

**"US-China Relations"**  
**Assistant Secretary for East Asian and Pacific Affairs**  
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**at the Senate Foreign Relations Committee**  
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Good Morning. Thank you Mr. Chairman for the opportunity to address the SFRC on one of the most important bilateral relationships of the 21st century -- The US-China relationship.

As the world's most populous country, with a huge and rapidly growing economy, and a permanent seat in the UNSC, China is well on its way to becoming a major force in global affairs. In some respects, it is already there; in others, it has aspirations to leadership that can complement - or potentially conflict with - our nation's objectives. Managing our relationship with this dynamic and evolving country and ensuring that the US-China relationship is a force for peace, security, and prosperity is a task as critical as it is complicated.

Many have tried to sum up the United States' relationship with China in a catch phrase -- friend or enemy, good or bad, strategic competitor or strategic partner. Such characterizations are neither useful nor accurate. Our

relationship with the PRC and its 1.3 billion citizens is too complex, varied, and fast changing to be reduced to sound bites. And so today, avoiding broad generalizations and overly simplistic judgments, I want to give you specifics on where we stand on a whole range of issues with the PRC after the first two years of this Administration.

President Bush, Secretary Powell, and all of us in the administration have worked hard over the last two and a half years to forge a candid, constructive and cooperative relationship with China. In the spirit of dealing straightforwardly with our differences and building on common interests, the President has met with China's leader an unprecedented four times since taking office. He visited China twice in his first 13 months in office, hosted President Jiang Zemin in Crawford last October, and met the new Chinese President Hu Jintao in Evian, France this June.

While not minimizing the differences that remain over human rights, nonproliferation, and Taiwan, I can report to you that the administration's approach to China has resulted in a US-China relationship that is, on some fronts, the best it has been in years. It is marked by complementary -- and

sometimes common -- policies on a broad range of issues that are critical to US national interests: the war on terrorism and critical regional security issues are just two examples.

Both China and America understand that what we need -- what is in both of our interests -- is a relationship that is pragmatic, based on mutual respect, and focused on furthering peace and stability in the world.

By pragmatic, I mean that we maintain and strengthen our core interests or values. Yes, we have real and important differences with China and we must continue to encourage China's evolution as a responsible global power that contributes to the solution of global problems and respects its international obligations in areas such as nonproliferation, trade, and human rights. Our goal is to develop a relationship with the PRC that furthers bilateral cooperation on a range of critical issues while staying true to US ideals and principles.

I was recently in Beijing for 6-party talks aimed at the complete, verifiable, and irreversible termination of North Korea's nuclear programs. China played a critical role in

getting the DPRK to the table and arranging the talks, and in letting Pyongyang know that North Korea's pursuit of nuclear weapons is not simply a bilateral issue between the US and the DPRK, but is a matter of great concern to its neighbors in the region.

It bears remembering that 50 years ago the U.S. and the PRC were fighting on opposite sides of a conflict on the Korean peninsula. Today, by contrast, we share a common goal in preventing North Korea's further development of weapons of mass destruction. China's appreciation of the need to bring North Korea back into compliance with its international commitments is significant indeed. As PRC chair of the talks, Vice Foreign Minister Wang Yi, said at the conclusion of the talks, China would continue to do its part to seek a peaceful settlement of the nuclear issue and a lasting peace in the Korean peninsula. We will continue working with the Chinese and our other partners to find a peaceful, diplomatic solution to this complicated and difficult issue.

Today marks the two year anniversary of the tragic attacks of September 11th. The swift Chinese condemnation of those attacks and the subsequent enhancing of our bilateral

counter-terrorism cooperation have shown that we stand united in our fight against those who wish ill to the United States, and the security and stability of the world. The PRC voted in support of both UN Security Council resolutions after the September 11th attacks. Within two weeks of 9-11, we initiated a U.S.-China counterterrorism dialogue to improve practical cooperation, and have subsequently held two rounds of those talks and are looking towards a third round. China supported the coalition campaign in Afghanistan and pledged \$150 million - a significant amount measured against China's historical foreign aid commitments - to Afghan reconstruction following the defeat of the Taliban and our successes in disrupting and setting back al Qaeda. This July, China joined the Container Security Initiative, enabling joint efforts to target and pre-screen cargo being shipped to the U.S. from Chinese ports. This means that Chinese and American customs officials will be working together on the ground in China to keep Americans safe at home.

We have also had a useful dialogue on Iraq. China voted for UN Resolution 1441 authorizing renewed weapons inspections in Iraq, and publicly decried Baghdad's attempts to play games with the UN Security Council. We

are looking for ways to engage China further in reconstruction and stabilization efforts in Iraq.

Clearly, China and the U.S. do not have identical perspectives on world affairs. Taiwan is one example. Our abiding interest is in a peaceful resolution of cross-Strait differences; we continue to tell China clearly that its missile deployments across the Strait from Taiwan and refusal to renounce the use of force are fundamentally incompatible with a peaceful approach.

Let me assure you that this Administration takes seriously its obligations under the three U.S.-China communiques and the Taiwan Relations Act. We will continue to adhere to our "one China" policy. We will also consider the sale of defense articles and services at an appropriate level to allow Taiwan to maintain its ability to defend itself.

However, we can say that on some of the most important international issues of the day, China and the United States have overlapping, if not identical, interests, and that the areas of shared interest and cooperation are growing in both scope and intensity.

I want to highlight today the profound importance of China's extraordinary, ongoing economic transformation. In a clear move away from a moribund communist economic system, China has implemented market-oriented reforms over the past two decades and unleashed individual initiative and entrepreneurship. While substantial development challenges remain, the result has been the largest reduction of poverty and one of the fastest increases in income levels ever seen. China's economic growth has reportedly averaged 9% since 1979, and is expected to remain strong in 2003 despite the setbacks of the SARS outbreak and a sluggish global economy.

China's economic relations with the United States and the world have also been transformed. In general, trade relations in East Asia are undergoing significant restructuring; for example, South Korean exports to China in July exceeded their exports to the U.S. These trends are likely to accelerate as intra-regional trade in East Asia continues to expand.

Largely closed to foreign firms until 1980, China is now the world's fourth-largest trading nation, with total trade over \$600 billion. Trade between the U.S. and China has

led the way, reaching more than \$148 billion in 2002. China is America's fourth largest trading partner, sixth largest export market and fourth largest source of imports. If current trends continue, China may pass Japan as our third-largest trading partner by the end of 2003. In the process, China has also become the world's largest recipient of FDI. U.S. firms have invested over \$25 billion in China, in key areas ranging from energy development to automotive and telecommunications technology. U.S. economic engagement with China can -- and should -- promote prosperity in both countries and throughout the world.

The United States is currently running a large bilateral trade deficit with China. We want to eliminate any and all unfair trade practices that contribute to this deficit and are working with China to open its markets further, insisting that our trade relationship be based on a shared commitment to open markets and to playing by the rules. Maintaining domestic support for open markets to China will become increasingly difficult without demonstrated support in China for open markets to U.S. goods and services. I should note some encouraging signs on that score: our




exports to China are growing at a nearly 25% pace this year. Nevertheless, there is still room for improvement.

China's full and timely implementation of its WTO commitments is key to expanding market opportunities for U.S. firms in China and ultimately creating more jobs for American workers and farmers. We are working with our Chinese counterparts to hasten that process, and believe China's WTO implementation will accelerate China's economic reform through the creation of a more rules-based and market-driven economy. While China has made great strides in reforming its economy and moving toward a market-based economy, lowering tariffs in the process, we still believe more needs to be done.

We have serious concerns with China's WTO compliance in certain areas--particularly in agriculture, intellectual property rights, the services sector, and the cross-cutting issue of transparency--and are insisting that the Chinese address these concerns. I want to emphasize that monitoring and enforcing China's implementation of its WTO commitments are top priorities for the U.S. government. We also look forward to working with the PRC on key economic issues in the current Doha Round, including a move to

reduce agricultural subsidies, which inhibit the trade of goods in which the United States and China are both competitive.

I should also note that with the end of the textile quota system in 2004 the explosive growth of China's textile industry will pose increasing challenges, not simply to our domestic producers, but to the legion of developing economies that rely on textile exports. Navigating this process will require some sensitivity by China as others adjust.

I know that many members of Congress are concerned that China is deliberately maintaining an undervalued currency to gain an unfair advantage in trade. Treasury Secretary Snow,  in his recent visit to Beijing, reiterated to Chinese officials our belief that the best international economic system is one based on free trade, free capital flows, and market-determined exchange rates. We are encouraging China to accelerate trade liberalization, permit the free flow of capital, and take steps to establish a floating exchange rate. I understand that you will have many questions about the currency issue and I defer to my colleagues at the Treasury to address this issue in more detail.

Some of our most serious disagreements with China today relate to the nature of China's political system and its internal policies. Although access to information from outside China and the imperatives of economic reform have made it increasingly difficult for the Communist Party to control social and political thought or activities, China remains a one-party system where the people who rule and who make the rules are by and large not accountable to the general population. The abuses that such a system invites are manifest in China's lack of respect for the rights of its citizens. Any individual or group the regime sees as threatening -- whether they be democracy activists, Falun Gong practitioners, Christians worshiping in home or unregistered churches, Tibetans, Muslim Uighurs, journalists investigating corruption, laid-off workers protesting, or even university students venting on the internet -- any of these people run the risk of detention or worse if they cross an ill-defined line.

Despite reform, China's legal system remains seriously flawed, and often provides little or no due process to those accused of crimes, particularly political crimes. There is simply no other way to put it -- ongoing gross

violations of human rights are a serious impediment to better relations and undermine the goodwill generated by individual releases or other steps.

We have been particularly disappointed by backsliding on human rights this year, after a year of incremental, but still unprecedented, progress in 2002. It is important that China take steps to modernize its criminal and civil jurisprudence system and we intend to press these issues in our bilateral meetings with China.

There are also steps that need to be taken with regard to nonproliferation. The Chinese have expressed their desire to stem the proliferation of missiles and WMD, and we are heartened by recent steps taken in the right direction.

Under Secretary for Arms Control and International Security John Bolton was recently in Beijing for the second round of a semi-annual security dialogue aimed at -- among other key issues -- halting the spread of these deadly weapons and technologies. Although China recently issued updated regulations on the export of chemical and biological agents, as well as missile-related export controls, full implementation and effective enforcement are still lacking. We continue to see disturbing cases of proliferation

activities by certain Chinese firms. As you know, the Administration has not shied from sanctioning such activities, as required by U.S. law. China must realize that this kind of proliferation not only damages its relationship with the U.S., but also ultimately hurts its own interests and security.

Let me return to where I started. The U.S.-China relationship has come a long way since just a few years ago, and has moved beyond some rocky moments-- notably the accidental bombing of China's embassy in Belgrade, and the EP-3 crisis-- to begin to build a more mature relationship: one defined as much by our common efforts in support of shared interests as by our differences.

Contrast those difficult moments with where we are today -- four presidential meetings in two years, a common stand on some of the most pressing matters of the day, and a relationship that across a number of different dimensions is enormously robust.

I do not underestimate the challenges of our relations with China, and we must continue to speak frankly and forcefully on issues that concern us. A U.S.-China relationship that

is candid, cooperative, and constructive, is both necessary and possible today. It is also in the interests of our mutual prosperity and peace and that of Asia-Pacific region and the world.

Thank you. I look forward to taking your questions.