

**U.S. DEPARTMENT OF STATE
Office of the Spokesman**

**For Immediate Release
2006/388**

April 18, 2006

REMARKS

**Deputy Secretary of State Robert B. Zoellick
at the Institute for International Economics Book Release for “China: The Balance
Sheet: What the World Needs to Know About the Emerging Superpower”**

**April 17, 2006
Washington, D.C.**

(12:30 p.m. EDT)

DEPUTY SECRETARY ZOELLICK: Well, I want to open by thanking both Fred Bergsten and John Hamre of the Institute for International Economics and CSIS for inviting me and I very much appreciate their efforts and those of their sponsors in producing this new book about “China: The Balance Sheet.” And I want to say a special word of thanks in that I understand Ben Heineman, formerly of GE and now at the Belfer Center at Harvard, played a key role in conceiving and launching this. One of the less known facts of my background was that when I was a starting lawyer, Ben was a young partner at Califano, Ross & Heineman, so I had a chance then to see his exceptional abilities, his skill, and I'm delighted that he's continuing to contribute to the country's service in the way that he is in his efforts with this project.

When I gave the speech on responsible stakeholder that Fred was kind enough to mention, last September, I made a point that in addition to my comments about the relationship, it was very important for Americans who are interested in the Sino-American relationship to play a more active role in getting out information and perspectives. So in that sense, I want to thank all of you who were involved with this for taking up that suggestion and producing what I think is a very fine project.

I know this is an independent report and that doesn't necessarily -- that means I may not necessarily concur with all recommendations, but I've had a chance to look at it at a couple different stages and I believe it's a very concise and useful framework for thinking about the relationship and describing things and indeed highlighting the key challenges that we'll be facing this week with the summit meeting.

Fred suggested that I offer the context for the book by saying a few words about the preparations for the meeting of the two presidents this week, and perhaps the starting reference point is that for many of you who have been involved with summitry over the course of the Cold War, I'd suggest that one needs to view this session very differently. And it's different in part because the summitry has to operate at two different levels

although of course they're interconnected. And I think it was one of the things that I liked about the book is I think the book recognizes this.

First, China and the U.S. have major issues of interest to discuss globally. We're two major powers. China, of course, is well recognized as a rising power, but what I think it's also important to recognize is that the United States, although it's the greatest power in the world, is not a status quo power. We're also a power that is promoting change in the international system. So you've got two very dynamic players in the global system meeting at the highest level.

But second, and I think this is equally important, is that both China and the United States have domestic considerations that affect how we interact with one another on these global and regional relations. And these conditions are reflected in the increasing degree of integration between our two countries.

Now, the speech that I gave before the National Council on U.S.-China Relations last September reflected this duality because I was trying to speak to both Chinese and U.S. audiences, and I'm pleased that some outside the two countries also took an interest. Because I was trying to point out that as we step back from a U.S. perspective and looked at this relationship, that one could recognize it had been the policy of some seven administrations over 30 years to try to integrate China into the international system. And I was one of the people that was proud to be a part of that, including playing the role picking up from the Clinton Administration and finishing the accession of China and Taiwan into the WTO.

But if you consider the world of today and you look at China's effect in the international marketplace, whether it be on capital markets or currency or commodity markets or counterfeiting, you have to recognize China has been integrated. That goal has been accomplished. So now the question is "integrate for what purpose?" And that's the context in which I suggested that it was important to try to work with China to become a responsible stakeholder in this international system of systems.

And I was trying to define the notion of stakeholder as being one that required an interaction that went beyond pure national interest but recognized how one develops a national interest in the strength of the international system. And since our Chinese friends often like to look at things in a historical perspective, one point that I've made is that if you look at the course of the 19th and 20th century for China, it wasn't really too good of a period except for the last 20 years, and over the course of the last 20 years China has benefited enormously. This is, in part, through its own hard work and the efforts of its own people, but it wouldn't have been able to do so if it weren't part of the international system that the United States and others created after World War II and sustained. So we have a common interest in that system. So the U.S.-China summit is not simply about bilateral issues but also it concerns U.S.-China in the world as a whole.

Now let me start perhaps from a slightly different perspective and offer a few words on how China might look at the context of this visit. As I know we have many China scholars in the room but some that are of a more generalist nature, it's important to recognize that China has just finished the National Party Congress, it's produced the 11th five-year what is now called Program, used to be five-year plan. That term in itself reflects a change in the Chinese approach. The Chinese leaders are very much focused on economic development, which is a huge challenge, as the book details, and they're seeking a benign external environment in which to pursue their internal development.

But of course they recognize that China's growth leads to greater influence and so part of China's goal is to convey the idea of a peaceful development, which of course is a slight editing of the earlier phrase of peaceful rise, which some in China thought was perhaps still too aggressive sounding and so instead they focused on the notion of development.

China wants to emphasize, very much in contrast with the experience of the Soviet Union, that it is not challenging the international system; indeed, it is trying to embrace it and it wants to work with the United States and others to try to calm anxieties. But at the same time, the Chinese want and expect respect. They are very sensitive to their own historical experience, including intrusions on sovereignty. So you have a country that at the same time it is moving at a very fast pace into the international system has the sensitivities that you even see in the United States or Western Europe or other economies about intrusions of this international system on its sovereignty.

And indeed, if you take a look at the new Five-Year Program, the 11th program, they reflect the elements of this balance. It's an effort to try to move from export-led growth increasingly to domestic consumption and demand to try to deal with the fast-rising set of imbalances. And as many of you know, China's current account surplus, its global current account surplus, has now risen over 7 percent. That's a relatively recent phenomenon. China is trying to adjust the balance of savings, consumption and investment, in part through domestic programs that should reduce the public's need to have a high savings rate because today, whether it's an issue of savings for education or healthcare or one's retirement, there really aren't programs to try to offer those services. So again, this is a process by which China's own internal development is connected to what it thinks is important for its international posture.

It's true in the area of energy development and also the environmental implications. It's true in the area of trying to develop higher value-added services connected to a knowledge economy which, of course, are connected to intellectual property rights. But one also needs to recognize that China is very cautious about these adjustments even though the society is changing at a fast pace. If you consider the challenges of development in China, those between the coastal and the internal provinces, those between the rural and the urban areas, those between Beijing and the provincial development and many others, you can understand that the Chinese leaders wake up in the morning with a pretty hefty set of problems to cope with and they're worried about missteps. They want us and the rest of the world to recognize that while they've increased

income significantly, it's still a developing country, there are still hundreds and hundreds of millions of people that are very poor.

And there's a very strong sensitivity in China about the danger of upheavals, and this again is how the leadership has a strong sense of historical experience. And here I'm not only talking about the upheavals of the early 20th century, but I always find it useful to keep in mind that the people with whom I'm talking in China lived through the Cultural Revolution and this was not just a question of a slightly different experience for a few months. This was an upheaval in life and the leaders are very sensitive about anything that could return to any similar disruption because they saw what a tremendous effect it could have on their society. People are worried about rural unrest. You've seen the reports about the tens of thousands of incidents that have increased. Then of course how this is connected to the provincial-center relations.

And underneath all this, there's another fundamental challenge, which is that the legitimacy of the political system rests on economic performance and nationalism and the Communist Party itself is having to determine what role it will have in this new order.

Now let me turn to the U.S. domestic perspective. Now, part of our issue with China, of course, is part of our larger adjustment to globalization from what is a relatively open society. And so, unlike some, we're going to be more subject to these changes because it's been part of our success but it also requires our own adjustments. So understandably in our domestic look at China, there's a focus on economic concerns but also human rights and values of this new rising power. As I and my colleagues have told the Chinese, we need to demonstrate to the United States public that the economic relationship with China offers a fair two-way street, that there are mutual opportunities and benefits.

For many years, the effort of many of you and others who are involved with this issue was focused on the question of China and Taiwan's accession to the WTO. That was accomplished in 2001 and so part of what we're dealing with now is the next institutional phase that goes beyond China's accession. U.S. exports, as the book has talked about, have boomed, but so have our imports. If you look at the agricultural sector, some services, some value-added manufacturing, certainly investment, you see a boom in possibilities. And if you compare this with the growth of overall exports, there are great opportunities in China, although recognizing those percentage numbers come from a relatively small base.

But I think there's a larger issue here, which is our economic relationship with China reflects again the challenge that you see in global sourcing and investment. So as the book outlines, what you have, and you look at our overall import pattern from Asia and a lot of the imports that might have come from other Asian countries are now coming from China because China is playing the role of assembly and value-added and it's one of the reasons why, of course, you have large commodity increases as part of the Chinese development practice.

Now, there's another part of this WTO relationship and it's one that I took a first step when I was USTR and my colleague Rob Portman has just taken one recently, and that is how we can use the WTO's rules-based system to try to ensure a fair process. So recently you saw that the United States and the European Union brought a case against China dealing with auto parts regime. Similarly, during my tenure, we brought one dealing with the semiconductor industry and what we considered to be differential taxes that disadvantaged our exports.

Sometimes the Chinese react against these and think that they're hostile acts. I see them as basically a part of the international rules-based system and reflecting the fact that when you work with Chinese officials, often those who might be on the international trade side can handle an issue to a certain degree but as they work with the established bureaucracies they're going to run into resistance and sometimes it needs these cases to push them further. For example, in the case we brought against semiconductors, it never was brought to the WTO system because we were able to resolve it through negotiations.

Of course, there are still many concerns in our economic relationship with China. There's the notion of fair market access and I would suggest that what you'll see in this nature of the relationship is a transformation from some of the traditional topics like tariffs or particular rules that are part of the traditional WTO system to questions of the government's intervention in the economy, the role of subsidies. And again, part of this most recent meetings we've had to get the Chinese to finally put forward their subsidies in the system, which you're supposed to do as a WTO member, but I think this will go beyond. I think we're now going to be entering an era of how do we deal with Chinese industrial policy.

There's also the issues of intellectual property rights protection and of course currency and exchange rate.

So as part of the buildup to this summit, the focus was on, in part, the meeting of the JCCT, the meeting of Vice Premier Wu Yi on the Chinese side and Secretary Gutierrez of Commerce Department, Ambassador Portman of USTR. And as you've probably seen the results, there was an effort to try to open up additional access, particularly in the software area, beef, medical devices, express delivery, telecommunications, moving the Chinese to accept a position as a member of the government procurement code as part of the WTO and an important step in transparency, getting the Chinese to agree that all measures will be reported in a single journal, the equivalent of our *Federal Register*, if you will.

And of course to complement the JCCT, the Chinese announced some \$16.2 billion of purchases. This involved a rather significant business tour led by Vice Premier Wu Yi to some 14 cities. And what I think they tried to emphasize, and we certainly encouraged them to do this, was that this should be seen as part of developing ongoing business relations as opposed to a series of one-off purchases. Of particular note, the Chinese visited the Haier plant in South Carolina, which was some recognition that as you build up the Chinese role in the international economy there are going to become international

investors. And of course this was an opportunity to try to demonstrate that foreign investment, including from China, can help create jobs in the United States.

In the currency area, the policy of China is to move to a flexible exchange rate, a convertible currency and open capital accounts, and so the big question is the implementation and the pace. And all of you are probably well aware of the discussion that Governor Zhou of the People's Bank of China had with our Senate delegation trying to emphasize their plan and timing, but again I think there will be great attention and this will be a part of the discussion about when and how China will proceed.

If you connect their stated policy with the Five-Year Program, you can again see that the Chinese policy framework seems to be designed to move towards these goals, and as I mentioned, since they're going to be sensitive about their internal development, there will be forces in China that will be cautious about the pace but there will be external pressures that will urge them to move faster and further.

Now, part of President Hu's challenge is also to speak to the U.S. public, not just to officials. It's part of this duality of the domestic as well as the global issues. And so his first stop, as many of you know, will be to Seattle, where part of the message will be to Boeing and part of the message will be to Microsoft and our software industries, and so also focus on the intellectual property rights development. Then Washington, then also to Yale, which of course has long ties with China. And again, it was striking to see how Vice Premier Wu Yi combined her negotiating role with this business visit where she brought some 114 Chinese companies and over 200 people as part of this mission.

But second, as I noted in the start, the summit and our relationship clearly looks beyond economics, in particular to human rights and the nature of China's system. This is a point that President Bush emphasized extensively in his conversations with President Hu last year. He's had a particular focus on our interest in terms of opening up possibilities for greater religious freedom. We discuss individual cases and press the Chinese on those.

But I think equally important, we're trying to develop an institutional dialogue on these topics. As some of you who've worked on the economic side know, the Chinese have had an interest in rule of law development on the economic side and I think one of the big questions will be how Chinese interest in rule of law for their own interests can help create a more rights-based society, more procedural protections. But in my mind, the big open question is how that will interact with the role of the Communist Party. This also raises the question that you've seen in the papers about internet censorship, how you can open a society to information and maximize information flow but also the restrictions that China has tried to impose.

Third, beyond economics and human rights, of course we need to discuss the foreign and security policy topics at the highest level. This is the effort to try to put the building blocks in place to fill out this concept of being a responsible stakeholder at the foreign policy level.

And just to give you a couple examples, I have been pleased that in my discussions with the Chinese we try to find areas where I believe we have common interest, for example Afghanistan's development. And Afghanistan -- or China was one of the participants in the recent London conference to try to focus on an action plan for Afghanistan and China has committed some \$230 million to the development of Afghanistan but also it's tried to supply some people and equipment, including non-lethal military equipment for the Afghan army.

This is true with Iraq, where the Chinese have proposed some assistance. Equally important, they have made it clear that when the Iraqis put together a new government, that that government would be welcome to come to Beijing.

As many of you know, I've spent a lot of time working with the issues of Sudan and Darfur. This is another topic where I've engaged with the Chinese and I believe if we can bring along the other parties in the African Union that China, as a member of the UN Security Council, will at least not stand in the way of the process and maybe even be more cooperative. China has actually committed to provide some of the forces in the UN peacekeeping force in the North-South arrangement that is part of the Comprehensive Peace Accord in Sudan.

When Premiere Wen Jiabao was in Burma recently, he emphasized the importance of a national reconciliation effort.

And some of you may have noticed that when one of the Hamas officials recently invited himself to China, China said, no, you're not invited.

I don't want to overemphasize these, but I do think that they are the foundations of the type of discussion with China about the types of mutual interest that we can have and work together.

Now, the two biggest ones that are going to be on the table for this discussion are Iran and North Korea's nuclear program. I think it's extremely valuable since both these are going to have ongoing diplomatic aspects for the two leaders to be able to discuss that face to face.

Similarly, on the issues of terrorism. And as many of you know, in the area of security and military affairs, we've encouraged the Chinese to expand their transparency.

And as part of this visit we encouraged three steps that the Chinese seem to be amenable to: One is taking the idea of military exchanges and expanding it from the top level to driving it further down into sort of mid level of officer corps; a discussion about strategic nuclear forces; and also cooperation on disaster relief, like the United States was involved in with Indonesia.

Now, China, in turn, is also looking for some things and I think the primary one is the recognition of its strategy of peaceful development. And as part of that connection to its development plan, China does not want to be seen as a threat. It's seeking respect. But there will always be a very strong sensitivity to the Chinese sense of interest, Chinese sense of sovereignty and internal stability. And of course, the Chinese will always repeat, as many of you have been familiar with this, Taiwan over and over again.

As for President Hu, and I think this is another important aspect, he, of course, is looking at how this projects his leadership at home so he is looking at how he comes across within China in comparison with his predecessors.

And fourth and finally, we have an expanding set of mutual interests, each of which could -- or requires some much fuller discussion, that we need to operationalize to become more effective. These include topics like energy security or energy and environment issues or avian influenza or the education and scientific exchanges. Or even Secretary Chertoff was in China recently because we are trying to send back people who come to the United States illegally. We've been working with a number of countries to do this and we have a large number of illegal Chinese immigrants and China has started a process with the Department of Homeland Security to implement that.

So, in sum, I think the summit reflects two balances. One is the short and the long term. There are things on this agenda that are very immediate and there are things that are trying to set up the longer term relationship. And then the other balance is between the domestic support in both countries and the global agenda. Now, of course, in general, when you have an agenda that is so broad and has different time periods, part of your goal is to achieve some results -- that's partly what the JCCT meeting was about -- but also to lay the groundwork for future cooperation; try to draw out a better sense at the top level about these points of mutual interest; and where we disagree, and of course, we will, to point out those disagreements, discuss them, and try to set a stage for further effort.

So I don't know if this was the intention of the authors of the book, but as I was reflecting on this last night, I was thinking that the title of "balance sheet" may have unintentionally captured the duality, because at least as I saw it, you were first trying to use the term, balance sheet, as a notion of an accounting about the relationship. But the balance also reflects the balance between the domestic and the global relationship and balancing cooperation and points of differences that we need to try to manage and I hope overcome.

So thank you very much for the project. I'm happy to take some questions.

MODERATOR: Okay, great.

(Applause.)

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