



U.S. DEPARTMENT *of* STATE

# U.S. – China Relations

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## China: The Context

- Accomplishments:
  - Per capita GDP grew from \$275 (1979) to \$1,700 (2005); average annual growth of 9.6%.
  - China's GDP is now \$2.26 trillion, world's fourth-largest economy after the US, Japan, and Germany.
  - According to World Bank, the proportion of Chinese in poverty fell from 53% to just 8% between 1981-2001.
  - Total trade in 1980 of \$38 billion – today it's \$1.4 trillion, making China the world's 3rd largest trading nation, with current account surplus of \$160.8 billion.
  - As of 2004, total stock of FDI in China stood at almost \$250 billion (11<sup>th</sup> globally).
  - Internet users: 111 million at end of 2005 (8.5% of population).
- Challenges:
  - Population expected to grow about 8% between 2010 and 2025.
  - Half of China's 1.3 billion people live on 8.2% of its landmass (size of Texas).
  - Only 13% of China's total land is arable – between 1997 and 2004 5% was lost to desertification.
  - Rising disparity – by mid-1990s coastal residents were 60% richer than those from interior, gap is growing.
  - 150 million rural migrants, most under 30, working in cities without social safety net.
  - Poverty: 160 million still live on less than \$1/day.
  - Banking sector has 25-30% or more non-performing loans, most to decrepit state enterprises.
  - 7 of world's 10 most polluted cities in PRC; per capita water supply is a 1/4 of global average.
  - IEA estimates Chinese energy demand will grow 4.7% annually through 2025.
  - Corruption threatens regime legitimacy: China ranked 78<sup>th</sup> in TI's 2005 global survey.



## U.S.-China Relations Operating on Two Levels

- China at an historic moment of transition:
  - Not “outside” the international system; rising influence within it.
  - Not isolated from globalization; development strategy linked to it.
  - Not promoting communist revolution and ideological struggle; pursuing interests in economic growth, political/military strength, and inter-state relations.
  
- U.S.-China relations take place on two different but interconnected levels.
  - (1) Global Context
    - Two major powers.
    - Shared security/economic interests, but also tensions from China’s growing global footprint.
    - Both affected by trans-national threats: disease, terrorism, environmental degradation.
    - Ask whether any future problem is easier or harder to address if China is working in concert with the U.S.
    - Managing disagreements while acting on shared interests.
  - (2) Domestic Considerations
    - Concerns on both sides about economics and trade, access to markets.
    - Strong U.S. concerns about human rights, political reform, individual freedom.
    - U.S./China more interdependent than ever but uncertainty/concerns about future.



## “Responsible Stakeholder”

- Longstanding, bipartisan U.S. policy of facilitating China’s integration into the international system.
  - This has succeeded – consider capital markets, currency, commodities, counterfeiting...;
  - China now a member of WTO, UNSC, most other structures, though still some way to go on nonproliferation issues, particularly missile controls.
- Prompts the question – Integrated to what end?
  - How will China use its new influence?
  - Not just membership but responsibility – shared stake in success of international system of systems.
- “Responsible stakeholder” – a broader notion of national interest
  - Like U.S., EU, Japan, and others, a more influential China has greater capacity than most to help maintain the peaceful, prosperous, and open international system from which it has benefited.
  - U.S.-China relations not just bilateral. Want China to see own interest in working with U.S./others to support global prosperity and security.
  - How do China, U.S. deal with the world?
  - Concept has led to an active debate in China about its global role, how to use its growing power.
  - Many countries hope China will pursue a “peaceful rise,” but none will bet their future on it.



## China's Perspective – Internal and External

- Internationally, China asserts commitment to “peaceful development.”
  - Above all, seeking a benign external environment for its internal development.
  - Sees its international actions as supporting domestic political stability, continued economic modernization.
  - Does not want China's rise to cause anxiety.
  - Does not seek to overthrow the international system as Soviets did.
  - But does want respect and recognition of its influence; acceptance of its larger economic, military, and political roles in Asia and world.
- Leadership is cautious; concerns for own vulnerabilities, instability, unrest.
  - Two main sources of Party's legitimacy: economic benefits and nationalism – not ideology or democracy.
  - Much of population still poor; need 12-14 million new jobs/year to keep up with new labor pool entrants, downsizing of uncompetitive state firms, rural migrants.
  - 87,000 incidents of unrest in 2005, according to Chinese government figures.
  - China's history (especially last 200 years) has fostered great sensitivity to sovereignty concerns and strong aversion to upheaval.
  - Avoiding either “blind xenophobia” or “foreign worship” by “rejuvenating Chinese civilization” through innovation.



## China's Perspective – New Development Approach?

- “4<sup>th</sup> Generation” leadership pushed for new approach through the most recent 5-Year Program.
  - A “balanced development” model.
  - Seeks to redress advantages of cities over countryside, reliance on exports over domestic demand, coast over interior, and growth over environment.
  - Will require development of a social safety net to forestall unrest; may also spur Chinese consumption.
  - Also focused on developing higher value-added sectors, knowledge industries, recognizing benefits of IPR protection.
  - Imbalances among savings, consumption, investment are a huge challenge for Chinese leaders domestically – and increasingly internationally.
  - Success will require significant structural changes that will be hard to achieve over next five years.



## U.S. Perspective – Economics and Trade

- Have told Chinese very clearly we need to show Americans our economic relationship is a fair, two-way street with mutual benefits.
  - WTO accession: U.S. exports booming, but so are imports from China.
  - WTO cases: Ensuring compliance (auto parts, anti-dumping vs. kraft linerboard, semiconductors).
  - China's current account surplus now global in scope; reflective of imbalances.
- Major concerns remain: Market access, IPR, currency, labor practices.
  - Dangers of "industrial policies."
- Chinese responses to our concerns:
  - Purchases: Hu's visit focused on expanding PRC imports of U.S. airplanes, software, auto parts, farm products, communications & power station equipment and protecting IPR – \$16.2 billion during Vice Premier Wu Yi's tour.
  - JCCT: Progress on software, beef, medical devices, express delivery, GPA, and telecoms.
  - Job creation in United States: Haier plant in South Carolina: two-way investment creates jobs in both countries, including good jobs in the U.S.
  - PBoC Governor Zhou outlined to Senatorial delegation China's five-point plan to reduce its global current account surplus, including reforming its exchange rate and boosting imports. Policy is clear; need implementation on sustainable timeline.



## U.S. Perspective – Human Rights and Democracy

- President Bush spoke clearly to President Hu about our concerns:
  - Greater economic openness but closed politics; generally poor human rights record, weak legal protection of individual rights.
  - Lack of religious freedom.
- Freedom will not weaken China; freer China will be a healthier China.
  - Free press and accountable leaders necessary to check corruption that erodes government legitimacy.
  - Independent labor unions would better represent worker interests and mediate disputes more effectively.
  - Village elections were a good start, but peasants without a say in how they are taxed or compensated for land appropriations are more likely to resort to violence.
- Want China to help turn human rights from negative to net positive in our relations:
  - For economic reasons, China needs to turn “rule by law” into “rule of law,” creating the basis for a more rights-based society and institutionalized protections.
- But questions remain – Legal restraints on Communist Party? More trade/travel leading to open society? Internet censorship highlights this contradiction.
- Will continue to press China, frankly raise our differences, and seek change.





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## China as Stakeholder: Security, Political, Transnational Issues

- Some evidence that China recognizes growing stake, seeks to work with U.S./others in China's own interest:
  - Afghanistan, Iraq – aid, political support, UNSC coordination.
  - Sudan, Burma, Hamas – mixed record but opportunities/possibilities.
  - Dialogues on issues including Latin America, Africa, South/Central Asia.
- Deeply engaged with China on critical global problems:
  - Iran
  - North Korea
  - Terrorism
  - China now a stakeholder in stable energy market, protection of own citizens.
  - Pushing China to view WMD proliferation as a fundamental threat to international peace and security.
  - Needs to weigh policies in this light toward Iran, North Korea, terrorism.
- During Hu visit, presidents discussed in some depth. Broad agreement on goals. Less agreement on tactics, but China and U.S. discussing pursuit of mutual interests in greater depth.
- China wants to be seen as sharing strategic interests with U.S. Need to translate common interests into complementary policies.



## Security and Military Issues

- Chinese military buildup
  - Double digit increase in PLA official budget for more than a decade.
  - Insufficient transparency on PRC military spending, weapons procurement, strategic intentions, doctrine.
  - Lack of transparency, uncertainty about future will force others to hedge.
  - Near-term military build-up focused on Taiwan.
  - At April 20 summit, agreed to junior officer exchanges and dialogue on strategic nuclear forces.
- U.S. has unofficial ties with a democratic Taiwan.
  - U.S. maintains our “one China policy.”
  - Three communiqués, Taiwan Relations Act.
  - Assisted Taiwan’s accession to APEC and WTO as an economy.
  - U.S. makes defensive articles available to Taiwan.
  - No unilateral change in status quo by either side of Taiwan Strait.
  - Need for direct dialogue, including with elected leaders of Taiwan.



## Other Areas of Mutual Interest

- Energy security – Two largest consumers, similar interests: expanded non-oil/gas supply; more diverse oil/gas supply; lower demand and increased efficiency of use; strategic petroleum reserves; security of sources and transit.
- Energy and environment
  - Asia-Pacific Partnership for Clean Development and Climate.
  - Also cooperate in nuclear fusion and hydrogen cell research, carbon sequestration, methane-to-markets.
- Avian influenza
  - IPAPI, APEC
- Education and S&T exchanges
- Law enforcement (narcotics, financial crimes, IPR, alien smuggling)
  - Immigration (DHS/PRC cooperating on return of illegal immigrants.)



## In Summary

- Aside from dealing with Islamic political radicalism and terrorism, how we deal with China's growing influence is one of the central questions of 21<sup>st</sup> Century U.S. diplomacy.
- Need to make progress in short-term while building a foundation for long-term interests and cooperation.
- Both countries focusing on a dual agenda – domestic concerns and global stakes:
  - Try to achieve concrete results on economic/trade issues, sustainable global growth.
  - Continue to press for rule of law development and political reform as essential elements of China's development.
  - Lay groundwork for enhanced cooperation on strategic foreign-security policy and transnational issues.
  - Where we disagree, point out differences, discuss and manage them so they do not preclude cooperation elsewhere – set stage for future efforts.
  - Embed within larger framework of positive relations with other countries – Japan, Korea, India, in Southeast Asia, EU....