Sunnylands, California, a year ago and have met twice more since then. The President plans to visit Beijing in November when China hosts APEC. Secretary Kerry, as well as numerous Cabinet and sub-Cabinet officials, have visited China already in 2014 and have met with Chinese counterparts in the United States or at international fora.

We work with China in virtually all important international arenas, including the UN, the G20, the East Asia Summit, and APEC where we are cooperating closely on regulatory transparency, supply chain efficiencies, promoting clean and renewable energy, cross-border education, and combatting corruption and bribery. Our relationship touches on nearly every regional and global issue, and, as such, requires sustained, high-level attention. Moreover, few of these issues can be effectively addressed if China and the United States do not cooperate.

Economic Relations

Economic issues play a central role in the U.S.-China relationship. China's economic success has added to our growth and increased the purchasing power of consumers in the United States. Our two-way trade has almost quadrupled since

China joined the WTO in late 2001. While the long-standing imbalance in that trade remains troubling, China is now one of the fastest growing U.S. export markets. In fact, U.S. exports to China grew by more than 90 percent between 2007 and 2013. In our bilateral engagements, we are encouraging economic reforms within China to ensure not only that its economic behavior is sustainable on its own terms, but that it contributes to strong, sustainable and balanced growth of the global economy. This includes re-orienting its economy away from a development model reliant on exports and credit-fueled investment in real estate and infrastructure to one that increases consumer spending and contributes to global demand. Central to this goal has been urging China to move toward a market-determined exchange rate. We are also addressing sources of friction in our bilateral relationship by pressing China to change a range of discriminatory policies and practices that harm U.S. companies and workers and that undermine incentives to innovate. These include subsidies that tilt the competitive playing field in favor of Chinese national champions, policies that pressure companies to hand over intellectual property as a condition for access to the Chinese market, and export credits that unfairly advantage Chinese companies in third markets. U.S. businesses have investments totaling over \$50 billion. And from 2012 to 2013, Chinese direct investment flows into the United States more than doubled, according to private sector figures, and now contribute to thousands of jobs here. Our ongoing bilateral investment treaty negotiations hold the potential for even more mutually beneficial economic ties.

Even as we increase trade and investment, we will continue insisting on tangible progress in other economic areas that matter to the United States. These include:

- China continuing to move toward a market-determined exchange rate;
- negotiating a Bilateral Investment Treaty;
- increasing access to Chinese markets for U.S. businesses;
- developing a more transparent regulatory regime;
- ending industrial policies that favor state-owned enterprises and national champions and seek to disadvantage foreign companies and their products;
- ending forced technology transfer; and
- addressing U.S. concerns over the theft of intellectual property and trade secrets, including government-sponsored, cyber-enabled theft for the purpose of giving Chinese companies a competitive advantage.

We will also continue to encourage greater Chinese integration into the rules-based international economic and trading system, in order to create a level playing field

for domestic and foreign companies operating in its and other markets. Over the last few months, China's leaders have announced plans for sweeping reforms that, if realized, could go a long way in moving China's economy toward market principles. We are encouraged that these announced reforms would potentially give the market a greater role in the economy, and we are keenly interested to see such reforms put into practice. I believe we can do much to work with China as it transitions to a consumption-driven, market-oriented growth model that would benefit both our economies.

Military-to-Military Relations

On the military side of the U.S.-China relationship, we are committed to building a sustained and substantive military-to-military relationship that focuses on identifying concrete, practical areas of cooperation and reducing risk. This includes not only deepening the use of institutionalized dialogue mechanisms, including senior defense participation at the SSD and S&ED, but also inviting the Chinese to join regional cooperative exercises and expanding talks with the Chinese military about operational safety in the region. For the first time this year, China will participate in RIMPAC June 26-August 1 in Hawaii.

We also aim to continue high-level exchanges between our militaries. Recent exchanges have included visits to China by Secretary Hagel in April and General Odierno in February, and a visit to the United States by Chief of the General Staff General Fang Fenghui in May.

At the same time, we will continue to carefully monitor China's military developments and encourage China to exhibit greater transparency with respect to its military spending and modernization. This will help countries better understand the motivations of the People's Liberation Army. We continue to encourage China to use its military capabilities in a manner conducive to the maintenance of peace and stability in the Asia-Pacific region.

Global and Regional Issues

As the largest energy consumers, greenhouse gas emitters, and renewable energy producers, the United States and China share common interests, challenges and responsibilities. These are issues that relate directly to our economic and national security. Cooperation on climate change, energy, and environmental protection is more critical than ever and is an important area of focus in the U.S.-China bilateral relationship.

Through broad dialogues such as the Ten-Year Framework for Energy and Environment Cooperation and the S&ED, over the last year we have been able to produce new and expanded commitments to cooperation on climate change, energy, and the environment. During Secretary Kerry's February trip to Beijing, he announced implementation plans for each of the five initiatives under the Climate Change Working Group as well as a new enhanced policy dialogue on domestic and international policies to address climate change that will be held on the margins of the upcoming S&ED.

China is a vital partner on some of the world's most pressing proliferation challenges, including the DPRK and Iran. The United States and China agree on the importance and urgency of achieving a denuclearized, stable, and prosperous Korean Peninsula. While differences remain between us on some of the tactics, we coordinate closely and consult intensively on how to advance these shared goals. The result has been a tightened web of sanctions targeting North Korea's nuclear, ballistic missile, and proliferation efforts. China has also strengthened its own sanctions enforcement, which we welcome, though it could do more to prevent North Korea from engaging in proliferation activities. Indeed, North Korea remains in flagrant violation of the UN Security Council resolutions that the United States and China approved and support. So we are urging China to make greater use of its unique leverage with the DPRK to produce concrete signs that the DPRK leader has come to the realization that his only viable path forward is denuclearization.

On Iran, the United States and China share the goal of preventing Iran from acquiring a nuclear weapon and are working together within the P5+1 negotiations with Iran toward that goal. Through our frequent and high-level engagement, we will continue to press China to honor its commitments, in particular those related to its imports of Iranian oil and enforcement of UN sanctions, in furtherance of reaching a comprehensive and long-term solution to the Iran nuclear issue.

Managing Differences

In the Asia-Pacific region, Beijing's neighbors are understandably alarmed by China's increasingly coercive efforts to assert and enforce its claims in the South China and East China Seas. A pattern of unilateral Chinese actions in sensitive and disputed areas is raising tensions and damaging China's international standing. Moreover, some of China's actions are directed at U.S. treaty allies. The United States has important interests at stake in these seas: freedom of navigation and

overflight, unimpeded lawful commerce, respect for international law, and the peaceful management of disputes. We apply the same principles to the behavior of all claimants involved, not only to China. China – as a strong and rising power – should hold itself to a high standard of behavior; to willfully disregard diplomatic and other peaceful ways of dealing with disagreements and disputes in favor of economic or physical coercion is destabilizing and dangerous.

The United States does not take sides on the sovereignty questions underlying the territorial disputes in the South and East China Seas, but we have an interest in the behavior of states in their management or resolution of these disputes. We want countries, including China, to manage or settle claims through peaceful, diplomatic means. For example, the Philippines and Indonesia have just done so in connection with their EEZ boundary. Disputes can also be addressed through third-party dispute resolution processes. Where parties' rights under treaties may be affected, some treaties provide for third-party dispute settlement, as is the case of the Law of the Sea Convention, an avenue pursued by the Philippines in an arbitration with China currently being considered by an Arbitral Tribunal constituted under that treaty. The United States and the international community oppose the use or the threat of force to try to advance a claim, and view such actions as having no effect in strengthening the legitimacy of China's claims. These issues should be decided on the basis of the merits of China's and other claimants' legal claims and adherence to international law and norms, not the strength of their militaries and law enforcement ships or the size of their economies.

Another area where we believe China's actions run counter to important universal principles is the worsening human rights situation in China. Just this month, China conducted a harsh crackdown on all commemorations of the 25th anniversary of Tiananmen Square. China's actions included the detention, harassment and arrests of journalists, lawyers, and activists. Top U.S. officials raise our concerns with Chinese leaders on a regular basis, and, as we have in every previous round, Secretary Kerry plans to raise human rights at this year's S&ED. We express concern about the Chinese government's censorship of the media and Internet. We push for the release of all political prisoners, including but not limited to prominent figures like Liu Xiaobo. We urge China to address the policies in Tibetan areas that threaten the distinct religious, cultural, and linguistic identity of the Tibetan people. Instability and violence are on the increase in the Xinjiang Uighur Autonomous Region. As we unequivocally condemn the acts of terrorism and violence, we also urge China to take steps to reduce tensions and reform

counterproductive policies that stoke discontent and restrict peaceful expression and religious freedom.

Conclusion

Clearly, a wide-ranging and complex relationship such as ours with China comes with challenges. Some degree of friction is inevitable. But an essential tool for managing and resolving differences is open and extensive communications between our two countries – at senior and working levels of government, military to military, through local governments and organizations, between our business communities, and at the grassroots level.

We are now reflecting on the considerable progress attained in 35 years of bilateral relations. One key lesson is that to ensure that our relationship grows and matures, we need to build up the links among our two peoples. People-to-people exchanges are essential to enhancing mutual understanding and furthering U.S. strategic and economic goals. To that end, the United States in 2013 received 1.8 million Chinese visitors who collectively spent \$9.8 billion on goods and services in our economy. Our State Department personnel work hard to facilitate growing Chinese demand for international travel by maintaining average visa wait-times under five days over the past two years.

Education also plays an important role fostering mutual understanding. In 2013, we had 235,000 students from China studying in the United States, more than from any other country, and the United States aspires to increase the number of American students studying in China and learning Mandarin through the 100,000 Strong Initiative. In March, PRC First Lady Peng Liyuan welcomed First Lady Michelle Obama to China where together they met with U.S. and Chinese students and faculty and promoted the value of study abroad and educational exchange.

We are also working with groups like the Sister Cities International and the U.S.-China Governors Forum. These programs help by encouraging and supporting cities and states to deepen their cultural or commercial ties with Chinese counterparts. In the last year alone, we have supported numerous visits of governors and state delegations and helped them to find opportunities to deepen their involvement and links to China.

The Department works closely with the United States Chamber of Commerce, AmCham China, the U.S.-China Business Council, and other business groups to support key priorities for U.S. companies doing business in China and to promote

greater Chinese investment in the United States. In partnership and consultation with those organizations, we have encouraged the Chinese government to eliminate investment restrictions, strengthen IPR protection, increase regulatory transparency, and establish a level playing field for all companies in China.

In conclusion, let me paraphrase what President Obama said earlier this year when he met with Chinese President Xi at the Nuclear Security Summit in The Hague. The U.S.-China relationship has made great strides over these past several decades, and both sides are committed to building a new model of relations between our countries defined by expanded cooperation and constructive management of differences.

Mr. Chairman, I thank you for the opportunity to appear before you today to discuss U.S.-China relations. I look forward to answering any questions you and others from the Committee may have.