



The State of U.S.-China Diplomacy

Thomas J. Christensen, Deputy Assistant Secretary for East Asian and Pacific Affairs

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Chairman Bartholomew, Vice Chairman Blumenthal, Commissioners, thank you for inviting me again to discuss with you the extremely important topic of U.S.-China relations.

When I was before this Commission last August, I discussed the notion of China as a responsible stakeholder in the global system. Importantly, as I emphasized last August, our view is not that China currently *is* the responsible stakeholder we envision, but rather that U.S. policy should focus on urging China in that direction. Our vision is a China that is more open, transparent, and democratic, and a China that will join us in actions that strengthen and support a global system that has provided peace, security, and prosperity to America, China, and the rest of the world. Encouraging China to move in that direction continues to be the foundation of our policy; the question, as this Commission has correctly pointed out, is how we can most effectively do that.

Today I will address that question and provide an update on our diplomatic efforts to that end. We have made real progress in some areas, but much work remains to be done. We continue to work closely with China, engaging on an extremely broad range of issues, cooperating on issues in which we can find common ground, but also discussing in a frank and candid manner the issues on which we do not see eye-to-eye. In those areas in which we differ, we encourage China to understand our concerns and change its behavior in ways that will advance not only our interests, but also its own. The tone of our discussions with China is consistent and firm and based on what we know to be true: that the changes we encourage China to undertake-internationally and domestically-will benefit China as a nation and a member of the global community. U.S.-China relations are far from a zero-sum game. A strong U.S. regional presence combined with constructive and candid diplomatic engagement should serve to deepen areas of cooperation and reduce the likelihood of backsliding in the relationship.

It is important to point out at the outset what may seem obvious: China is an incredibly dynamic society, undergoing change at a breakneck pace. We are not faced with a choice between engaging with China or excluding it from the international system; China is already an integral part of the system, and China's rise is now influencing that system in myriad ways. We encourage China to use its growing influence proactively to help solve international problems that challenge the international community. As President Bush said when he welcomed Chinese President Hu to Washington in April 2006 last year, the U.S. welcomes the emergence of a China that is peaceful and prosperous and that actively participates in and contributes to international institutions.

We see many ways in which China's success can make important positive contributions to the global system. At the same time, China must decide whether or not it will use its rising influence to help bolster the global system and promote peace and security. U.S. policy does not simply assume that China will choose a benign path, but aims to help shape China's choices. We are prepared to work with China in positive ways to advance our common interests, but we are also prepared to respond appropriately, should China choose another path. Our continuing strong presence in Asia and our strong regional alliances make clear that the U.S. maintains critical interests in the peace, security, and prosperity of the region. Our policy on China is designed to encourage China to join us in support of those objectives, both in the region and around the globe. In this regard, our positive diplomatic agenda with China and our strong regional presence are not in contradiction with each other, as they are often portrayed. Both provide strong incentives for China to adopt cooperative strategies that will benefit China, the region, and the world. Allow me to offer some examples of our engagement with China and evidence of concrete progress in recent months.

Along with the Strategic Economic Dialogue, led by Secretary Paulson, one of our government's most important opportunities for broader policy engagement with China is the Senior Dialogue. The Senior Dialogue was established on the basis of a commitment made in 2004 between President Bush and President Hu to develop a regular forum to discuss "big picture" strategic issues. It is not primarily intended to address bilateral issues, but rather to provide a forum in which the U.S. and China can discuss how our respective policies, particularly on political and security issues, can help shape the global system on which we and many other countries depend. We have held three rounds of the Senior Dialogue, with Under Secretary Burns co-chairing the most recent meeting last November in Beijing. The State Department is committed to continuing this useful forum, which allows both sides not only to discuss the pressing issues of the day, but also to take a longer look at where our relations are headed five to 20 years down the road and what that could mean for the global system and our respective interests. In the meeting in November, Under Secretary Burns and his counterpart, Vice Foreign Minister Yang Jiechi, had fruitful talks that covered a range of key global issues, including North Korea, Iran, Darfur, Burma, APEC, and UN reform. Allow me to touch on a few of these issues in more detail.

North Korea. Last year saw a number of provocative actions by the D.P.R.K. that threaten international security, including missile tests in July and the test of a nuclear device in October. In an unprecedented fashion, China joined with the United States and the rest of the international community to condemn the nuclear test, voting in favor of UN Security Council Resolutions 1695 and 1718, which impose sanctions against North Korea. China's actions to express its concerns over North Korea's nuclear activities demonstrate that its patience with its erstwhile ally has worn thin. We expect that China will continue to implement the requirements under these Security Council resolutions until North Korea comes into full compliance with its obligations. Many Chinese elites increasingly say that they see North Korea as we do: a destabilizing actor that potentially threatens the region and the world. The resumption of Six-Party Talks in December was a positive step, and we look forward to the next round of talks this month. The Chinese have played a very positive role in the Six-Party process, hosting the talks, helping draft the September 19, 2005 Joint Statement, supporting strong measures in the United Nations, and urging Pyongyang to return to the negotiating table. It is imperative that China continue its efforts in this process. The Administration is committed to continuing to work closely with the Chinese to find ways to persuade North Korea to abandon completely, irreversibly, and verifiably its nuclear weapons program; adopt more responsible behavior; and implement the Joint Statement. Of course, we will not be satisfied until we achieve these goals.

Iran. As in the case of the D.P.R.K., it is vital that the international community join together to send a clear and unequivocal message to Iran that it must comply with its nuclear obligations. China says that it shares our assessment that Iran must not obtain nuclear weapons capability. As one of the Permanent Five (P5) members of the UN Security Council (UNSC), China joined the United States in condemning Iran's nuclear activities by voting for UN Security Council Resolution 1696 in July 2006. In December 2006, China joined the UNSC's unanimous vote in favor of UNSCR 1737, which imposed sanctions under Article 41, Chapter VII on Iran's nuclear and missile programs. This support represents an important step for China and the international community. And in the face of continued Iranian noncompliance, we hope that Beijing will support our efforts to significantly increase pressure on the Iranian regime through financial measures, increasing efforts to block transit of proliferation sensitive materials between Iran and North Korea, and ceasing its unhelpful weapons sales to Tehran. We are particularly concerned over reports that China is moving forward with investments in Iran's gas fields. As we have clearly conveyed to Beijing, we believe these types of investments, along with continued arms sales, send the wrong signal to the Iranian regime and raise concerns under U.S. law.

Sudan. China's approach to the Darfur crisis has been a difficult area in U.S.-China relations. Recently, however, even here we have seen some positive movement in China's policy. While China abstained on UNSCR 1706, it has given public support to building a strong UN force in Darfur and has endorsed Kofi Annan's three-phase program. By all accounts, China's Ambassador to the UN played an important role in helping broker the accord signed in Addis Ababa. We now look to China to assist in persuading Khartoum to implement that accord promptly and effectively. Chinese leaders have shown an increasing willingness to engage with the international community to find a way to end the terrible violence in Darfur, a position that high-level officials reaffirmed to our Special Envoy to Sudan Andrew Natsios during his recent trip to Beijing. There are recent precedents for constructive Chinese activism. For example, China currently has over 400 personnel in the United Nations Mission in Sudan, and they are doing important work in policing the North-South peace accords there. We would encourage Beijing to make a similar commitment to the UN force in Darfur.

Burma. We were naturally disappointed that China, along with Russia, vetoed the January 12 Security Council resolution on Burma; the resolution had the support of nine countries, and China was in the minority. It is worth noting, however, that in explaining its veto, China explicitly recognized the "quite serious" problems that exist in Burma and called on the regime to undertake an inclusive dialogue and reforms. This statement was considerably more direct than China's previous public statements on Burma, and we are hopeful that it signals a change in China's view on which we can build further cooperation to address the unacceptable behavior of the Burmese regime.

Lebanon. Last summer, we worked closely with China and other members of the Security Council to achieve a peace agreement in Lebanon. China did more than support such a peace agreement in diplomatic terms, it sent forces there as part of the United Nations Interim Force in Lebanon to help keep the peace. China announced recently that it will increase its peacekeeping troops to 335 this month, up from the previous level of 225. China also participated in the January 25 Paris international aid conference on Lebanon, announcing its donation of approximately \$16.6 million in assistance to Lebanon. China could play a valuable role in the region, and we would welcome its positive engagement. At the same time, we have expressed our deep concerns about China's continuing arms sales to Syria and reports that a missile Hezbollah used to attack an Israeli navy ship last summer was a Chinese model. We continue to remind all states of their obligations to abide by the embargo on the sale of weapons to unauthorized groups in Lebanon, established by UNSCR 1701.

Military Developments. We continue to be concerned with China's program of military modernization and its lack of transparency, particularly when it comes to the buildup of forces across the Taiwan Strait. China has made large increases in defense spending in recent years and is developing increasingly sophisticated systems. The lack of transparency on the pace, scope, and direction of China's military modernization will continue to be of concern to us and to China's neighbors. China's successful test of an anti-satellite weapon in January is a disturbing development in China's military modernization. While China subsequently insisted that its test was not directed at nor a threat to any other country, China should respond to international calls for a full explanation of the test and China's intentions, including how China's development of anti-satellite weapons squares with its claims to be opposed to the militarization of space.

In keeping with President Bush's and President Hu's commitment to enhance bilateral military ties, we are encouraging China to be more forthcoming about its military budget, doctrine, and strategy in order to build confidence and improve the U.S.-China military relationship. We seek engagement with China's military to better understand China's doctrine and strategic goals. We have been attempting to schedule a meeting between the military commanders of the PLA's Second Artillery and the United States Strategic Command as agreed to by President Bush and President Hu during their April 2006 Summit in Washington. We urge China to agree to such a meeting at an early date.

We remain deeply concerned about the growing arsenal of missiles and other military systems arrayed against Taiwan, and note Beijing's refusal to renounce the use of force against Taiwan. We respond to those increases in accordance with our obligations under the Taiwan Relations Act and speak frankly to Beijing about our strong interests in a secure Taiwan and our insistence that cross-Strait differences be resolved peacefully in a manner that is acceptable to people on both sides of the Taiwan Strait. We continue to press Beijing to reduce those threats and to increase cross-Strait dialogue, including direct talks with Taiwan's duly elected leaders.

Non-Proliferation. This is an area in which the U.S. and China should have common objectives and strong cooperation. Yet, we have a mixed record with China in cooperating to stem the proliferation of weapons, especially those related to missile technology and weapons of mass destruction. I believe China's awareness and understanding of the importance of this issue at the strategic level is growing, but it needs to do much more to rein in the proliferation activities of its own companies. The United States will continue to make clear to China that failure to stem such proliferation activities threatens China's security, just as it threatens global security, and we expect China to do more to enforce international nonproliferation standards. We believe that China's experience in working in the UN Security Council on the issues of North Korean and Iranian missile and nuclear programs is doing much to raise China's awareness of the importance of working with us on these issues -- and as I stated earlier, China's cooperation in the UN has been important as we attempt to resolve these crises.

Economic Relations. I'd like to shift focus now to talk a little bit about the economic aspects of our relationship. I will not go into great detail, since others will testify on these issues. I will say that we continue to have a number of concerns, not least of which is our growing trade deficit. We continue to raise economic imbalances with China in multiple venues. It is important to point out that since China's 2001 WTO entry, U.S. exports to China have grown nearly five times faster than have our exports to the rest of the world. The value of U.S. exports to China in 2006 was \$50 billion as of November - almost triple what they were in 2001 - and we expect this growth in our exports to continue. Here is a clear example of the benefits of diplomatic engagement with China. It is also an example of what is good for the United States is also good for China. China's engagement with the global economy has raised tens of millions of its citizens out of abject poverty, has opened China's economy to quality U.S. products and services, has helped educate and inspire a generation of Chinese entrepreneurs, engineers, and officials, and has contributed to keeping inflation low in the U.S. by lowering prices on a wide range of consumer goods and inputs to U.S. production.

However, there remain substantial imbalances in our economic relations, and it is a top priority of the Administration to address these. We continue to have a number of concerns with China's trade, investment, and currency policies that contribute to bilateral and global economic imbalances. China's record in implementing its WTO commitments is mixed, and American firms, particularly in the services sector, are disadvantaged in various ways, including by China's terribly insufficient protection of intellectual property rights. We will continue to seek cooperative and pragmatic resolutions to our concerns through bilateral dialogue with China, but we will not hesitate to use WTO dispute settlement when dialogue fails. As Secretary Paulson pointed out in Beijing, we utilize trade dispute settlement mechanisms with our closest allies and trading partners. This is not a sign of hostility toward the country in question. In fact, it is often a sign of the deepening of the overall economic relationship between the United States and its trade partners. Moreover, resolving disputes by opening trade further is clearly in the long-term interests of not only the United States, but also its trade partners.

Strategic Economic Dialogue. Recognizing the growing relationship between the U.S. and Chinese economies, President Bush and President Hu agreed to raise our economic dialogue to an unprecedented level with the Strategic Economic Dialogue (SED). Treasury Secretary Paulson is leading an interagency effort to engage China broadly to discuss the entire range of our economic relations and how our respective policies impact the global economy as a whole. China faces enormous challenges as a result of its rapid economic growth, including a widening gap between its urban and rural areas, a lack of access to quality health care and education, and environmental degradation. The SED's essential goal is to ensure that our growing economic relationship with China results in strong growth and prosperity for both countries. We want greater opportunities for American business and to encourage China's continued integration in the global economy. We are working in the SED as well to address the needs of China's population and to ensure that economic growth does not continue to harm the environment. The first session of the SED was held in December in Beijing, with seven Cabinet-level officials from Washington engaging their Chinese counterparts, led by Vice Premier Wu Yi, in discussing a broad array of economic issues. I had the privilege of joining Assistant Secretary of State Dan Sullivan at the first round of the dialogue, which included discussions on the importance of establishing open and competitive markets, cooperation on energy security, energy efficiency, and furthering our understanding of the environmental and health impacts of different energy practices.

NDRC-State Dialogue. Complementing the SED, as well as the USTR/Commerce-led Joint Commission on Commerce and Trade (JCCT) and Treasury-led Joint Economic Committee (JEC), the State Department continues to lead our ongoing dialogue with China's National Development and Reform Commission (NDRC). In December, I participated in the latest round of this dialogue, which was chaired on the U.S. side by Under Secretary for Economic Affairs Josette Sheeran. The NDRC, as the former central planning commission of the Chinese government, has a critical role to play in the ongoing reform of the Chinese domestic economy. Our annual dialogue with NDRC is a forum in which we can present our experience and understanding of the importance of open and competitive markets and suggest ways in which China can address some of the imbalances in its domestic economy. One of the most important issues we discussed in December, for example, was China's need to develop a sustainable social safety net, particularly in the rural economy. The lack of reliable health care or pensions encourages over-savings and under-consumption, contributing to China's reliance on export-led as opposed to demand-driven growth. Reform in this area thus will not only improve China's own economic stability and sustainability, but also will help address many of our broader systemic concerns with the trade deficit and other imbalances.

Global Issues Forum. We also engage China actively on a wide range of global issues outside the traditional security and economic framework. In our Global Issues Forum (GIF) with China, which meets once a year, most recently in August 2006 in Beijing, a U.S. delegation led by Under Secretary of State for Democracy and Global Affairs, Paula Dobriansky, discussed with China energy security and clean energy, public health, humanitarian assistance, trafficking-in-persons, environmental conservation and sustainable development, and international development cooperation.

Other Dialogues. In December, in an expression of China's increased willingness to engage with the U.S. and international community, the NDRC organized and hosted a Five-Party Ministerial on Energy in Beijing, coinciding with the SED. It brought together the five largest energy consumers in the region - China, India, Japan, South Korea, and the United States - and provided a template for future energy cooperation. In the ministerial, we discussed energy investment concerns, energy conservation and efficiency initiatives, the development of alternative energies and utilization of clean and efficient energy technologies, and the establishment of oil reserves. In the

Asia Pacific Partnership on Clean Development (APP), we are engaging China on a variety of fronts, including energy-efficient buildings and appliances, clean processing of fossil fuels, and the reduction of barriers to renewable and energy-efficient technologies. The APP brings together government, industry, NGOs and businesses to promote clean development in the participating countries.

Human Rights and Religious Freedom. As I mentioned at the opening of my remarks, while we continue to make progress in the areas in which we can work with China, we acknowledge that there are areas where we will continue to have strong disagreements. We will not hesitate to protect our interests, promote humanitarian values, and urge China to bring its human rights practices into compliance with international standards. We are very concerned about recent negative developments in key human rights areas, including Chinese efforts to step up 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 will continue to use every opportunity not only to raise issues of concern and individual cases of political prisoners, but also to support through our rule of law and civil society programming China's efforts to engage in systemic reform. This is particularly true as the 2008 Olympics approaches. China cannot be considered a fully responsible stakeholder and leader in the international system until it develops a more open, transparent, and free society, unleashing the innovation and creativity of its own people. China's controls on press freedom and Internet traffic and its restrictions of fundamental human rights violate international human rights instruments and, to return to my main theme here, are detrimental to China's own progress. As long as China limits its people, it limits its rise to full potential. In addition to the clear domestic benefits of a more open domestic system based on the rule of law, there are clear international benefits for China. Much has been said and written about China's "peaceful rise." Without a more open, transparent, and, therefore, predictable political environment, it will be more difficult for China to gain and maintain the internal stability and the trust among its neighbors necessary to achieve a smooth transition toward great power status.

Conclusion

As should be clear, we are engaging with China on an enormously wide range of issues in a variety of high-level dialogues, both bilaterally and multilaterally, to advance U.S. interests and encourage China to join us in taking responsibility to build and strengthen the global system. Throughout our engagement, our message is consistent: it is in the interest of China, the United States, the East Asia region, and the world for China to succeed and play a constructive role in the global system. China is a major stakeholder in that system, from which it has and continues to enjoy enormous benefit.

We must continue to build on the foundations of cooperation that we have established, broadening and deepening them, while engaging China in a frank and direct manner about those areas in which we believe China's policy or behavior is undercutting our common objectives of peace, security, and prosperity in the region and the world. I remain both realistic and optimistic about U.S.-China relations and look forward to continuing our work to encourage China down the path of becoming a truly responsible global stakeholder. I would be pleased to take your questions.

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