

As Prepared for Delivery
"From the Shanghai Communique to 'Responsible Stakeholder'"
remarks by
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It is a pleasure to be back with you today at the Peterson Institute. I appreciated the opportunity to take part in the launch of "The China Balance Sheet" project in 2006. That book of essays was timely, insightful, and most valuable. So I want to first thank the researchers, writers, and sponsors who are continuing this significant work. I, along with many others, will learn and draw from it.

I also want to compliment the leadership of Fred Bergsten and John Hamre in guiding the scholarship behind this project. And I especially want to recognize the anticipatory insight of Ben Heineman in conceiving this enterprise.

This year is the 35th anniversary of the Shanghai Communique. Margaret MacMillan has just written a wonderful book, *Nixon and Mao: The Week that Changed the World*. Her story recalls the vision and maneuverings, strategy and gambles, diplomacy and dangers, courage and pettiness, of those dramatic days. And the immense personalities - most now historical shadows, whose hazy hues both illuminate and obscure our view of the past.

The Shanghai Communique was more than a symbolic statement about an historic shift and reopening of ties between two countries of consequence. It was an innovative diplomatic device. The work was a credit to the creative intellects and skill of Premier Zhou, National Security Advisor Kissinger, and Deputy Foreign Minister Qiao.

The Communique candidly acknowledged differences, rather than papering them over. It reported "The Chinese side declared," and "the U.S. side stated," across a range of subjects. The common interests were sparse; there were only two curt sentences on economics because the prospects were scant. The key sentence was the mutual opposition to "hegemony," the codeword for the threat of the Soviet Union.

Many of the topics of sharp debate in 1972 have been transformed over time: the Viet Nam War; Kashmir; North and South Korea. The exception, of course, is Taiwan, where support of "one China" remains the centerpiece of each country's approach today.

The Shanghai Communique reflects the reality of its time. China and the United States were rediscovering one another. It was the genesis of a relationship that was to grow. Today, we have a more mature, multi-faceted relationship -though China and the United States are still getting to know one another, trying to understand one another.

The Communique is grounded with a core concept, an approach that we should strive to emulate: It envisages a strategic framework to guide relations. In doing so, the Communique sought to secure the association against shift in public attitudes and anxieties.

In 1972, that strategic framework was anti-Soviet. Our relationship was defined by what we were both against. In 2007, we need to define our relationship by focusing on what we are both for.

That is why I outlined the concept of “responsible stakeholder” in a speech in late 2005, when I served as Deputy Secretary of State. In doing so, my intention was not to constitute a special category for China. Instead, I suggested that given China's success, its size, its rising influence, it has an interest in working with other major countries to sustain and strengthen the international systems that keep the world more secure, enable it to be more prosperous, and open opportunities for our peoples. This is a challenge for all the major participants - the EU, Japan, India, Russia, others, and of course the United States, too.

China recognizes this need to redefine its place in the world. Although its internal challenges as a developing country remain great, China's leaders perceive the external reverberations it is creating, including the anxieties. That is why China has started discussing its “Peaceful Rise” or “Peaceful Development.” Perhaps that is why Chinese television has produced an intriguing documentary series about the rise of global powers over five centuries. This is a way to engage the Chinese public about the tasks ahead, possibly with a sense of pride but also with a spirit of practicality that has been part of China's outlook since at least the time of Deng Xiaoping.

Sometimes it is said that Chinese leaders place the highest value on determining the principles that should guide policy. That is sound logic. Yet concepts such as “peaceful rise” or “development” have to come to life through policies and actions pertaining to real problems and opportunities. Others will assess China's - and the U.S.'s - rhetoric by considering deeds and achievements.

Today, I will highlight five topics where I believe China and the United States have mutual interests, where we can act as “shared stakeholders”: economic policy; Korea; Iran; Sudan; and energy security.

These five topics are key, but not the sole, components of the “balance sheet” of our relations. This is not to say we see each challenge with the eyes of the other. Our policies may differ. But the commonalities of interest far outweigh the differences. By acting in concert -along with others - we can be “responsible stakeholders.”

Economic Policy

The economic relationship between the United States and China has burgeoned since 1972, creating a linkage that is not only important to both, but also to global trading and financial markets. Other participants today will speak in greater depth about this topic. So I will just make a few observations about the political economy dimensions of the relationship.

China's extraordinary economic progress offers many mutual benefits and future opportunities for the United States and the world. Yet the political foundation for this economic edifice is increasingly lopsided, and the risks of slippage are increasing.

China's leaders are understandably focused on the considerable imbalances and problems in China's internal development. Yet I would suggest it is in the best interest of both countries for Chinese officials to work closely with their U.S. counterparts to connect China's development with opportunities for imports, services, and investments. Indeed, Secretary Paulson's Strategic Economic Dialogue offers an excellent framework

in which to do so. As I suspect the Secretary might point out, however, the political successes of the SED will depend on showing results that improve the sense of fairness—an opportunity for two-way benefits, even as both countries plant the policy seeds for future gains and cooperation.

There are ample opportunities for win-win approaches to assisting China's development of a "harmonious society." China is seeking greater development of its interior provinces. It is working to address the urban-rural gap, problems of rapid urbanization, and dislocations of internal migration.

I have been encouraged that China's impressive successes seem to have given its policy makers the confidence to be open to ideas and contributions from others. With the appropriate policy frameworks, the United States and others can assist China's development through investments, infrastructure development, services, capital goods, and state-of-the-art sourcing models. American and other foreign firms can bring retailing and logistics expertise that could improve choices and convenience for China's consumers, while helping China's planners increase consumption and a sense of public well-being. China would also benefit from moving toward an agricultural policy that relies on imports to lower the cost of food and inputs, while rural Chinese shift to higher value-added production, for example in horticulture, aquaculture, and animal husbandry.

The United States and others could help China rebuild its health care system, improve the environment, and develop a pension system for a China that will grow old before it grows wealthy. To help develop knowledge industries, there is a common interest in fostering innovation in education, the protection of intellectual property, and action against counterfeiters. As Chinese firms "Go Global," the United States, China, and others will need to work closely to encourage the realization of mutual benefits while managing the sensitivities.

China's recent report on first quarter growth underscored the constraints on the government's options for using monetary policy to moderate overheating and inflation; monetary policy has been held hostage to controls on appreciation of the exchange rate. Chairman Bernanke's speech in China presented a strong case why it is in China's interest to move toward greater exchange rate flexibility on the way to an open capital account. I sense that the policy consensus in China is edging toward greater currency appreciation, but it will need to move more quickly to counter the sense of unfairness that is driving the United States towards trade actions and perhaps restrictions.

The way that China decides to reform its financial sector is particularly important. These reforms could ease China's move towards exchange rate flexibility and an open capital account. Reforms could also improve the efficient allocation of capital, which might be of particular help to small and medium-sized private businesses that create jobs. The involvement of international firms would bring useful experience and expertise at the same time it enables other countries to benefit where they have comparative advantages. China has been moving actively to develop and reform its financial markets, but some strong forces will want to protect local favorites.

China has prudently ensured economic opportunities for countries in Southeast Asia, Latin America, and elsewhere. It would certainly be sensible for China to build similar strong, sustainable mutual interests with the country's largest economic partner.

China also has an opportunity to demonstrate that it is a responsible stakeholder in the global trading system by playing a more active role with the United States and other

key countries in a drive to complete the Doha Round in the WTO. China played a constructive role in the launch of the Doha Round in 2001, before it acceded to the WTO. Since then, China has kept a low profile. From the point of view of narrow interest, China believes it already lowered trade barriers to enter the WTO, so now it holds back. Yet from the perspective of China's broader interest in the health of the global trading system—a system which is China's economic lifeblood—China could gain more by helping bring the Round to a successful conclusion.

Korea

In 1992, China established diplomatic relations with South Korea. This was an important step in China's recognition that its interests on the peninsula, and indeed in the region, extend far beyond its Cold War connection to North Korea.

China and the United States share interests in stemming the proliferation of nuclear weapons and materials, fostering safety and security on the Korean peninsula and in Northeast Asia, and encouraging development, prosperity, and opportunity in the region.

North Korea's internal and external policies conflict with these interests. Its nuclear program—sharply accentuated by its weapons test—weakens the nonproliferation regime. In combination with its missile firings, North Korea's nuclear weaponry could trigger an escalation in deterrence programs by others.

Its abduction of people from other countries, with Japan being a particular target, is inhuman and provocative. Military tensions, and risks of miscalculations, could rise.

The vast majority of North Koreans have been reduced to a bare state of survival; many have died. These desperate conditions compel North Koreans to take increasing risks to flee, endangering themselves and potentially destabilizing the region.

China has means to influence North Korea. China has appeared, however, understandably reluctant to take steps that might destabilize its troubled neighbor. China may also believe the North Korean regime could endure even deeper isolation, creating more hardships and hazards. I also suspect that China does not want to have to handle this dangerous, and perhaps unstable, situation on its own.

That is why the Six Party discussions, and the U.S. initiatives within them, offer an important framework for addressing these insecurities. The September 2005 agreed statement offers an alternative course for North Korea, North and South Korea together, and Northeast Asia. China played an important role in forging the elements of that understanding. In part based on suggestions from China, South Korea, and Japan, the United States has offered a positive pathway for North Korea and incentives for North Korea if it changes course. This common approach led to this February's agreement, again with the support and assistance of China.

If Kim Jong Il wishes to begin a course of change for his country, the United States will take steps to lessen tensions, assure security, and move towards normal relations. No one wants to see the North Korean people suffer. No one benefits from ongoing hostility that could flare into peril.

As the experience of China and others have shown, an economy cannot develop if it does not open to the world. If North Korea chooses to open, the United States, China, South Korea, and Russia can assist. Yet North Korea needs to understand—from China most of all—that this hopeful route is not possible if North Korea seeks to maintain

nuclear weapons and programs. North Korea needs to shift from being a threat to security to evolving a development process that will create a better life for Koreans.

There is a possibility to finally end the legacy of the Cold War on the Korean peninsula, to move from tense armistice to affirmative peace treaty. I believe the United States would welcome the opportunity to work with the two Koreas and China to put that bitter conflict to rest. At the same time, the United States is sensitive to the history that led to Korea's troubled century-reaching back to the Sino-Japanese war of 1894-95, the Russo-Japanese War of 1904-05, World War II, and the Korean War. To achieve lasting security, U.S. policies, and China's, will need to be alert to the concerns of all the parties in the region.

Enhanced cooperation among the six parties would improve the international environment in which the two Koreas could someday end the cruel division of one people. Koreans--South and North--are fiercely independent and understandably sensitive to infringements on their sovereignty. If the tensions between them are lessened, if economic and social links expand, it will be up to Koreans to determine the next steps in their future. But the framework the Six Party talks has been creating could assist them to navigate this course within the context of deeper regional cooperation, integration, and security. As the lead U.S. negotiator in the Two-Plus-Four process, I saw that the division of Germany, another legacy of World War II and the Cold War, could not have been safely overcome without both the will of the German people to come together and the supportive work of Germany's partners.

The diplomacy of the February Six Party Accord has only been initiated. The past record of North Korean performance--reaching back to the broken agreements between North and South Korea in 1991-92--raises suspicions. There are risks of missteps and miscommunication. At times, North Korean officials will hesitate or appear paralyzed. To keep moving ahead, day-to-day involvement of both China and the United States, working closely with South Korea, will be especially critical. Japan and Russia also have important interests. The work with all parties must build confidence to maintain the momentum for progress.

Iran

The world also faces a serious risk of nuclear proliferation and insecurity because of Iran's actions, as the UN Security Council has formally recognized. China's inclination may be to try to avoid dealing with this danger, which, unlike North Korea, may seem far way. Moreover, Iran is a large supplier of oil for Chinese investment. Yet China should consider the systemic risks of Iran's posture.

The market for energy--including China's imports--reflects global supply and demand, not just exports from one energy producer. If Iran develops nuclear weapons, the whole Persian Gulf region will be endangered. A nuclear-armed Iran could induce Saudi Arabia, Egypt, Turkey and others to reconsider their decisions not to develop nuclear programs, as some have already stated. If they did so, the breakdown in the nonproliferation regime would hasten, and states elsewhere, including in East Asia, would reconsider their options.

With more nuclear states, the risks of slippage of materials to terrorists increases. Iran's record of support of terrorist groups expands the hazard. China may believe its internal security measures have limited its risk as a target. But consider what will happen

to the international economic system—from which China benefits enormously—if terrorists strike anywhere with weapons of mass destruction. The flow of goods, capital, services, ideas, people, and information across borders—upon which the globalized system depends—would come to a screeching halt.

One also needs to consider what Israel might do. Iran supports terrorists who attack Israel. Iran's President has spoken of wiping Israel off the map. He questions the reality of the Holocaust. The Chinese are proud of their sense of history; the Jewish people have a strong historical memory, too. It is burned in their soul that Jews once stood by as enemies threatened them with annihilation.

I hope these stakes might lead China to cooperate more actively with the United States, the EU-3, Russia, and others to dissuade Iran from its course of uranium conversion and enrichment. The Russians have found cause to stop work on the Bushehr nuclear plant. China could help through vigorous enforcement of sanctions on dual use technology and by urging full cooperation with the IAEA's detailed demands, as called for by UN Security Council Resolution 1737. As long Iran resists the cooperation called for by the UN Security Council, it should be subject to additional pressure, applied in gradations.

The EU-3 and the United States have sketched a positive alternative for Iran. It even includes peaceful nuclear energy. Iran's economic conditions have been worsening, despite high energy prices. This huge producer of oil is now rationing gas to its people. There are voices in Iran that are calling for a shift from confrontation in international politics.

China could play an influential role—differently from the EU and the United States—if its words and deeds encourage Iranian leaders to choose a path of integration, not confrontation leading to isolation. Iran's aging oil fields are decreasing production by 360,000 barrels per day each year, according the National Iranian Oil Company. China could let the Iranians know quietly that Iran will not gain new foreign investment if it continues a path of confrontation with the UN Security Council and the IAEA.

If we fail to work in concert now, together we will face severe consequences later. And those consequences will greatly increase the risks to the energy security that China, the U.S., and others seek.

Sudan

I traveled to Darfur in Sudan four times in the course of less than 12 months in 2005-06. The sights and smells and feelings would be deeply troubling to you. The people who suffer the most are the parties with the softest voice.

The tragedy is compounded because there is a way to stop it consistent with the interests of most of the parties. One of my last efforts as Deputy Secretary of State was to work with President Obasanjo of Nigeria, and other African Union leaders and officials—as well as with EU, Arab League, and UN representatives—to try to mediate a peace accord between the Government of Sudan and rebel groups.

The Darfur Peace Agreement was consistent with the North-South Comprehensive Peace Agreement of 2005, which ended another decades-old conflict in Sudan. The CPA offered a new constitutional framework for relations between Khartoum and the peripheries, which the DPA complemented. But the Darfur rebels split, and some would not sign.

Then the Sudanese Government made a disastrous decision: Instead of welcoming UN peacekeepers to buttress the overwhelmed AU forces and support the Darfur Peace Agreement, the Government of Sudan returned to fighting, including through reliance on the notorious Janjaweed militia, who burn, rape, and slaughter to terrorize.

The Sudanese Government could not and cannot impose a military solution. It has suffered setbacks in the field. It has weakened the very rebels who risked for peace. The distress floods over the borders, and the destabilizing effects turn Sudan's agony into an African danger.

Two UN Secretaries General have tried to persuade Khartoum to accept a sizable hybrid UN-AU peacekeeping force. Khartoum has finally agreed to strengthen the current peacekeepers, but still hesitates on the full force. And its record on follow through has been frustrating. Meanwhile, conditions on the ground are terrible, and humanitarian groups are taking frightful risks to feed over two million desperate, displaced people.

China is a partner in Sudan's energy development. If Khartoum does not find a course for peace, that development will be at risk. I know that China does not want to ignore genocide or crimes against humanity, As China deepens its ties with Africa, I believe it would prefer to be a good partner of the African Union, which has twice denied Sudan the AU chair because of Khartoum's behavior. China could gain great standing if it successfully pressed Khartoum to act in its own self-interest for peace. By doing so, China is also likely to gain the respect of the Government of Southern Sudan, created under the CPA. This is in China's interest, because much of Sudan's untapped energy is in the South.

Any violence in Darfur--whether initiated by rebels, Janjaweed, or official government forces--triggers more outrage against Khartoum. The terror weakens Khartoum internationally and with Sudan's own people. If the Sudanese Government backed a robust AU-UN force, peace could be restored. Rebel groups would also need to come to terms, along the lines of the DPA of 2006. With security restored, the Janjaweed's wave of brutality would need to end.

The millions of Darfurians in camps will not return home until it is safe to do so. Only the UN forces can provide this security. With security and a peace accord, countries around the world will assist Darfur's development, which will benefit all of Sudan. A tribal dialogue, in the tradition of Darfur, can support the mending.

China is respected in Khartoum. Chinese officials can explain to Sudan's leaders the reality of the country's position with its nine troubled neighbors, the other states of the AU, and the rest of the international community. China can point out why a UN peacekeeping force, working with the AU, is a key step in reversing Sudan's downward spiral. This will serve Sudan's and China's interests, and earn the appreciation of many others around the globe.

Energy Security

In reviewing some of the principal issues for China and the U.S. as international stakeholders, it is striking how often the question of energy security arises. I appreciate that China's assured access to energy is fundamental to its development, growth, and social stability. Energy security is important for the United States, too.

In my 2005 speech, I identified energy as a subject that could become either a point of conflict or cooperation between the United States and China. Both the United States and China have wasted energy, with poor environmental consequences. As a developing country, China is understandably sensitive to limitations on its energy use, just as its impressive growth is improving the livelihood of China's people. Even though our two countries are at different stages of development, our mutual interests should lead us to work in concert.

We both have an interest in developing alternative sources of supply, whether nuclear, clean coal technology, biofuels, or other renewables. We both would benefit from more diverse sources of oil and gas. We both gain from improved efficiency and conservation, which also contribute to cooperation on the environment and reducing greenhouse gas emissions .

We both are strengthened by building strategic reserves, which should be employed cooperatively with others through the guidance of the International Energy Administration. And we both have an interest in ensuring that the energy trade is not stopped at chokepoints or manipulated through monopoly providers.

I was pleased that last year China's National Development and Reform Commission took the initiative to convene India, Japan, South Korea, and the United States to discuss the energy topic. It should also be part of foreign and security policy strategic discussions. And I hope that we can build the trust in both societies to enable our energy companies to find common business ventures as well.

Conclusion

The Communique released in Shanghai 35 years ago opened a portal for Chinese and Americans. In 1937, 35 years before the Shanghai Communique, the people of Shanghai faced invasion and brutal occupation. So who can say what will be the perspective in Shanghai and China 35 years from now?

Since 1937, Americans and Chinese fought together as allies, battled against one another as enemies, closed doors to one another, reopened them, and deepened our integration in ways no one could have imagined.

It is my hope that China and the United States will not only deepen our cooperation with one another, but also sustain and strengthen the international order of political, economic, and security systems by working as mutual stakeholders, sharing responsibility.

This will not be easy. China is a rising power and rising powers engender fears. Our economic relations are mutually beneficial, but rife with sensitivities about imbalances, fairness, competition, and ensuring win-win opportunities. Our security relations are hampered by incidents such as China's test of anti-satellite weapons, especially given the absence of warning and explanation. China's military build-up will increase anxieties throughout the Asia-Pacific.

The United States, in turn, is the preeminent global power, but an unusual one. Unlike most successful powers, it is the nature of the United States to challenge the status quo, so as to achieve a better world. This transforming spirit can cause anxieties in others, too. Yet America's preference for dynamism, for change, offers opportunities. It fosters a respect for China's extraordinary accomplishments. It provides a willingness to solve problems, to work together with a practical outlook.

This search for opportunity led President Nixon to come to China. It leads me, in much more modest fashion, to suggest ways China and the United States can work together to pursue mutual interests. I recognize that these ideas can only bear fruit through a dialogue, and I welcome the refinements, counterpoints, and even arguments of my Chinese friends.

Some in China have apprehensions about the United States, too, especially the U.S. commitment to freedom. Freedom lies at the heart of what America is--part of our respect for human dignity. Yet the United States does not urge the causes of rule of law, freedom, and democracy to weaken China. To the contrary, America has seen that in the absence of freedom, societies breed cancers that will eat away at even the most impressive progress. Then those countries breed ills that threaten others.

As President Bush said in his Second Inaugural, Americans recognize that others need to "find their voice, attain their own freedom, make their own way." Democratic institutions will need to reflect the values and culture of diverse societies,

President Hu and Premier Wen have spoken of China's need to strengthen the rule of law and develop democratic institutions. China is experimenting with those concepts. We should not avoid these topics or be defensive about them. As friends, we can discuss, even debate, our experience, concerns, and beliefs.

The work being done as part of the "China Balance Sheet" project is important for both countries. It can help us to learn and understand more about one another, to better enable the United States and China to strive together to accomplish the common good.