

The Effects and Consequences of an Emerging China

Testimony Before the
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Senate Foreign Relations Committee

by

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Mr. Chairman, thank you. I appreciate the opportunity to testify before this subcommittee today.

President Bush, Secretary Powell and all of us in the Administration have worked over the last two years to forge a candid, constructive, and cooperative relationship with China. As China modernizes and grows, it is in our interest to promote China's continued economic reform. We want China to be a responsible member of the world community, living by global trade and financial rules. China's ongoing focus on market-oriented economic development holds promise that it will increasingly contribute positively to economic growth in the region.

While not minimizing the significant differences that remain between us in important areas like human rights, nonproliferation and Taiwan, I can report to you that the Administration's approach to China has resulted in a U.S.-China relationship that carries great potential to be more cooperative and productive than in the past.

Let me cite some examples where the United States and China are working closely. China has been a strong partner in the war on terrorism. China voted in favor of UNSCR 1373, a rare vote under Chapter VII of the UN Charter which

potentially authorizes the use of force, publicly supported the coalition campaign in Afghanistan, and contributed \$150 million of bilateral assistance to Afghan reconstruction following defeat of the Taliban. Shortly after 9-11, the U.S. and China commenced a counter-terrorism dialogue. The third round of that dialogue was held in Beijing in February. While we recognize that China faces its own terrorist problems, we have been steadfast and clear that China must not use the war on terror to justify any crackdown on those who call peacefully for greater autonomy, religious freedom, and political rights.

China voted in favor of UNSCR 1441 and has criticized Iraq's failure to destroy its weapons of mass destruction. China has stressed its opposition to the DPRK's decision to withdraw from the Nuclear Non-Proliferation Treaty, its concerns over North Korea's nuclear capabilities and its desire for a non-nuclear Korean peninsula. It voted to refer the DPRK's noncompliance with its IAEA obligations to the UN Security Council in New York.

Turning to economics, I want to highlight the importance to the United States of China's ongoing economic transformation. Not only has this transformation resulted in economic growth and expanded commercial ties between our countries, but it also has contributed to China's political evolution to a more liberal society. Market reforms and economic engagement have unleashed individual initiative and entrepreneurship. Foreign direct investment has both contributed to economic growth and exposed China to modern business and labor practices. China's economic growth is a bright spot in the global economy and today China accounts for about four percent of the world economy. Per capita income has increased at an annual average rate of almost nine percent since 1980. China attracted \$52.7 billion worth of foreign direct investment, in 2002 becoming the world's top destination for foreign direct investment.

China today ranks among the world's half-dozen largest trading nations. It is now our fourth-largest trading partner, seventh-largest export market and fourth-largest source of imports. Total two-way trade between the U.S. and China has grown from \$33 billion in 1992 to almost \$150 billion in 2002. With growing imports, particularly from Southeast Asian nations, China has become one of the most important engines of growth for both the region and the world.

China's entry into the WTO signaled its commitment to further open and reform its economy. WTO membership will accelerate China's economic reforms and provide more export and investment opportunities for U.S. companies. This will translate into more jobs for Americans. Monitoring and enforcing China's implementation of its WTO commitments is a centerpiece of our efforts. For the most part, we credit China for making significant progress in implementing its WTO commitments during its first year as a WTO member.

We do have some serious concerns with China's WTO compliance, especially in the areas of agriculture, services, intellectual property rights enforcement as well as the cross-cutting issue of transparency. We are working closely with USTR, the Commerce and Agricultural Departments and through our Embassy with the Chinese government, to address these concerns. Although progress is not easy, we remain encouraged that China's leaders have repeatedly confirmed their intentions to implement China's market access commitments. At the same time, when these intentions do not translate into positive results, we also stand ready to use multilateral means, including WTO dispute settlement, to enforce those commitments.

China's economic growth has made it an increasingly important regional and global player. The PRC is pursuing a Free Trade Agreement (FTA) with ASEAN. It is pursuing the Closer Economic Partnership Agreement with Hong Kong and has explored FTAs with Korea and Japan. China has been an active participant in APEC for years and served as a host in 2001. Having acceded to the WTO in December 2001, it is now playing an increasingly visible role in that organization. In our efforts to successfully conclude the WTO Doha Development Agenda, the United States has already begun consulting with China on areas of mutual interest - such as reducing barriers to agricultural trade.

We view China's integration into regional and global organizations and arrangements as a positive development. Not only is China committing itself to play by the rules of a different fora, but it has an increasing stake in seeing that others do the same. And as its economy and prosperity become linked more closely to relationships with trading partners, it has a greater stake in peace and stability in the Asia-Pacific region and the world.

We also need to be aware that the Chinese military is a beneficiary of China's economic growth. Thus, as we proceed in our overall bilateral relationship, it will remain important that we sustain a modest military-to-military relationship with the People's Liberation Army within the guidelines established by Congress. This will allow for better understanding of the PLA as it modernizes, and will give us lines of communication to PLA leaders so as to reduce to possibility of miscalculation.

Of course, integration into the global economy and its institutions also highlights challenges for the Chinese government. A high level of nonperforming loans weighs down its state-run banking system. Capital markets are immature. Bloated state-owned enterprises are a drag on growth. Corruption remains a serious problem. Income disparities between coastal urban and inland rural areas are rapidly growing and Chinese concerns about urban unemployment and surplus rural labor hinder the pace of economic reform. China is a net energy importer and increasingly dependent on foreign oil. These economic challenges are coupled with other threats. China is already experiencing a rapidly growing HIV/AIDS epidemic. It faces large-scale desertification and water shortages, while rapid industrialization has damaged the environment. Successfully dealing with all of these problems will not be easy.

Responsibility for these challenges will rest largely with China's "fourth generation" leadership. Over the past six months Beijing has begun setting this new leadership in place, through a partial transfer of power. These leaders are younger, more technocratic and are seemingly open to confronting vast economic and political challenges. We look forward to working with China's new leadership to promote better economic governance and encourage political reform in China.

Let me briefly comment on three other important issues we have with China. Human rights and religious freedom remain serious issues of concern. Despite some positive momentum last year and greater signs that China was willing to engage with the U.S. and others on this topic, there has been some serious backsliding in recent months. We were encouraged in 2002 by the release of a significant number of political and religious prisoners, and by China's agreement to interact with UN experts on torture, arbitrary

detention and religion. However, we have seen virtually no movement on these promises. We recognize that China still has a long way to go in instituting the kind of fundamental systemic change that will protect the rights and liberties of all its citizens. Congressional support for our democracy, human rights and rule of law programs is helping to promote just this kind of change. We have not relaxed our efforts to promote respect for human rights and religious freedom in China.

The Chinese also have taken some steps to curb the proliferation of missiles and WMD. In August 2002, China promulgated missile-related export controls and in October 2002 issued updated regulations on the export of dual-use chemical and biological agents, in addition to its 1997 nuclear export controls. Getting these commitments is important, but the challenge is full implementation and effective enforcement. We look forward to working with China to that end.

Taiwan remains one of the most sensitive issues in U.S.-China relations. Over the last two decades, Taiwan has made tremendous progress with respect to democratization and economic modernization. Through our unofficial relationship with Taiwan, the United States will continue to promote Taiwan's story as a success and as a potential model for others. President Bush and others have emphasized to China that our policy is consistent and unchanged. We are committed to our "one China" policy and the three communiqués, as well as to our obligations under the Taiwan Relations Act to ensure Taiwan has an adequate self-defense capability. We do not support Taiwan independence. We have an abiding interest, above all else, in the peaceful resolution of cross-Strait differences. We have urged China to renounce the use of force and open a dialogue with Taiwan.

To conclude, the U.S.-China relationship remains a work in progress. Despite difficulties, we have reached the point where we are today - an unprecedented three presidential visits in a little over a year, a recognition that China and the United States have common interests on some of the most pressing matters of the day, and a strong, growing economic relationship clearly in the interest of both nations and the global economy. A China that contributes to the common solution of global problems, that increasingly shares our commitment to world peace,

stability, open markets, cooperation, and individual freedom is clearly in our interest.

