

U.S. Senate Committee on Foreign Relations
Senator Richard G. Lugar
Opening Statement for Hearing on
U.S. – China Relations in the Era of Globalization
May 15, 2008

I thank Chairman Biden for calling this hearing on China, and I welcome back to the Committee Deputy Secretary Negroponte. Today, as we consider policy toward China, we send our thoughts and prayers to the people affected by the recent devastating earthquake.

The United States must come to grips with the incredibly complex set of problems, choices, and opportunities that China represents. Clearly we have sharp differences with the Beijing government on many issues, including human rights, democratization, religious freedom, the protection of intellectual property rights, Chinese currency policy, the safety of some Chinese consumer products, the militarization of space, the status of Tibet, matters related to Taiwan, and other issues. Though progress has been made in some areas, most of these issues are unlikely to be resolved in the short run.

In recent years, U.S. – China ties have advanced on several fronts including military to military relations and cooperation on anti-terror initiatives. Beijing has an integral role hosting the Six Party Talks intended to eliminate North Korea's nuclear weapons program. This has been a valuable venue for extended dialogue between our diplomats and Northeast Asian counterparts on other items, as well. Recently, China and Taiwan are interacting on relevant issues in more measured tones. Among other positive steps, I encourage China's acceptance of Taiwan participating as an observer in the upcoming World Health Assembly of the World Health Organization.

Economically, U.S. exports to China rose by nearly 240 percent from 2001 to 2007, significantly more than exports to any of our other top ten trading partners. Yet we are mindful that the annual U.S. trade deficit with China has risen to approximately \$256 billion. Many U.S. officials have insisted that China's currency was undervalued in comparison to the U.S. dollar, making Chinese exports to the United States cheaper, and consequently U.S. exports to China more expensive.

The Congressional Research Service reports that: "China is the second largest foreign holder of U.S. Treasury securities at \$487 billion, and while China's purchases enable the U.S. government to finance the budget deficit (helping to keep interest rates low), some have raised concerns that China could destabilize the U.S. economy if it decided to suddenly attempt to sell off its U.S. debt holdings."

Also, there is concern that China's establishment of a multi-billion sovereign wealth fund may be used to acquire foreign companies, energy companies among them.

Beyond, our bilateral relationship with China, we must recognize that China's economic emergence is a crucial consideration in finding solutions to global energy, climate, and food concerns. Unfortunately, U.S. debate on contentious issues between our two countries is often over-simplified, parsed out in sound-bites, omitting realities of the broader trade and economic interaction.

China's rapid economic growth and industrialization are obliterating old ways of thinking about the global economy. We celebrate the rise of hundreds of millions of people out of poverty, yet our policies have not fully comprehended the consequences of that many people eating more meat or driving more cars. China's economic growth depends upon having adequate supplies of energy, and this will lead to increasing scarcity of global energy sources and surging greenhouse gas emissions in the absence of massive deployment of new technologies such as clean coal, carbon capture and storage, industrial efficiency, alternative fuels, and advanced technology vehicles.

Consider that in 2007, demand for power generation in China expanded by a phenomenal 16 percent. This figure followed a 14 percent increase in demand for power in 2006. The Chinese coal plants that came on line in 2006 alone added a net 80 gigawatts of electricity generation to the Chinese system. This amount was roughly equal to the entire electricity capacity of Great Britain.

Vehicle sales in China increased by more than 25 percent in 2006, as China passed Japan to become the second largest vehicle market in the world behind the United States. The 7.2 million vehicles sold in China in 2006 were four and a half times as many as were sold in China just 9 years earlier. The resulting demand for transportation fuels has focused the Chinese government on an aggressive global search for reliable oil supplies.

Technological breakthroughs that expand energy supplies for billions of people worldwide will be necessary for sustained economic growth. If concerns over climate change are factored into policies, the challenge becomes even greater, because serious efforts to limit carbon could constrain energy options – particularly the use of coal. In the absence of China’s participation in revolutionary changes in energy policy, we will be risking multiple hazards for the world that could constrain living standards and leave us highly vulnerable to economic and political disasters with an almost existential impact.

I look forward to our discussion today, as well as to additional hearings on China. Chairman Biden and I are hopeful that Secretary Paulson will agree to testify at a future hearing exploring the Strategic Economic Dialogue with China. I thank the Chairman.

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