

U.S.-CHINA RELATIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON ASIA, THE PACIFIC, AND
THE GLOBAL ENVIRONMENT

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

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U.S.-CHINA RELATIONS

TUESDAY, MARCH 27, 2007

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ASIA, THE PACIFIC,
AND THE GLOBAL ENVIRONMENT,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:04 p.m. in room 2200, Rayburn House Office Building, Hon. Eni F. H. Faleomavaega (chairman of the subcommittee) presiding.

Mr. FALEOMAVAEGA. The hearing will come to order. I would like to first give my opening statement, and then hopefully Mr. Manzullo, my distinguished ranking member, will join us and have his opening statement also be made part of the record.

United States-China trade has risen from \$5 billion in 1980 to \$343 billion trade relationship with our country. China is now the second largest trading partner of the United States, and the second largest source of imports, and the fourth largest export market.

However, serious issues affect this relationship. Our trade deficit with China rose from \$30 billion in 1994 to \$232 billion last year, making this the largest United States bilateral trade imbalance.

China's current policy is also a point of contention with many analysts. They question that China's policy of buying foreign reserves will influence the value of its currency against the dollar, constitutes a form of currency manipulation, intended to make its exports cheaper and imports into China more expensive than they would be under free market conditions.

China's record on intellectual property rights is considered by the United States to be one of the most serious and contentious deficiencies of the World Trade Organization's obligations. As a global economic power, China's rise in power is beneficial in many ways, not only to our own country, but also poses concern for American workers, especially as China moves from the low-cost, labor-intensive manufacturing system to a more advanced industry, such as the auto industry and high technology products.

China's growing demand for energy with a population of 1.3 billion people will definitely create new challenges as the United States also competes for these same resources. China also continues to make investments throughout Asia, Latin America, Africa, and even in the South Pacific.

Two weeks ago during our subcommittee hearing on U.S.-Pacific relations, the State Department expressed concern that the People's Republic of China and Taiwan are engaged in checkbook diplomacy to obtain favors from the South Pacific Island nations. I

find it hard to believe that this administration would accuse China of checkbook diplomacy, when our own Government transferred billions of dollars in cash—and I mean cash, \$100 bills—for distribution to the Iraqi people as part of our national policy that has now created a terrible mess in that region of the world.

Personally, I want to commend the people and the leaders of China for providing real substantive assistance to the island nations of the Pacific. In his meeting in April last year with the island nation leaders, Chinese Premier Wen Jiabao announced that his country will establish about a \$400 million trust fund, whereby Pacific Island nations can obtain low-interest loans to develop their agricultural, fishery, tourism, telecommunications, and aviation needs. China will also be offering to train approximately 2,000 qualified persons coming from the island nations.

I am saddened by the fact that United States foreign policy in the Pacific continues to be known throughout the region as one of benign neglect, and I am hopeful that given China's activity in the region, our own State Department will follow soon to be more proactive in offering assistance to the Pacific Region.

Regarding the environment, China's rapid growth has had a serious impact on the environment, being that China has a heavy dependence on soft coal, and is now second only to the United States as the largest contributor of carbon dioxide emissions. Beijing has made efforts to address its environmental problems, and has undertaken to develop cleaner technology, including hydropower, projects such as the Three Gorges Dam, which is now in operation, I believe, but are also being criticized. I sincerely hope that I will be able to visit the Three Gorges Dam some day, and engage, have discussions on the benefits of the project, as well as the downside about how this project will affect China's neighbors. Discuss also issues affecting global warming.

Finally, I am interested today in determining where we are now as a result of China's recent anti-satellite test, conducted on January 11, 2007. The test confirmed China's long-suspected anti-satellite program capability.

I am not a rocket scientist, but when a country like China is capable of firing a missile that can destroy a satellite traveling at 18,000 miles per hour, I consider that advanced technology.

The problem is that our country, along with the Russians, have already developed this technology since the 1980s. The fear, of course, is the potential of nations shooting at each other—call it warfare in space, if you will. Not only do we destroy spy satellites, but some satellites play a very important role in telling us where typhoons and hurricanes are coming from.

I am curious if China is a member of the international agreements that address the serious problem of keeping aerospace open and safe for all nations to operate in. And I hope Secretary Christensen will let us know where China stands on this issue of aerospace and missiles and satellites.

I will dispense with the opening statement of my distinguished colleague from Illinois, Mr. Manzullo, when he comes in. But I do want to say that on behalf of the subcommittee, I want to welcome Dr. Tom Christensen, who currently serves as Deputy Assistant

Secretary in the Bureau of East Asian and Pacific Affairs, with a responsibility primarily toward China, Taiwan, and Mongolia.

Dr. Christensen is on public service leave from Princeton University, where he is Professor of Politics and International Affairs, and the Director of the Princeton/Harvard China and the World Program. His research and teaching focuses on China's foreign relations and the international relations of East Asia.

Before arriving at Princeton 4 years ago, Professor Christensen taught at Cornell University and MIT. He received his Bachelor's degree from Haverford—is that Haverford? I am still learning English.

Mr. CHRISTENSEN. Haverford College.

Mr. FALEOMAVAEGA. Haverford College, a Master's in International Relations from the University of Pennsylvania, and his Doctorate for Political Science from Columbia University. I guess Professor Christensen would rather stay with the Ivy League schools, is that what they call them? You should come to UC Berkeley; you might learn something there, too.

Professor Christensen has served on the board of directors executive committee of the National Committee on U.S.-China Relations. He is a life member of the Council on Foreign Relations. And as an academic, he is consulted often with the U.S. Government, and in 2002 was presented with a Distinguished Public Service Award by the U.S. Department of State.

The subcommittee is truly honored to have you, Secretary Christensen, with us. And I would like now to give you a chance to share with us your comments and your observations concerning this important country, the People's Republic of China. Please proceed.

[The prepared statement of Mr. Faleomavaega follows:]

PREPARED STATEMENT OF THE HONORABLE ENI F.H. FALEOMAVAEGA, A REPRESENTATIVE IN CONGRESS FROM AMERICAN SAMOA, AND CHAIRMAN, SUBCOMMITTEE ON ASIA, THE PACIFIC, AND THE GLOBAL ENVIRONMENT

US-China trade has risen from \$5 billion in 1980 to \$343 billion in 2006. China is now the second largest trading partner of the US, the 2nd largest source of imports, and the 4th largest export market.

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As a global economic power, China's rising power is beneficial in many ways to the US but also poses concern for American workers especially as China moves from low-cost labor intensive manufacturing to more advanced industries such as autos and high technology products.

China's growing demand for energy with a population of more than a billion people will create new challenges as the US also competes for these resources.

China also continues to make investments in Africa and the South Pacific. Two weeks ago, during our subcommittee hearing on US-Pacific relations, the US State Department expressed concern that the People's Republic of China and Taiwan are engaged in 'checkbook diplomacy' to obtain favors from South Pacific Island nations. I find it hard to believe that this Administration is accusing China and Taiwan of checkbook diplomacy while our own government transferred billions of dollars in

cash for distribution to the Iraqi people as part of our national policy that has now created a terrible mess in that region of the world.

Personally, I want to commend the people and leaders of China for providing real, substantive assistance to the island nations of the Pacific. In his meeting in April last year with the island nation leaders, Chinese Premier Wen Jibao announced that his nation will establish about a \$400 million trust fund whereby Pacific island nations can obtain low interest loans to develop their agricultural, fishery, tourism, telecommunication and aviation needs. China will also be offering training opportunities for some 2,000 qualified persons from among island nations.

I am saddened by the fact that US foreign policy in the Pacific continues to be well known throughout the region as one of 'benign neglect' and I am hopeful that given China's activity in the region our own US State Department will follow suit and be more pro-active in offering assistance to the Pacific region.

Regarding the environment, China's rapid growth has had a serious impact on the environment being that China has a heavy dependence on soft coal and is now second only to the United States as the largest contributor to CO2 emissions.

Beijing has made efforts to address its environmental problems and has undertaken to develop cleaner technology including hydro-power. Projects such as the Three Gorges Dam are underway but are also being criticized. It is my intention to visit the Three Gorges Dam in the very near future and engage in discussions about the benefits of the project as well as the downside about how this project may be affecting China's neighbors.

Finally, I am interested today in determining where we are now as a result of China's recent anti-satellite test conducted on January 11, 2007. The test confirmed China's long suspected anti-satellite program and capability. But, given that this test followed three previous ASAT tests, did the test show a threat to the United States or was China responding to the Bush Administration's National Space Policy of 2006?

I welcome Deputy Assistant Secretary Christensen and I look forward to his remarks. However, first I would like to recognize our Ranking Member for any opening remarks he might have.

STATEMENT OF THOMAS J. CHRISTENSEN, PH.D., DEPUTY ASSISTANT SECRETARY, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. CHRISTENSEN. Thank you. Chairman Faleomavaega, Representative Manzullo, and the other distinguished members of the subcommittee, I thank you for inviting me to discuss with you today the extremely important topic of United States-China relations. It is an honor for me to be here.

I have submitted a lengthy written testimony, and this afternoon I will make a brief set of comments about broad themes in the United States-China relationship. And I look forward to your comments and questions.

As President Bush and Secretary Rice have said on multiple occasions, we seek a candid, cooperative, and constructive relationship with China. In pursuing such a relationship, we recognize our significant common interests, and we seek to expand areas of cooperation.

We also address frankly our very real differences, particularly on issues like human rights, economic imbalances, and military affairs.

We engage with the Chinese on a multitude of dialogues. Two of the most important of these are the Senior Dialogue, led by Deputy Secretary Negroponte of the State Department, and the Strategic Economic Dialogue under the leadership of Secretary Paulson, at Treasury.

The former dialogue, the Senior Dialogue, focuses on long-term security in political affairs, while the latter, the Strategic Economic Dialogue, deals with long-term cross-cutting economic issues.

In all of these dialogues we emphasize three things. First, United States-China relations are very far from a zero-sum game. We have a lot of common interests to pursue.

Second, we believe that what we ask of China in these dialogues is not only good for the United States and for the international community, but for China itself as it looks toward its long-term future.

Third, we seek more than just a stable bilateral relationship. We seek a greater cooperation in tackling common problems in third areas of the world, both within the region, and outside of the region; and we believe that China will benefit greatly itself by helping stabilize the international system from which it benefits so greatly.

First let me say something about our engagement on security affairs and politics. On North Korea we have had very deep cooperation in the Six-Party Talks process. We have worked closely with China in drafting and passing all the key measures related to denuclearization of the Korean Peninsula, including two U.N. Security Council resolutions, 1695 and 1718, a September 19, 2005, joint statement, and the February 13, 2007, initial action plan.

I have studied Chinese foreign policy most of my adult life, and I think it would have been very hard to imagine just several years ago that China would be cooperating with the United States so robustly in a multilateral framework like the Six-Party Talks to help bring about denuclearization of the Korean Peninsula, and passing and approving in the U.N. Security Council legislation that sanctions North Korea for its behavior.

On Iran, the situation is more mixed. We remain concerned that China sends mixed signals to the Iranian regime at a time that it is acting in violation of its international commitments regarding nuclear weapons development. In particular, we are concerned about China seeking new energy deals with Iran under those conditions.

Despite those concerns, China has signed on to U.N. Security Council Resolution 1696, 1737, and most recently this past weekend, U.N. Security Council Resolution 1747. All of these measures are designed to pressure Iran back into compliance with the international community's demands that it halt its highly enriched uranium production processes.

We look forward to further cooperation with China on this key issue in the future with China, and we urge China to stop sending mixed signals to the Iranian regime.

On Sudan, we really need China to use its very significant influence with the Bashir Government in Khartoum to accept a robust hybrid United Nations-African Union peacekeeping force to help the people of Darfur, and protect the people of Darfur. We have seen some positive movement on this score in recent months, particularly from China's permanent representative at the United Nations, Wang Guangya, who has encouraged the Bashir Government to accept the U.N. three-phase plan in accord with the Addis Ababa Agreement of late last year.

But we need China to do much more on this account. We need to get those peacekeepers into Sudan to protect the people of

Darfur, and we need China to use its significant influence to help bring about that outcome.

I would like to say something about our economic dialogues. Under the umbrella of the Strategic Economic Dialogue, we pursue many economic dialogues with China. And in those dialogues, we do so in the spirit of emphasizing our two nations' shared interests in economic engagement.

The record since China's accession to the World Trade Organization in 2001 is a good example of why economic relations between the United States and China are not a zero-sum game.

Since 2001 China's economy has grown quickly, which is obviously to the benefit of China, and United States exports to China have grown five times faster than our exports to the rest of the world. In 2006, United States exports to China were approximately 55 billion U.S. dollars, and they were up 32% over 2005. This is compared to a growth in 18% of our imports from China.

We do address our economic imbalances, which we take very seriously. And as Chairman Faleomavaega referenced, there is a \$232 billion trade deficit between the United States and China, and we take that very seriously. We deal with it in the Strategic Economic Dialogue and in other forums in which we engage the Chinese, and we try to address these issues in strategic long-term ways by addressing issues such as the need for greater flexibility in China's currency, impressing upon the Chinese that it is in their benefit and it is in our benefit for them to have better IPR protection—intellectual property rights protection—inside of China, and greater international access to China's financial markets.

We also encourage China to place its future growth more solidly on domestic demand. Such an outcome would provide greater opportunities for United States businesses in China, and would also create more stability in China's long-term economic growth. So again, this would be a win-win situation. It would be a positive-sum outcome for both countries.

We have many dialogues with China on energy and the environment, including the Strategic Economic Dialogue. And as I am sure you know, Secretary Paulson is a devoted environmentalist and brings great passion to this topic.

We push for cleaner energy. China currently provides 70% of its energy by burning coal, and we push China to consider the use of cleaner coal technologies and technologies that would provide greater efficiency in China's energy use.

We also raised the long-term theme of energy security for China. We urge China to accept the commonly held wisdom that the best way to have energy security is through a free-flowing marketplace for energy resources around the world, and the development and proper use of strategic petroleum reserves, rather than heavy reliance on equity shares in energy resources in nations with dangerous regimes.

We want China to have greater interaction with the International Energy Agency, and we seek greater coordination between China and the other net consumers in the international marketplace.

There are some real problems, and we deal with these frankly, both through our dialogues, and we do so using other measures

when we consider it prudent and necessary to adopt those other measures.

As I suggested, China's record generally since joining the WTO has been positive, and has produced positive results. But there are some real persistent problems that we take very seriously.

To just address one of those problems, China's Government subsidies to firms that compete with United States firms and other firms drew a WTO complaint. China has already begun responding to that WTO complaint. We will see if China continues to do so. We also addressed the very real problems in intellectual property rights protection, which cost American and other businesses quite a bit of money. And as I suggested before, it is not in China's long-term interest, as China needs to develop an innovation economy of its own; therefore, it will need intellectual property rights protection moving forward.

We take human rights and religious freedom extremely seriously, and we raise this in almost every dialogue that we have, every meeting that we have with the Chinese. We raise both individual cases, and we raise systemic problems in the Chinese system, including reform through labor and other policies at home in China. And we take this issue extremely seriously.

We also remain concerned about the lack of transparency in China's fast-paced military modernization. We have sought more dialogue with China at a very high level to engage the Chinese on what goals they have for this modernization, where is this process leading, and where are we going to be down the road if this modernization process continues. And we would like more transparency about that.

In particular, the ASAT tests that Chairman Faleomavaega referred to earlier, the direct-ascent anti-satellite weapons test by China underscores the lack of transparency in that military modernization process. We seek to engage the Chinese at a high level on such issues.

I will close by saying we particularly remain concerned about the fast-paced military buildup across from Taiwan, which we consider a force for instability in cross-strait relations.

We remain steadfastly supportive of our One-China policy, based on the Three Communiqués and the Taiwan Relations Act, and we believe that policy has been a force for stability under often difficult circumstances in the past several years. We believe that policy is constructive, and we will stay with that policy.

I will finish with those comments, and I look forward to your questions and comments. Thank you very much.

[The prepared statement of Mr. Christensen follows:]

PREPARED STATEMENT OF THOMAS J. CHRISTENSEN, PH.D., DEPUTY ASSISTANT SECRETARY, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE

Chairman Faleomavaega, Representative Manzullo, Members of the Subcommittee, thank you for inviting me to discuss with you the extremely important topic of U.S.-China relations.

President Bush has stated that he welcomes a China "that is peaceful and prosperous." And, he has called for a U.S.-China relationship that is "candid, constructive, and cooperative." The relationship as a whole has a solid foundation and has improved in recent years in some key areas of cooperation. That said, we continue to engage China candidly where we have real differences and concerns, including

in areas such as human rights, trade, and military affairs. We engage China through a broad array of dialogues. In all of our interactions with China, we seek to further U.S. national interests by encouraging China to adopt measures at home and abroad that will benefit the United States, the international community, and China itself as it seeks long-term, stable development and greater integration into the international economy and multilateral institutions. Rather than trying to contain China, we are trying to help shape its choices as it rises in influence so that China plays a responsible and stabilizing role in the international system. Despite some areas of real friction, U.S.-China relations are far from a zero-sum game, and if we manage the relationship well on both sides of the Pacific, we should be able to keep it that way.

There is little to debate in the proposition that China is a growing power—a leader in the Asia Pacific region with significant influence around the globe. We witnessed China's impact on the international system late last month: A sharp drop in the Shanghai stock market helped set off a wave of stock selling around the world. Fortunately, the global sell-off was a short-term phenomenon, but the Chinese market drop was a factor in triggering it, something hard to imagine just a few years ago. That event reminds us that what now happens in China can affect us and the rest of the world. The stock sell-off in Shanghai should serve as a lesson for China, as well. To ensure continued prosperity, China must continue down the path of reform of its financial and other sectors in its economy, while also embracing change in its society. More broadly, China—having integrated into and benefited from the global system—must ensure that its actions and its policies are good not just for China, but also for the world community, on which China's economic progress so heavily depends.

After almost 30 years of unprecedented, increasingly market-driven, economic growth, China has become one of the world's largest economies. It is now the world's third-largest trading nation. China has become one of the world's top manufacturers. Its middle class seeks all the material benefits of a modern economy. The flow of its overseas direct investment increased 81 percent in 2005 to \$7 billion, according to China's Ministry of Commerce.

It is also important, however, to note that China faces enormous challenges at home. In general, it remains a poor country, with per-capita GDP about one twenty-fifth that of the United States. The income gap between rural and urban residents is large and widening, and there is significant social unrest, particularly in semi-rural areas surrounding China's booming industrial centers. By the Chinese government's own count, there were some 87,000 disturbances of public order in China in 2005. Environmental degradation is widespread and has only belatedly emerged as a public issue. More than 300 million Chinese do not have access to clean water. The country lacks an adequate social safety net, amid an aging society. It is deficient in the energy resources and infrastructure it needs to fuel continued economic growth. China's leaders are struggling to root out systemic corruption.

The choices that Chinese leaders make to promote continued economic growth, while addressing the very real challenges at home, will have repercussions around the globe. China must address its growing global trade surplus and increase the flexibility of its currency, to ensure the health of its own economy as well as that of the world. China's voice matters on key international issues, such as ensuring a denuclearized Korean Peninsula, stemming Iran's nuclear weapons ambitions, and ending the violence in Darfur. China also needs to play a positive role in international efforts to promote energy security; combat terrorism, proliferation, and organized crime; and safeguard against pandemic disease. And, China has increasing interests in areas where it did not have a significant presence before, such as Africa, the Middle East, and Latin America.

As China's integration into the international system deepens and as its diplomatic influence increases, it becomes even more important that we encourage China to join us in actions to strengthen and support global security and prosperity for both our countries and the world. Our goal is to help China frame its choices, to encourage it to act responsibly in a manner commensurate with its growing wealth, stature, and influence. It is also important that we address the issues that divide us in a forthright and constructive manner. With that goal in mind, we have dozens of ongoing dialogues with China, on issues ranging from international security to investment regulations, to rule of law, to health care to nonproliferation to science and technology cooperation. Two of the most important are the Senior Dialogue, which focuses on broad political and strategic themes and is led by Deputy Secretary of State Negroponte, and the Strategic Economic Dialogue, led by Treasury Secretary Paulson. Our discussions are frank and candid, and where we have found common ground, we have made progress. Where we have differences, we encourage

China to understand our concerns and change its behavior in ways that will advance not only our interests, but also its own.

When our differences cannot be resolved through dialogue, we turn to other mechanisms available to us, such as seeking resolution of trade disputes through the World Trade Organization or imposing sanctions on Chinese companies that sell to other countries materials and technology for weapons of mass destruction. We press China hard on matters we believe are fundamental to the world's security and peace.

We maintain a robust presence throughout Asia and strong bilateral alliances in the region. This posture is the bedrock of our Asia policy, and it is fully in keeping with our efforts to encourage China to engage responsibly in the international community. Through our diplomatic interaction and in our regional presence, we provide strong incentives for Beijing to use its rising influence in ways that will benefit China, the region, and the world.

Please allow me to outline the areas in which we are working with China to advance global peace and security, to strengthen respect for human rights and religious freedom, and to foster our countries' economic prosperity.

Toward global peace and security

The United States encourages China to work with us to build and strengthen the global system and advance global peace and security. We appreciate China's positive contributions, and we urge China to do more. China has played a critical role as host of the Six-Party Talks aimed at achieving a denuclearized Korean Peninsula. China was instrumental in brokering the September 19, 2005, Joint Statement, which, when implemented, will get North Korea out of the nuclear business. In February of this year in Beijing, China again played a key role in helping get North Korea back to the Six-Party Talks and reaching agreement on the Initial Actions plan. China has supported strong measures, including sanctions, in the United Nations to press North Korea to end its nuclear program and has been key to getting Pyongyang to negotiate on a multilateral basis. The Administration is committed to continuing to work closely with China to achieve North Korea's complete, irreversible, and verifiable denuclearization; adopt more responsible behavior; and, implement the September 2005 Joint Statement.

As Assistant Secretary Hill has pointed out, the Six Party Talks process is focused on denuclearization but also has broader goals. Through working groups and the prospect of a future Northeast Asia security mechanism following on from a successful Six-Party process, the talks aim to reduce mistrust and tensions between former enemies, including China and Japan, over the long haul.

China shares our assessment that Iran must not obtain nuclear weapons capability. Last week, China joined the United States and other P-5 members in urging quick approval by the UN Security Council of a draft resolution that would impose additional Chapter VII sanctions on Iran as a result of its failure to comply with UNSCR 1737, which required Iran to completely and verifiably suspend its uranium enrichment activities. We also expect China, as a permanent member of the UN Security Council, to expand its efforts to increase targeted pressure on the Iranian regime through bilateral financial measures, by increasing efforts to block transit of proliferation sensitive materials to and from Iran, including between Iran and North Korea, and by ending its unhelpful weapons sales to Tehran. On this last point, we expect China will implement its obligations under UNSCR 1747 to curtail sales of certain arms equipment to Iran. We, of course, remain concerned over reports that Chinese companies may be moving toward investments in Iran's oil and gas sector. We have made clear to Beijing that these types of investments, along with continued arms sales, send the wrong signal to the Iranian regime and raise serious concerns under U.S. law.

China needs to do more on vital multilateral issues. This is particularly true on Sudan, where China, with some justification, is seen as Khartoum's patron and benefactor. We appreciate China's public support of the conclusions of the November 16 high-level consultations in Addis Ababa and the three-phase plan for the deployment of a robust UN/AU hybrid peacekeeping force under UN command and control. At the same time, we expect China, which purchases the majority of Sudan's oil exports, to do much more to exercise its significant leverage with Khartoum to persuade President Bashir to unequivocally accept the UN/AU force. Such action has gained urgency with Bashir's March 6 letter to UN Secretary-General Ban Ki-moon, which represents a rejection of the Addis Ababa conclusions and commitments under the Darfur Peace Agreement.

There are other areas where we have differences. China has resisted international efforts to put pressure on the military regime in Burma, vetoing a related UNSC resolution. It has a mixed record on efforts to stem the proliferation of weapons, es-

pecially those related to missile technology and weapons of mass destruction. It needs to do more to rein in the proliferation activities of its own companies. We, and its neighbors, view with increasing concern China's lack of transparency on the pace, scope, and direction of its military modernization. Its January 11 test of a direct ascent anti-satellite weapon—a test that China still has not sufficiently explained—highlighted these concerns. The development and deployment of such an offensive system appears inconsistent with China's stated goal of "peaceful rise." We also remain deeply concerned about the growing arsenal of missiles and other military systems arrayed against Taiwan, as well as Beijing's refusal to renounce the use of force against Taiwan. We believe these circumstances constitute important factors for instability in cross-Strait relations. We continue to urge China to reduce those threats and increase cross-Strait dialogue, including direct talks with Taiwan's democratically elected leaders. At the same time, we remain mindful of our obligations under the Taiwan Relations Act (TRA) to make available to Taiwan defense articles and services necessary for Taiwan to maintain a sufficient self-defense. We will continue to implement our successful and quite stabilizing one-China policy—based on the three U.S.-China Joint Communiqués and the TRA. We insist on a peaceful resolution of cross-Strait differences; we do not support Taiwan independence; and we oppose unilateral changes to the status quo by either side of the Taiwan Strait.

With China seeking markets for its products and looking for new or untapped sources of energy and other raw materials to meet growing domestic demand, its involvement in Africa and other regions has broadened and intensified. While we welcome many positive features of this engagement, we also have expressed our concerns about potentially negative impacts of China's approach to development assistance and lending. We are concerned that China's stepped-up lending to developing countries risks saddling them with additional debt, and we would like China to do more to coordinate its aid programs with other donors. In addition, we are troubled by China's continuing close relations with problematic regimes, relations that may be encouraged by China's legitimate need for energy and resources, but that do not always take into account larger ramifications for peace and security. Sudan and Iran are obvious examples, but we could point to Beijing's relations with Zimbabwe and Venezuela as well. We encourage China to become involved overseas in ways that enhance rather than undercut international efforts to nurture good governance, democracy, human rights, and sustainable growth.

These issues—together with human rights, which I will address later—are among the important matters that we discuss in the Senior Dialogue, which grew out of a commitment made in 2004 between President Bush and President Hu to develop a regular forum to discuss longer-term political and security issues. We have held three rounds of the Senior Dialogue, and Deputy Secretary Negroponte is scheduled to host the next round in Washington in June. The dialogue allows both sides not only to discuss the pressing issues of the day, but also to take a broader look at our relations and discuss how we might better cooperate and coordinate actions in various regions of the world and on transnational issues that affect us all. In addition, the State Department has held regional sub-dialogues under the Senior Dialogue framework.

As we focus on China's rising power, we must not neglect mention of China's relationship with its western and southern neighbors, India, the nations of Central Asia, and ASEAN. We find it helpful that India and China are talking about a range of issues, including economic cooperation, combating terrorism, and efforts to settle outstanding border disputes. China also has sought improved relations with Central Asian countries and has supported regional efforts to promote greater economic cooperation and security, goals we support. China offers the potential to serve as an economic partner, particularly by providing an additional route for the export of the region's energy to world markets. We encourage China to work jointly with the United States and others to facilitate new trade links that will further integrate Central Asian countries into the global economy. We support World Trade Organization membership for all Central Asian countries and believe China, as a member, can help to encourage reforms and policies consistent with its principles. As with China's robust multilateral and bilateral engagement with Southeast Asia, we do not perceive a zero-sum competition between Chinese and American diplomatic efforts in South and Central Asia.

Respect for human rights

The United States and China engage in frank exchanges of views on issues on which we have strong disagreements. This is particularly true in regards to human rights. We urge China at every opportunity to respect the basic human rights of its people, rights that not only are provided in China's own constitution, but also are

internationally recognized standards. We have expressed our concerns about 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 also have consistently called on China to respect its people's right to speak, assemble, and publish; worship; and plan their families as they choose, free of coercion. We will continue to raise these and other issues of concern, as well as individual cases of political prisoners. We also will support efforts by China and its people to engage in systemic reform, through our rule of law and civil society programming.

Under Secretary Dobriansky recently testified on our ongoing efforts to promote greater dialogue by the PRC government with the Dalai Lama and his representatives and to safeguard Tibet's unique cultural and religious heritage. Let me simply reiterate that Tibet issues remain important human rights and religious freedom concerns for the United States, as does the treatment of minority communities in areas such as Xinjiang.

On all of these fronts, our message is clear: Whenever China restrains its people's freedoms, it limits their ability to achieve their full potential and to contribute to the "harmonious society" that President Hu has invited all Chinese citizens to build. China cannot be considered a leader in the international system until it develops a more open, transparent, and free society, unleashing the innovation and creativity of its own people. There also are clear international benefits for China. Much has been said and written about China's "peaceful rise." However, without a more open and democratic domestic system, based on the rule of law, and, therefore, a predictable political environment, it will be more difficult for China to achieve and maintain the internal stability and the trust among its neighbors necessary to achieve a smooth transition to a leading role in the international community.

Fostering economic prosperity

Together, the United States and China accounted for more than 50 percent of the world's economic growth over the last five years. Increasingly, China's continued economic success is tied to our own success. Since joining the WTO, China has been our fastest growing major export market, demonstrating the benefits of engagement with China on trade issues. U.S. exports to China grew 32 percent last year, while imports from China grew 18 percent. Clearly, our companies are finding increasing opportunities in China, and these provide important economic benefits to U.S. investors, U.S. producers that benefit from low-cost inputs to production, American workers in companies that are increasing profits and competitiveness by capitalizing on the efficiencies involved in our economic interactions with China, and consumers who benefit from the low cost of goods. A growing number of U.S. firms are seeking to take advantage of the opportunity to provide goods and services to the rapidly increasing Chinese middle class.

That said, there are significant challenges in the U.S.-China economic relationship, brought about by China's incomplete transition to a market economy and underscored by our \$232.5 billion trade deficit. To meet those challenges, we work with China on economic and trade issues in a number of forums. The high-level Strategic Economic Dialogue addresses the entire range of our economic relations and how our respective policies affect the global economy as a whole. Other dialogues, including the Joint Commission on Commerce and Trade and the State Department's dialogue with China's National Development and Reform Commission, continue to address important issues and produce significant accomplishments. The essential goal is to ensure that the benefits of our growing economic relationship are fairly shared by citizens of both countries.

In many of our economic dialogues, we address some of the underlying causes of the imbalances in our economic relations, and we do so in ways that we believe will benefit not only the United States, but also China itself over the longer run. For example, China needs to do more to protect and enforce intellectual property rights. Its failure to do so not only causes our companies to incur millions of dollars in losses through counterfeiting and piracy and raises health and safety concerns, but also deters certain foreign investments in China and removes incentives for its own industries to innovate. In the near term, we continue to encourage China to increase the flexibility of its exchange rate and strengthen and reform its financial markets. As Secretary Paulson has said, "Strengthening and reforming financial markets will ultimately allow the Chinese to freely float their currency."

Perhaps the best long-term answer to large-scale deficits lies in the long-term restructuring of China's economy, so that domestic demand, not exports, will fuel its growth. Chinese leaders have outlined the goal of weaning their country off excessive dependence on exports and fixed-asset investment and toward a more consumption-based society. China also must face up to serious domestic problems, including

the need for a public/private social safety net with health and retirement programs that would instill in Chinese families the confidence to spend more and save less. But, as Secretary Paulson has argued, Beijing is moving cautiously and perhaps too slowly as it attempts to rebalance the economy.

We work with China to promote balanced and strong growth and prosperity in our two nations. We seek ways to ensure that our economic relationship is mutually beneficial. At every opportunity, we remind the Chinese that their market-opening reforms not only are beneficial to us and the world, but also serve their own long-term interests. Staying on the reform path will ensure the continued growth and stability of their economy—something we underscore when we see Beijing backslide or pursue mercantilist-style policies.

Through this cooperative approach, we have seen positive results. Tomorrow, United Airlines will launch the first direct flight between Washington and Beijing—a symbol of the increased interaction between our countries. To further expand civil aviation and tourism, we have been pressing for an “open skies” agreement within the Strategic Economic Dialogue.

We are working in other ways to increase exchanges between China and the United States, for example, making our system for processing visa applications as efficient as possible, in a manner that facilitates legitimate travel by China’s rapidly growing middle class, yet maintains security. Meanwhile, China needs to bring home the more than 40,000 Chinese who have been convicted of crimes or are in the United States illegally and have received final orders for their deportation.

We also are witnessing progress in our cooperation on energy and environment issues. The United States and China are the world’s largest energy consumers, both heavily dependent on coal and oil. We both understand the need to work together to ensure stable energy markets and to support energy-efficient and cleaner technologies and the common goal of energy security. We encourage China to continue its cooperation with the International Energy Agency and coordinate with IEA and other major consuming countries as it develops its Strategic Petroleum Reserves, which will contribute to global energy security and minimize shocks to the energy market. China’s commitment to clean energies, including nuclear power, was demonstrated in its decision in December to purchase four nuclear reactors from Westinghouse in a deal valued at between \$8 billion and \$10 billion—a deal signed, not coincidentally, in conjunction with the Strategic Economic Dialogue in Beijing in December. China has said it plans to build 30 more reactors over the next 15 years.

China’s dependence on industrial expansion to achieve fast economic growth has hurt its environment. Chinese leaders have begun to take notice, but solutions that would improve energy efficiency and reduce pollution have moved more slowly than China’s recent economic growth. A shift to market pricing in China’s energy sector—including the elimination of remaining price controls on fuels and liberalization of electricity prices—would spur more efficient use of energy.

More broadly, China’s leaders have come to recognize that inefficient energy use restrains the nation’s economic growth. China is starting to address pollution issues as it prepares to host the 2008 Olympics in Beijing. Through our dialogues, we are working with them on ways to tackle environmental problems throughout China. We also believe that American firms, with world-leading technologies, can profitably work in China on these problems.

We are engaged with China in a multitude of bilateral and multilateral forums dealing with energy and the environment. China brought together the United States, South Korea, Japan, and India in the first Five-Party Energy Ministerial in December, which addressed energy stability, security, and sustainability. We are partners in the Asia-Pacific Partnership on Clean Development and Climate, a collaborative effort with the private sector to implement projects that will improve energy security, air pollution, climate change, and efficiency in a variety of energy-intensive sectors. We work together in the APEC Energy Working Group in pursuit of the goals of the APEC Energy Security Initiative.

Although we believe that we have many common interests with China, we are realistic and recognize that dialogue does not always produce desired results. So, whenever appropriate, we take tough action to resolve our economic and trade disputes with China. Under this Administration, 31 anti-dumping orders have been issued against China. We requested consultations with China through the WTO over China’s discriminatory treatment of imported auto parts and its use of prohibited subsidies. A month after filing our complaint on subsidies, China abolished one of the disputed subsidy programs, and we hope China will follow with action on the remainder soon. In addition, USTR is in discussions with China about our concerns over China’s compliance with its WTO obligations in the area of IPR enforcement.

Conclusion

We seek China's continuing integration as a responsible member of the global economy and international system. With China's rise to global prominence, its leaders must heed how their security, economic, environmental, and social policies affect not just China's population of 1.3 billion, but the 5.2 billion people beyond its borders. As a regional power with increasing global reach, China will be expected to use its increasing influence to support international efforts to safeguard peace and security. As a mature trading partner, China will be expected to play a greater role in strengthening the global trading system—including the Doha round. We continue to work hard to ensure China recognizes the benefits of these roles.

We also work hard to ensure that China recognizes the mutual benefits of cooperation. I have outlined this afternoon the numerous areas where we cooperate. I also have identified the serious differences we continue to discuss with the Chinese. We seek to build a mature relationship with China based on an increasing sense of mutual trust and to confront and resolve our differences. Whenever possible, we will continue in the spirit of cooperation in our ties with China, aiming for a relationship that is productive and prosperous and benefits not just the United States and China, but also the world.

Thank you for the opportunity to speak before you. I would be pleased to take your questions.

Mr. FALEOMAVAEGA. Thank you very much, Secretary Christensen. I am not a mathematician, but I was just trying to go through the numbers here.

Our nation's history now evolves in some 220-some years since the Revolution of 1776, and we are barely above 300 million population. Yet, when the People's Republic of China was founded in 1949, they had 400 million people that they had to feed and provide for, even though it was under the regime of Mao Tse Tung. And that is some 58 years that this country has had to move from that period of 400 million people they had to provide for. We are barely 300 million as a population that have to contend to do these things.

I wanted to ask you on the situation of the relationship between China and Taiwan, I know this has always been one of the most contentious issues that we, ourselves, even here in the Congress have had to contend with in trying to figure where, in your best opinion, are we headed for.

Because by my last reading through some of the media reports, it appears that the President of Taiwan, President Chen, had recently made a statement that they want to become independent from China. And of course, this is almost sacrilege as far as the Chinese leaders are concerned.

I wanted to know, if there is such a strong movement within Taiwan that they want to become independent and as a sovereign country, separate and apart from China, are they serious about this that President Chen has announced recently that they want to become independent?

Mr. CHRISTENSEN. Well, our position on this is that we look to President Chen to fulfill his commitments to President Bush and to the international community that he has offered in both of his inaugural addresses. And as a State Department spokesperson said recently, we considered his recent speech labeled "The Four Wishes," in which he expressed a wish for Taiwan independence to be unhelpful and inconsistent with those earlier pledges.

And we look to him to abide by those commitments that he has made, because we believe they are a source for stability in cross-strait relations. And we believe peace and stability in cross-strait

relations, and a peaceful resolution of cross-strait differences, is in the interest of the United States. That is what we have to worry about first and foremost—our own national interest. But we also believe very firmly that this is in the best interest of both mainland China and Taiwan moving forward. We believe there is no greater beneficiary of peace and stability in cross-strait relations than Taiwan itself.

You see the results of our One-China policy going back to 1972 in the cross-strait relationship that has, we believe, been stabilized by that One-China policy. Taiwan has benefited mightily from that relationship. It has developed its economy in a very impressive fashion; it has developed its society and its education base in a very impressive fashion; and it has developed a democracy in a very impressive fashion, all under the rubric of peace and stability in cross-strait relations.

So we look for a peaceful settlement of those differences. A resolution that is acceptable to both sides of the Taiwan Strait. And that is the purpose of our One-China policy, which we believe is a stabilizing force. And we believe that whatever outcome the two sides settle upon should be reached peacefully.

So that is basically our position on these things. We believe that stability can be maintained in cross-strait relations, and our basic position is that we do not support Taiwan independence; that we oppose unilateral changes to the status quo by either side; and we look for the peaceful resolution of those cross-strait differences that I referred to earlier.

Mr. FALEOMAVAEGA. I recall years ago, when President Clinton had to call two battle groups to the Taiwan Strait, it had become so tense that we were just about to go to war over Taiwan.

And I want to know, what is the commitment of this administration toward that same intention of the part of what was shown demonstrably by force of arms that we were willing to defend Taiwan if China were to attack Taiwan. Are we still in that realm of an understanding? Or is it, has it changed?

Mr. CHRISTENSEN. No, there hasn't been a change in our policy. We abide by the Taiwan Relations Act, which calls on the government to provide military items of a defensive nature to Taiwan to help bolster Taiwan's defensive capabilities, and also calls on the United States to maintain the capabilities to assist in Taiwan's defense.

I would say that our policy on that matter is consistent with past administrations, and does not change. And I would just point out, as you would recognize better than most audiences to which I present that point, that is an Act of Congress. That is a law, and we abide by that law very carefully.

Mr. FALEOMAVAEGA. Now I can take a breather, now that my distinguished ranking member has just arrived. And I would like to give him the opportunity to share with us his opening statement, and we will proceed from there.

I covered for you. [Laughter.]

Mr. MANZULLO. Thank you very much.

Mr. FALEOMAVAEGA. That is okay, I understand.

Mr. MANZULLO. How did you get up here so fast?

Mr. FALEOMAVAEGA. Well, I can't cast my symbolic vote, so I thought I might as well come ahead of you and start the ball rolling.

Mr. MANZULLO. That is one advantage for not voting, huh?

Mr. FALEOMAVAEGA. And disadvantage, too, because you feel like you are a second-class citizen sometimes. But that is all right, I will forgo that for now.

Mr. MANZULLO. Well, you are a first-class citizen and a first-class chairman.

Dr. Christensen, I want to thank you for coming before the subcommittee to testify on United States-China relationship. Your testimony on the status of a relationship with PRC cannot be given at a better time, given the number of recent trade, economic, and security developments within the country.

During my tenure as chairman of the U.S.-China Interparliamentary Exchange, we had a lot of battles on boosting export opportunities and improving competitiveness for America's manufacturers.

China recently announced its intent, and this is of great concern to us, a massive state-owned investment that strikes me as yet another attempt by the Chinese to subsidize its domestic industries. According to press reports, this entity, which will report directly to the State Council, actively manage a portion of China's over \$1 trillion foreign exchange reserves. While exact details remain scarce, it is clear that a key purpose for creating this vehicle is to leverage China's enormous foreign exchange reserves to support strategic domestic industries, particularly in telecommunications, transportation, and energy sectors.

To me, this seems to fly in the face of world trade rules against these subsidies. In fact, we plan on writing a letter to the People's Republic of China, and also to the WTO, that this should be protested in advance, because it is an obvious state manipulation of currency.

I understand that managing relations with China takes a lot of time and patience. We must do everything possible to keep the Chinese market open for American businesses. And I am sorry that I missed your initial opening statement.

Mr. FALEOMAVAEGA. You didn't miss much.

Mr. MANZULLO. I am sure I did. And your opening remarks. And I am here to listen to more of what you have to say. We need a bigger room here.

Mr. FALEOMAVAEGA. I realize that. We will try and see if we can get a bigger room.

Mr. MANZULLO. Thank you, Chairman.

Mr. FALEOMAVAEGA. All right. I am going to just continue the dialogue, and you are more than welcome to jump in any time you want.

We are absolute believers in the free market system, Dr. Christensen. We want to trade with China. I am a firm believer of free trade, and also fair trade. I don't know about my colleague from Illinois; if it is just free trade, the hell with fair trade. But I do believe in fair trade, as well.

But let us pursue. I was asking Dr. Christensen about Taiwan, given President Chen's recent announcement that Taiwan should become a sovereign and independent country from China. And of

course, this is causing a lot of heartburns on the part of the officials of the People's Republic of China. And the fact that historically we even had to almost come to blows with China years ago, when President Clinton had to call in two battle groups to—I don't know if it was saber-rattling or whatever it was. But I was not; certainly many of our colleagues in the Congress were not very happy with this.

And I do want to thank President Bush for his affirmation of this situation, and not to let China ever with the United States to go into war and end up with a nuclear conflagration that we don't need at this point in time, for this planet's well-being.

China's military buildup. I recall former Secretary Rumsfeld was touring Asia, and he made a speech there. I think I believe it was a conference, expressing very serious concerns about the military buildup of China, now somewhere between, around \$92 billion. And to let you know, Secretary Christensen, he was the laughingstock of all the Asian leaders, because the response was how can you say that China's military buildup and \$92 billion, when our own military defense is now somewhere between \$480 billion a year.

And I just wanted to know now—this is how smart the Chinese are—don't build aircraft carriers; they are too expensive. But build submarines. Now they have got over 100 submarines floating all over the place. And they are more lethal and more dangerous, in my humble opinion, than the aircraft carriers, a multi-billion-dollar piece of military equipment that we find it hard sometimes even to sustain.

But I wanted to ask you your response about China's military buildup. Are we seriously concerned about this? Or it is a given right for every nation to have its own defense system built.

I understand Japan, expenditures for its defense force military structure is the second largest in the world, second only to the United States. And I just wanted to ask your response of that.

Mr. CHRISTENSEN. Yes. Thank you for your question. We do pay very careful attention to Chinese military modernization trends. We note the fact that China has had double-digit increases in defense spending in every year of this decade, most recently an 18% increase. And these are increases in real terms, because China has had very low inflation, or, in some years in this decade, no inflation. So these are increases in real terms.

And what we would like to know, and your question gets at some of those core issues, what we would like to know is where are these trend lines leading. You have had a near-tripling in China's defense spending in this decade, since 1999. And I think that what you are looking at is a situation where we would like to know more about where China is heading, what the purposes of this modernization are.

And you mentioned the defense budget. There are all sorts of estimates about what China's real defense budget is. And this gets at the core issue of lack of transparency. We don't think it is in our interest for China not to be more transparent about its defense modernization. And I personally don't believe it is in China's own interest either.

And that is our position in the U.S. Government, as well, which is that it is not in China's own interest to be non-transparent about

its defense modernization, because it makes it more difficult for China to reassure its neighbors as it grows in power and influence.

So we think it is in both of our countries' interests for China to be more transparent about what it is doing with its military modernization, how much money it is spending, where it is spending that money, for what purposes. What sort of doctrinal shifts might be going on within the Chinese military, as it attains some of the new capabilities to which you refer?

We believe this would be a good outcome for everybody involved, if China could engage us and engage the world more clearly about what it is doing in its defense modernization.

Now, we don't view China as an adversary. We have to pay attention to these trends. And where we are most concerned in the near to medium term is the very fast-paced military modernization, I should say, military buildup across from Taiwan, which we see as a force for instability in cross-strait relations.

For all of the reasons I stated before, I really believe that we need to have peaceful and stable cross-strait relations moving forward. And part of that is our adherence to our One-China policy, which you referred to before. President Bush and others have reiterated that One-China policy in a clear and consistent fashion, and in a timely fashion, so as to create stability across the Taiwan Strait.

Part of that is the Taiwan Relations Act and our commitment to assist Taiwan in its self-defense capabilities, and to maintain the capabilities to assist in Taiwan's defense if the President were so to choose.

And I think both of those parts of our, both of those elements of our One-China policy are forces for stability. And I think, as I said in my opening remarks, I think that in many ways the last several years have been the finest hour for that One-China policy. Because there have been political trends and social trends in Taiwan that you referred to before, pushing in a direction that could lead to a position that would constitute a unilateral change in the status quo, that we believe would be destabilizing. And in addition, you have that very real military buildup across from the Taiwan Strait that we believe is also destabilizing.

So there have been some real challenges in cross-strait relations, and we believe the Bush administration has been as clear, as consistent, and as timely as possible in stating publicly, and in a transparent way, our position on the One-China policy. We believe that has been a major force for stability in what otherwise could have been a quite unstable time.

Mr. FALEOMAVAEGA. Do you share with us—and I will refer that we are joined with one of our senior members of the committee, the gentlelady from California, Congresswoman Diane Watson, previously served also as our Ambassador to the Federated States of Micronesia, has joined us, also.

Mr. CHRISTENSEN. Thank you for having me, ma'am.

Mr. FALEOMAVAEGA. Ms. Watson, would you like to make an opening statement?

Ms. WATSON. I am sorry I missed the first part of the meeting. We are going to soon be traveling to China, next week, and I have

carried legislation commending Hong Kong on its progress in terms of intellectual, protection of intellectual privacy.

We have the Congressional Entertainment Industries Caucus. And from that caucus, we have been pushing many countries around the world to protect our intellectual property. I represent Hollywood, and as you know, we lose between \$6 billion and \$7 billion out of a \$600 billion income revenue annually because of the intellectual property grab.

And so can you bring us up to date on their enforcement of the laws that they have committed to? We have not seen that much progress since they then embraced our position, and we are losing. We lose jobs and family income because of it. So can you give us somewhat of a progress report, if you know?

Mr. CHRISTENSEN. Thank you very much, Madame Congresswoman. I would be happy to respond to that.

We engage on intellectual property rights on a consistent basis with the Chinese, and they have created some institutions at home to enforce intellectual property rights. We are very far from satisfied to date with the progress there, as you suggested, and we continue to engage with them on this.

And I will say a couple of things. We do some very broad engagement on the issue, and we do some more specific engagement on the issue. And I would like to give you examples of both.

At the broadest level, we engage them on the issue because, as I said in my opening statement—

Mr. FALEOMAVAEGA. Is your mic on?

Mr. CHRISTENSEN. I believe it is.

Mr. FALEOMAVAEGA. I don't know if the people back there can hear you.

Mr. CHRISTENSEN. Is the microphone on? Thank you.

Mr. FALEOMAVAEGA. Move it a little closer to you, sir.

Mr. CHRISTENSEN. Move it closer?

Mr. FALEOMAVAEGA. Move it up closer to you.

Mr. CHRISTENSEN. Will that work better, sir?

Mr. FALEOMAVAEGA. Much better. I think the people in the back can hear better.

Mr. CHRISTENSEN. Okay, thank you. We engage at a very broad level. And in that process, in the Strategic Economic Dialogue led by Secretary Paulson and other dialogues, what we try to convince the Chinese of is that if you want to be a great nation, a great leading power of the world, a leading economy of the world, like the other leading economies of the world and the other great nations of the world, you are going to have to enforce intellectual property rights. Because as you move up the economic ladder, it is going to be more and more important to your own economy to have innovation as part of your economy. And if you want to have innovation in your own economy, you are going to have to protect intellectual property rights.

Because it is not only the victims in Hollywood and in Silicon Valley and elsewhere that are being ripped off by intellectual property rights violations in China, it is China's own innovative class. They have their own software developers. They have lots of new engineers who are educated in various fields of expertise. And these

people need to have intellectual property rights protection if China is to fulfill its own potential.

And we find in these dialogues that we are finding an increasing number of Chinese elites who understand this fully. So that is helpful, at the broad level.

Now, that doesn't answer the mail in the near term for the concerns that you are suggesting, and I will just give you one example of the type of more nitty-gritty negotiation that we have with the Chinese, and some of the positive results that we have seen. And again, we are not satisfied on this issue, and I don't want to give the impression that we are. But I want to give you a sense of what we are trying to do.

In the Joint Commission on Commerce and Trade, which is a dialogue that we have between the Ministry of Commerce in China, the USTR Office, the United States Trade Representative's Office here, and the Commerce Department here. In April 2006 they reached some agreements.

Two of those agreements are notable. One is on standards, where we agreed with the Chinese that they would adopt United States standards for medical equipment transferred to China. Medical equipment was being blocked through arguments that that medical equipment didn't quite meet Chinese standards, and the United States standards weren't up to snuff. And obviously, we believe our standards are quite high.

And then there is the second issue, which really relates more directly to your question, which is software for computers. You can walk around the streets of Beijing, and people will offer you all sorts of software for computers, or pirated movies, et cetera, and that is a real concern to us.

And one of the measures that we got the Chinese to agree to was to load operating systems onto Chinese computers before they are sold. Now, if the computer that you buy in China has the operating system already on it, you therefore have no incentive to purchase a pirated version of that operating system on the street. And that we believe is a constructive, nitty-gritty type of approach.

We continue to push China to have greater enforcement. We welcome any measures that we see that they have adopted in terms of institution building, et cetera. We work with them both on a technical level and a political level. We want to put a lot of energy behind motivating them to do this, but we also want to help teach them how to enforce intellectual property rights, and we engage them in those types of efforts, as well.

So we take this extremely seriously. And as I said in my opening statement, it is one of our top economic issues on which we engage. And I really appreciate your comments. Thank you very much.

Ms. WATSON. Mr. Faleomavaega, do I still have the time?

Mr. FALEOMAVAEGA. Yes, you still have time.

Ms. WATSON. Okay. When I was there back in the eighties throughout China, we went out to some of their clinics. And we did go to the university to see an operation done. It was acupuncture; it was heart surgery done with acupuncture. And it was fascinating to see them do that: Open-heart surgery, and just some needles stuck in the ankles.

Could you very quickly tell us about their progress? Now, there I found that the village doctors were paid a salary preventing people from getting ill. When they became ill, they had to treat them free. So what has happened with that system? Can you comment on healthcare, and then comment on the educational system?

Mr. CHRISTENSEN. Okay. Another very fine question. And I don't want to ask you which year you went to China, but there is a chance you were in China before I was. My first trip was in 1987, and I am supposed to be an expert.

I am in awe of your experience in China. I think you touch on an issue that is really at the core of some of the things we are trying to do in the U.S. Government engagement with China. And I will use your question as a launching board to try to explain what we are doing when we engage China on some of these economic issues.

Rural healthcare in China is a huge problem. They did have a very strong social safety net to the degree that they had the capabilities necessary to fulfill their commitments to citizens under the old system, and they had very limited capabilities, to be frank. But there was some sort of health guarantee, insurance that you could get what was available to you out in the countryside.

That system to some degree has declined in the reform period, and new institutions haven't been built to replace them in every case. And rural populations now have a very difficult time getting access to healthcare at an affordable rate.

Why does this matter to our economic exchange? It matters to our economic exchange, and it is something that we raise in the State NDRC, the National Development and Reform Council, and the State Department dialogue that we held with that council, and it comes up in the Strategic Economic Dialogue, as well. Why do these things come up in such a dialogue that is trying to deal with economic imbalances between the two countries?

Well, there is a straightforward, but not exactly simple, answer. But it is very straightforward, as I think it is a quite easy logic to follow.

And that is that when the poorer populations or the rural populations of China, or the urban populations of China, the working people of China, do not have that healthcare social safety net, what they tend to do is what any rational person would do; they tend to save lots of money so that they can pay for healthcare should there be a catastrophe in their families. They tend to save at higher rates than they would if they had good health insurance and they had a strong social safety net, some combination of government policies and free market insurance programs to assist in their protection against such catastrophic events.

China's savings rate is extremely high, and this contributes to the current account surplus in China, and it cuts down on the demand-driven growth that we believe China must build on for the future if it is going to have stable growth moving forward.

So if we want to decrease the trade deficit with China, we have to deal with issues such as rural health. This may seem counterintuitive, but it is actually a very logical approach. And Secretary Paulson has championed this approach in the Strategic Economic Dialogue, which is designed to address such issues which cut across

lots of different silos in their government, and frankly cuts across different agencies in our Government.

We try to engage the Chinese in a way that says, "You need to do this. You know you need to do this." They say this themselves. We are not telling them anything that they are not saying themselves. "You need a better healthcare provision network in your countryside. And you need to do it quickly, because it is not just going to solve that problem; it is going to solve several other problems that you face. And if we can help in any way in giving you advice on how to set up such networks, if we can help with expertise on the medical front or somewhere else, we are willing to do that." Because we don't see this as a zero-sum game, and we want those people to have better healthcare protection for its own sake, but also because it has all of these positive benefits on the side.

So I think you have really touched on one of the core issues in the reform program in China, and I really admire your experience in China. And thank you very much for your very informed questions.

Mr. FALCOMA. I want to thank Ms. Watson for her question and her opening statement.

We are also joined now with another senior member of our committee, who is our vice chairman of the subcommittee, the distinguished gentleman from New York, Greg Meeks. And he is also co-chair of our Malaysia Caucus. He has many of his constituents living in Malaysia, and that is why he has taken such interest in this country in Southeast Asia.

Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman. Again, it is a good and exciting and challenging time for us to be working on United States-China relations.

As we all know, China is a growing power that we should deny as a partner in seeking a politically and economically secure world. While we are still resolving issues with China related to trade imbalances, currency policy, intellectual property enforcement, human rights, and World Trade Organization compliance, to name a few challenges, I am hopeful that the United States' relationship with China will continue to grow in a positive direction as China moves along the path of reform.

Today's hearing is an important part of reflection, and I am enthusiastic that we will have an opportunity to speak in particular about how China's economic growth can provide the maximum benefit to China's people and our own nation. I am especially encouraged that China's economic growth has allowed significant poverty reduction. According to the World Bank, China alone accounted for over 75% of poverty reduction in the developing world over the last 20 years. With positive improvements such as adult illiteracy rate that fell by more than half, from 37% in 1978 to less than 5% in 2002, and an infant mortality rate that fell from 41 per 1,000 live births in 1978 to 30 in 2002.

Nonetheless, I am still concerned that more than 135 million Chinese, many in remote and resource-poor areas in the western and interior regions still have consumption levels below \$1.00 per day, often without access to clean water or adequate health and educational services.

I hope that in the upcoming years, China can work to insure that economic growth translates to a widespread and balanced reduction in poverty. Despite a looming and often talked about trade deficit between the United States and China, and China and much of the rest of the world for that matter, I am encouraged that United States exports to China grew by 32% last year, while imports from China grew 18%.

Additionally, China's growth has benefitted the United States by providing a large export market, low-cost imports and inputs for production, lower interest rates, and vast business opportunities. However, we must stress in our interactions the need of China's Government to expeditiously facilitate a balanced trading relationship through its policies.

From a foreign policy perspective, I am encouraged that increased economic engagement with China and our interdependence has supported increased diplomatic engagement, such as our work with the Six-Party Talks with North Korea.

Going forward, I hope that the many dialogues that are occurring between the United States officials and Chinese officials, especially the United States-China Strategic Economic Dialogue with Secretary Paulson, and a Senior Dialogue with Deputy Secretary Negroponte, are on target to create the space to balance China's need for energy with the United States strategic efforts in key countries, like the Sudan and Iran.

I look forward to discussing how we can help China help itself, without disrupting global efforts and international security and economic stability. Indeed, we need one another, and I think the opportunity currently presents itself that we, with China's growing power, cannot have a Cold War type relationship with China, but a relationship that is built on interdependence and security on what is now the smallest earth that we have ever known. Because we share it together, and collectively, we can secure it together.

And I look forward to asking questions and working on this committee with you, Mr. Chairman, because I think that it is, as I said earlier, a timely time, and an important time, for all of us, and particularly for our grandchildren and our great-grandchildren. Because as we develop that relationship today, it is important tomorrow.

I have got my daughter, who is 7 years old, going to school learning Mandarin at this age, because that is how important I think our relationship is.

Thank you, Mr. Chairman.

Mr. FALCOMA. Thank you, Mr. Meeks. I have not given a chance to my good friend for his 5 minutes and line of questioning. I would like to give this opportunity now to Mr. Manzullo for his questions.

Mr. MANZULLO. Thank you. When a person leaves China, he is given a document by the Chinese Government as to the items that he cannot take with him on board the aircraft. Last time I was there—it was in the summer of 2005, and I don't know if it has changed—I thought it very interesting that a couple of the items that you can't take, and the Chinese want to sell us everything, are CDs and DVDs and sound recordings.

I think there is a reason for that. We were in Kunming, along with, I think it was the largest Congressional delegation that has ever gone to China. And one of the members was Congresswoman Marsha Blackburn, who represents the little guys involved in the recording industry, a lot of country-western singers and songwriters, et cetera.

Congresswoman Blackburn and I were in the town square in Kunming. Have you been there, Dr. Christensen? To Kunming?

Mr. CHRISTENSEN. To Kunming? No, I have not been to Kunming yet, sir.

Mr. MANZULLO. But it is a very interesting city. It is a beautiful plaza. And so I was there as the head of the delegation. We had a lot of people that surrounded me, made me feel important. So Congresswoman Blackburn split off. She went north and I went south, and took these guys with me.

It didn't take her but a minute or so to find the people that were selling DVDs. I mean, it is just rampant. The movies were being shown in the theaters in the United States; at the same time you could buy a DVD for a buck.

There was absolutely no effort whatsoever; zero, on the part of the Chinese to stop this type of, these types of sales that were going on. Although interestingly enough is that the Chinese coined their own trademark for the upcoming Olympics. If anybody interferes with that, they are the first ones to say that that is protected.

We have had a, it has just been—there has to be more than lip service for protecting intellectual property rights. We just had an incident involving a major company in our Congressional District. A company pirated their product. They even took the picture right off my constituent company's Web site. And we were able, through some pretty intense negotiations, to stop a provincial government from giving a contract to a Chinese company that was an outright pirate.

That was based upon the fact that we had been involved in this for a long time, and it really went to the highest diplomatic levels.

I see no incentive, especially in Macao, where most of the pirating takes place, on the part of the Chinese to stop these types of IP violations. And I know they make arrests and stuff like that, but that is my opinion, that so far we have just seen too much weakness. And really no incentive on the part of the Chinese to crack down on this, because they are trying to employ 300 million peasants. And employing them making copyright violations just doesn't seem to bother them. What is your comment on that?

Mr. CHRISTENSEN. I appreciate your commentary very much, Representative Manzullo. And as I said earlier, we really do share your concerns on the intellectual property rights protection issue.

And we do think that there are incentives for China to protect these intellectual properties, particularly as their economy, moving forward, tries to develop an innovative sector, which they claim they will want to do themselves. They want to develop software industries; they want to develop their own entertainment industries; they want to develop all these industries as their economy becomes more complicated.

They have, as the previous speaker, Representative Meeks, pointed out pulled very many people out of poverty in the reform

period. I think the vast majority of those were in industries that are unrelated to the ones that you are referring to, so I don't think it is necessary for their poverty alleviation to practice these methods of pirating intellectual property rights from U.S., and not just U.S., but other advanced countries' high-tech companies and entertainment industries.

So what we do on the one hand is we try to convince those people who are skeptical of this reality that they need to do this for their own sake. We try to empower those within their system through these dialogues by reinforcing the arguments that they are making within their own system. And we do try to get into very detailed negotiations.

As I suggested earlier, in the April 2006 agreement at the JCCT, where we negotiated and got the Chinese to accept the idea that they would load the software onto the computers before they are sold, which is hugely important, loading the operating systems onto the computers before they are sold. So we think that that is a useful thing.

And we do reserve the right, moving forward, to use other methods. We have used WTO measures in other cases, and we can consider it in these cases, too, moving forward. And I am not in the USTR or in the Commerce Department, and I will have to defer to my colleagues about where the situation stands in their deliberations. But we certainly, as a foreign policy tool, reserve the right to use the WTO mechanisms to pressure the Chinese where we see appropriate.

Mr. MANZULLO. Doctor, thank you. One of the problems is a lot of Americans have difficulty in believing that the provinces have so much power, because they really do. And the central government—and we have talked to several people that are high in the central government—and I believe that there is a shift more toward trying to apply the rule of law than what we think.

First of all, you don't need an incentive to apply the rule of law. The WTO does not work on incentives; it is a court. And when somebody is in violation of, there is no defense saying that well, we are poor, we are backwards, we are developing, we need incentives to comply with the laws. That if you don't comply with the law, you don't comply with the law and suffer the penalties on it.

I am also convinced that there is a lot that happens in the provinces that the central government simply has no control over. Such as there are different levels of political freedom, depending on where you go in China, dependent on the—it just depends upon where you are in the country.

The other thing I wanted to talk about, and this is, you know, these Blackberries come in pretty handy. I was, on April 22, 2004, I was at a dinner with the, was it the U.S.-China Business Council? Yes, the U.S.-China Business Council. And Madame Wu Yi, who is the Vice Premier, spoke, and what she was, it was so astounding that I actually had to write it down and then put it in here so I could bring it up and impress you with the fact that this was such an astounding statement. [Laughter.]

Then she distributed this in writing. And here is what she said. She was talking about the Chinese economy. Here is a quote. She says, "China has a market-based, managed, unitary floating ex-

change rate.” And I heard that, and I said she didn’t say that. No one can say that and believe it. Trying to impress us that China really was involved in the free market by having a market-based, managed, unitary floating exchange rate.

What bothers me is that she really believed that this was a great step forward in China’s emerging economy in becoming more like the United States. I don’t know about you, but how can you have a market-based and managed and a unitary floating exchange rate? I don’t want to ask you that question, because you don’t know the answer, either.

Mr. CHRISTENSEN. I am a simple political scientist. [Laughter.]

Mr. MANZULLO. There you are. Even eating with three PhDs in Economics, you could never attack that.

But what bothers me is that this is a mindset, it is a mentality that says regardless of what happens in the industrialization of China, regardless of what happens in our foreign relations, et cetera, that there is this element of ultimate control and great fear of letting anything go, and especially the RMB floating against the dollar.

I want to return to the opening statement, and I will give you a copy of it. It is the article out of the *Financial Times*, dated March 9 of 2007. I just want to quote from here about this new state agency supposedly dealing with the non-private sector that still maintains the majority of the manufacturing and other financial bases in China.

It says, “China’s decision to tightly manage the value of its currency,” talking about what is going on now, “means it must buy and hoard nearly all of the dollars coming into the country with RMB, then conduct extensive sterilization operations to prevent the extra money from fueling inflation. Though the reserves are held as assets on the balance sheet of the People’s Bank of China, central bank, many senior leaders have been eyeing the funds to make strategic investments in resources like oil, offshore, or to spend on social programs at home.”

The head of the agency, Mr. Xiang Huaicheng, the Finance Minister, shed no light on the structure of the new agency, which has been the subject of extensive debate pitting the Finance Ministry against the Central Bank on some issues. The government has already announced that Lou Jiwei, the former Vice Minister of Finance, has been appointed to a position in the State Council, apparently in readiness to take leadership of the new agency.

They want to put about \$300 billion in it, which would be about a third to a fourth of the reserves, into these strategic investments.

I mean, does this—I know you are not an economist, which may put you in a position to give us a more clear answer. But does this bother you, Dr. Christensen?

Mr. CHRISTENSEN. Thank you for your question. I think it is an excellent question.

What concerns me most about such activities is that any time you have the sterilization processes and you have this money being taken off of what would be a free market for capital investment, the investment is less likely to be going to the most efficient uses within the country.

So if we look to the long-term economic stability of China, which I believe, along the lines of earlier statements and your own statements, is in the interest of the United States, as well as China, we would like China's economy to be stable, moving forward. We would like to see a development of financial markets there that are free and open to competition, as we have in the United States. And I think that that would be the best use of these funds.

And I don't think, although Madame Wu Yi and the Chinese interlocutors that we deal with, we have tremendous respect for them, I don't think that political leaders anywhere in the world pick and choose winners and losers in industry as well as the market.

So we do not like the idea that financial markets are somewhat closed to international competition, which we believe would bring some of the best practices into China if there were, say, majority foreign holdings in brokerage firms—

Mr. MANZULLO. But that is Western talk.

Mr. CHRISTENSEN. It is Western talk, but we believe it is—

Mr. MANZULLO. You know, I mean—

Mr. FALEOMAVAEGA. Will the gentleman yield?

Mr. MANZULLO. Of course.

Mr. FALEOMAVAEGA. I was listening very intently in terms of what you stated. I simply take that as a Marxist/Communist/Socialist definition of a free market system. [Laughter.]

And if I recall, when the stock market crashed in 1929, we had to make some very serious adjustments. We had to nationalize so many different entities. In fact, the government had to take control of so many of our economic sectors simply because we went too much on the other side. And what happened was that we ended up nationalizing so many of our economic industries simply because we weren't able to, there was no control system.

And I don't mean to portray this as suggesting that—I think it was Milton Friedman who did at one time visited Deng Jao Ping, and inspired him that China needed to get into some kind of a free market system. And this is the reason why we are now at this stage, where China now is really moving toward that direction, even though perhaps not fully in terms of how Westerners understand what a free market system is like.

That was just my little two cents to that.

Mr. MANZULLO. No, I guess—and I appreciate your two cents, which is worth a lot more than two cents.

What I see, Dr. Christensen, I mean, I have studied Chinese history under Lord Lindsey Birker, an American University here in Washington. And it really got me interested in that whole area of the world, and never realized I would be elected to Congress and end up spending a lot of my time dealing with China.

But China seems to want to have it both ways. They want to open up the markets here in the United States for their products. And when it comes to our guys trying to sell to them, with these standards, and especially with cooking the currency, I mean, I can point to people that make the photo mass system with the copper. What is that called?

Mr. FALEOMAVAEGA. You are asking me?

Mr. MANZULLO. Okay. What is the word I am looking for? Anyway, the people that make the motherboards, for example, here in the United States. Somebody help me with the word. What is it? Semi-conductors. Semi-conductors.

We have lost almost all of our market share, and we continue to lose massive amounts. And when the folks were in the office, Doug Bartlett from Bartlett Electronics in my district, and he said look, Don, I can only compete so much with the Chinese. He said, the way I figure, with the cooking of the currency, they start with between a 20% and a 40% advantage. All the things we have done with the currency, it still hasn't, you know. I mean, they will try to adjust it just by tweaking it once in a while whenever there is a political visit on it.

I just don't know how long China is going to be allowed to operate in the United States as a free enterprise system with the sale of their stuff here; yet in China, with the closed currency, when it comes to selling our stuff there.

Mr. CHRISTENSEN. Thank you very much for your comments and your question.

I would like to address the issue of China's currency and how we deal with it. I can't go into great technical detail because, as I said earlier, I am a political scientist, and I think I should leave it to—

Mr. MANZULLO. Well, this is a political issue.

Mr. CHRISTENSEN. Yes, I think in terms of the meeting of Madame Wu Yi's market-based, integrated unitary exchange rate, I think—

Mr. MANZULLO. It was market-based, managed, unitary floating exchange rate.

Mr. CHRISTENSEN. I think I will skip that one, but I will talk a little bit about what China claims to be doing with its currency, and where it tends to be heading. And I will say what I have heard much more experienced people than myself say in my presence to the Chinese about this issue, and I will leave it to people at Treasury, my colleagues at Treasury, to maybe give you a more detailed answer about the currency issue and where they see it heading.

But my own experience suggests that the Chinese Government claims to be moving in the direction of a free-floating currency; that they see this as a long-term goal for the Chinese system. They have great concerns about their financial stability, because they have great fragility in their banking system. So they are cautious about how they move forward when moving in that direction.

There has been somewhat increased flexibility in their currency. Their currency has revalued by 7%, roughly 7%, since 2005, so we have seen a move in a positive direction.

And what Secretary Paulson has said to the Chinese is that it may seem to you that given the fragilities in your system, that you should move extremely slowly and extremely cautiously. But it is his expert opinion—and I can't question his expert opinion; he has a lot of experience in the international marketplace and the financial world—it is his expert opinion that China's bigger mistake would be to move too slowly, not too quickly, in creating greater flexibility for its currency, and in related issues like increasing

competition in financial markets within China, and allowing foreign firms to come in and compete in those financial markets.

Again, not only to bring in capital into China, there is a lot of capital being brought into China, but also to bring in expertise. And part of the opening up of China to the outside world was to bring in foreign expertise to teach the Chinese better production methods, better management methods. And that should apply to the financial markets, as well. And I know that Secretary Paulson feels strongly about that and engages the Chinese on those grounds.

In many of these cases, though, someone like Madame Wu Yi might be pushing in the same direction, saying that we want to move in the direction of a free floating currency. And what formula they use in that transition period again is beyond my capabilities to address. But they claim they would like to move in that direction.

Secretary Paulson believes that they need to increase the speed by which they, accelerate the pace by which they increase that flexibility, and move toward a free floating currency. They claim they want to move in that direction. We are not satisfied with the pace. And we realize that there are some implications for our businesses, and we take that extremely seriously.

So we do engage on this issue, and we consider it one of the more important ones that we deal with.

And in terms of the state control of the investment environment in China, which could take the form of the state itself investing in firms and picking and choosing winners, this is not ideal. We do believe in free-market economics. The Bush administration does support those initiatives that move in that direction.

We also see some regulations on investment that are a concern to us. There was one case in Shanghai that got a lot of press. A machinery company, a construction equipment company called Xugong. The Carlyle Group wanted to purchase this company. They make, I gather, I am not entirely certain, but I believe they make steamrollers and such things, construction equipment.

When Carlyle made a bid to get a majority share of this company, China balked and claimed that this was an industry related to national security; that if this construction equipment company had fallen into foreign hands, this would somehow compromise China's national security.

And those types of measures we are also concerned with, because we think they create unfair competition. I believe they reached a settlement recently where Carlyle Group will invest less than a majority share. But we do watch those things, and we hope they don't become broad trends. We want the Chinese market to open up.

And if you go back to 1978, I think it is very hard to fail to recognize that the Chinese system has opened up significantly from where it was in those earlier periods, with great benefits to us and great benefits to the Chinese. But that doesn't mean that we should tolerate unfair practices, and it doesn't mean that we should do anything but push back and try to get results when we see our companies at a competitive disadvantage, and we see imbalances that need to be rectified.

Mr. FALCOMA. The gentleman from New York, Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman. You know, I come at this as is the glass half empty or is the glass half full. I look at it as always being half full.

And I will associate myself with concerns, for example, in dealing with intellectual property protection and having open markets. You know, our market is open, and I would like to think that we can compete fairly in China, with their markets open and access to individuals here. And I think that helps make us interdependent upon one another when we have fair and equal trade. Where of course our markets are needed by them because of our economy. And the stronger their economy gains, I would see that that is an opportunity for us to also get into their market, which we can't do right now.

So I agree with Mr. Manzullo that we have got to figure out ways in which we could make it fairer for our companies to also be able to get into the markets of China.

That being said, I also understand that, as I stated in my opening statement, that this world is much smaller, and there is vast opportunities for us to do some things together. I know on my trip to China, I was told many things previously what to expect. When I arrived in China, I was told that it was basically a closed society, and people wouldn't talk to me, and all that.

Before I went to China, I used to say there is no skyline like New York City. I am from New York. Then I went to Shanghai and Beijing, and I can no longer say there is no skyline like New York City.

And one of the things that I also demanded to do on this particular trip was, as opposed to just go where individuals wanted me to go—and at this time it was the Clinton administration, in a time of PNTR—I, the condition which I went was that they would give me an interpreter and a car, and let me freely travel wherever I wanted to go. Because many people told me beforehand that if I went there, the Chinese people would shy away from me. They wouldn't want to talk.

So I got into this car, and I just told the driver, instructed him to stop. I saw a bus stop with a whole lot of people there. So I am going to check this theory out to see whether the people would engage me, or whether they would run from me in fear. So I stopped, and I went out, and through the interpreter, I began to talk.

And the more I talked, the more people came around wanting to talk, to discuss how they were living in China, what their hopes and their aspirations were. You know, what they felt about Americans doing business in China.

And what I found was that the Chinese people basically want the same thing that American people want: They want to be able to live a good quality life, raise their children, make sure that they are educated, have great healthcare. They want basically the same thing.

And so that, to me, says that that possibility of having this relationship among the people of our two countries is great.

The question then comes, and what I have huge concerns about is: How can we do certain things collectively together? Now, I know, for example, that—and I think you indicated that China is

beginning to invest a lot in Africa and Latin America. And I think you indicated in your testimony, in reading it, that one of the questions that you thought that China could coordinate or should coordinate some of their A programs with other donors in a better fashion, so that there could be more focus.

So one of my questions is—I am going to just try to put them out, and you can just answer them—are we helping China to do this? Are we helping them to figure out partnerships with other donors as it pertains to humanitarian efforts in Africa, in Latin America? Are we working collectively in that way?

And then in that same regard, can you explain ways in which China can, in a very productive manner, use its relations with the investment in Africa and Latin America for beneficial use?

So I want to know, and those are two questions. And lastly, my question would be again, because the one concern I do have with China and some other places is human rights. And I am wondering if the State Department would be concerned at all about China's trade and investments policies, particularly in Africa and Latin America, insofar as China's involvement, their involvement may have in the United States' efforts to support human rights in those regions, given that we look at some of the human rights problems that are also in China.

Mr. FALEOMAVAEGA. If I could interrupt my good friend from New York. While Dr. Christensen is running through his keen mind about the good questions that my good friend from New York has raised, I would like to give the opportunity to my good friend, another senior member of our committee, the gentleman from Indiana, Congressman Burton, for his statements. He has to leave in a very short while, if that is all right with you.

Mr. MEEKS. Quite all right.

Mr. FALEOMAVAEGA. Congressman Burton.

Mr. BURTON. Congressman Meeks is always so eloquent with his questioning, and I hate to interrupt you. But right now, if we have committees, we have four subcommittees, what do I have? What is going on? [Laughter.]

I just came from one. I have a couple of questions. And you may have covered these in your opening remarks, and I apologize for my tardiness, but it was necessary.

China has not properly valued their currency. We have a huge trade deficit with them. They are a very important trading partner. But I would like to know how we should change our policy in order to deal with that. We can't continue to have this erosion of trade with them indefinitely. And we have trade deficits with other countries, but China is really one of the big ones.

The other thing is I am very concerned about Taiwan. Taiwan has been a good friend, and ever since the Taiwan Relations Act there has been a lot of saber-rattling. What are we doing to make sure that there is not conflict over there in the South China Sea, and that our friends in Taiwan are not endangered.

Those are my two questions. And I thank you very much, Mr. Meeks and Mr. Chairman, for letting me go.

Mr. MEEKS. Quite all right.

Mr. CHRISTENSEN. Thank you very much. Mr. Chairman, would you like me to answer those questions first? Thank you, Representative Burton, for the excellent questions.

Mr. FALEOMAVAEGA. You probably covered portions of the questions that Mr. Meeks—

Mr. CHRISTENSEN. I will come back and I will certainly—

Mr. FALEOMAVAEGA. No, what I mean is, there were portions of it dealt with.

Mr. CHRISTENSEN. Yes. The excellent questions overlap a bit, and I will try to address them in reverse order.

We do engage the Chinese very actively on the currency issue. We have been discussing that in my initial comments and in some of the question and answer that we had subsequently.

And we engage them on that issue in a range of dialogues, including the Strategic Economic Dialogue. And our basic message to the Chinese is that it is in China's own interests, its long-term financial interests, to increase the pace with which it moves toward that free floating currency, to increase the flexibility in its currency. That it is harmful to certain United States interests that the currency is not as flexible as it could be, but we also point out that it is harmful to China's own economy, moving forward, to have some of the systems in place that are required to maintain a currency that is not as flexible as it should be.

So what we are trying to do is work with those Chinese who already agree with this proposition, and to convince others that this is the case. We have seen a 7% revaluation of the Chinese currency since 2005, and we believe that that is a healthy trend, but it is not nearly fast enough. And Secretary Paulson has engaged on that issue.

In terms of market access, fortunately the news is not all bad. We do have a huge trade deficit, and we try to deal with those imbalances, both in terms of subsidies, the currency issue, as you raised before, intellectual property rights protection—and we addressed some of those in our earlier conversations this afternoon.

But there is some good news. And that is that since China has joined the World Trade Organization, our trade with China has, our export trade to China has increased rapidly, five times faster than our trade to the world at large. And in 2006 we had a 32% increase in our exports to China, with an 18% increase in our imports. So there are some positive pieces of news in there, and we believe that our engagement with China has produced some results for our manufacturers as well that are positive.

But we do take these issues extremely seriously. We do engage on them in a broad range of dialogues as an administration, and within the State Department, as well, and we at State participate in the Strategic Economic Dialogue. I have had the privilege of participating along with the lead at the State Department on the dialogue, Assistant Secretary Dan Sullivan. That was a terrific experience for me, and I think it is a very constructive engagement that we have with them, and we think it could lead in a very positive direction, moving forward.

On the Taiwan issue, I will say to you what I have said to many others. Taiwan has no better friend than the United States, has no better friend than the Bush administration. And we pay very care-

ful attention to Taiwan's security needs. We take extremely seriously, as I had said earlier this afternoon, the large-scale military buildup across the Taiwan Strait from Taiwan. And we work to fulfill our commitments under the Taiwan Relations Act by offering military items of a defensive nature to Taiwan, and also by maintaining our own capabilities in the region.

So that is clearly the case. One of the difficulties that we have run into is that President Bush offered an arms package to Taiwan in April 2001, and for political reasons on the island, Taiwan has not procured some of the key items in that defense package. And we work with, in our unofficial relations with Taiwan, we work with various elites on the island, and we try to convince them that they should not play political football with Taiwan's security; that this is a core interest of the United States, and that we let the Taiwan public know that, that we take that extremely seriously.

We let the Taiwan voters, who have the ability to express their opinions to their leaders, know that the United States position is that they should take this extremely seriously, they should procure the systems that the President has offered to them, and they should come up with a long-term plan for their security, that is a bit removed from the political to and fro on the island.

So we take that extremely seriously. And we also take seriously President Chen's commitment to President Bush in his two inaugural speeches, which we believe are stabilizing commitments on his part not to move in the direction of unilateral changes to the status quo, in terms of Taiwan's status. And we believe that that is a sign of his leadership. And we believe that the situation across the Taiwan Strait has been stable because the President and the Bush administration at large has been very firm and very consistent in stating our full One-China policy, which calls for peaceful resolution across the Taiwan Strait, says that we do not support Taiwan independence; that we oppose unilateral changes to the status quo; and we expect the two sides to resolve their differences in a peaceful manner.

So we take Taiwan's interests and Taiwan's security extremely seriously. We will continue to do so. And as I said in my opening comments, we believe that that robust and firm and very clear public commitment has maintained stability in the cross-strait relationship, at a time when there are lots of challenges, including that very large-scale military buildup across from Taiwan.

So thank you very much.

Okay, Representative Meeks, you asked extremely good questions.

Mr. BURTON. And mine weren't? [Laughter.]

Mr. CHRISTENSEN. Oh, no, no, sir. I thought I prefaced my comments thank you for the excellent comments. If I didn't, no, yours were excellent, yours were excellent.

Representative Meeks has asked questions that cover a broad range of issues, and I will address them in the order that they were presented to me, which reflect that the common interests of China and the United States are very real. And I am glad you had that on-the-ground experience dealing with Chinese citizens, who do have the same aspirations that we do.

I have spent a lot of time in China. I speak the language. I have had lots of conversations with Chinese citizens from all different backgrounds. And it is striking that they do share the same aspirations that we do. And we seek a positive future for them. That is in our interest; it is in their interest; it is the right thing to do, and we engage China in that spirit on economics and politics and elsewhere.

When we engage the Chinese Government on political issues, like human rights in China—and I will get to the broader international issues—like human rights in China, like democratization in China, when we engage on those issues we try to convince the Chinese that progress is in China's own interest. We are not asking you to do something for us; we are not trying to destabilize you; we are not trying to hurt you. We believe it is in your own interest to give those people you met on the streets of China a voice in their own government, a more direct voice in their own government, more say in how things proceed in their own country. Because they do have rational, productive goals that would be good for their own country.

We want them more engaged in their own political system, and we believe that would be good for China as it moves into its desired status as a great power and respected power around the world. Because all of the other leading powers around the world have gone through these democratization processes.

So when we engage even on issues where we have the biggest differences with the Chinese leadership, on issues like human rights, on democratization, we do it in that spirit. "We see this as something that is not just good for us, not just good for the international community and in line with international norms, but it is good for you. It will stabilize your own nation. It will make your own nation stronger, not weaker. It will make your own nation more respected, not less respected, if you adopt these measures."

On economics it is clearly a case that we have lots of common interests. And you referred before to the fact that the Chinese leadership in the reform period has pulled hundreds of millions of their citizens out of abject poverty. And when I say abject poverty, I mean global standards of \$1.00 a day. This is a very impressive achievement, and we in the Bush administration recognize that.

This isn't all about asking them to do X, Y, and Z, and not recognizing that they haven't had achievements in the past. This is a very real achievement, and it is something that deserves our respect, and we take it extremely seriously.

We do have a lot more people who need to be brought out of poverty. And we believe that introducing markets and reforms and continuing the reform process, not taking steps back in the form of nationalism and other things that would protect those markets, will continue to produce the jobs for those other impoverished people. So we feel very strongly about that.

Mr. MEEKS. Like we do. We have got to bring some more people out of poverty in the United States, also.

Mr. CHRISTENSEN. I think all around the world we need to bring people out of poverty. It is a terrible condition to live in.

And I think that you asked an excellent question about China's engagement in Africa and Latin America, and the impact of Chi-

na's investment in aid programs and loan programs to African nations and Latin American nations.

I will just say as a backdrop, and it has been a theme today, and I don't want to beat a dead horse, but we don't view China's investment assistance programs or aid to these areas as a zero-sum game. We believe that the development of Africa is a very good thing; development of Latin America is a very good thing. If China wants to bring capital to the show, that is a terrific thing. We want to see that happen.

What we do ask of China, and what we think we could have had better coordination on, is coordinating our assistance programs, coordinating loan programs, and coordinating investment programs, so that China is more in line with efforts by the international community, including or especially international organizations like the World Bank, who are doing more than just throwing money at the problem, but who are trying to create better governance, more transparency within the African economies and polities, so that their own people will have a brighter future moving forward.

These are very, very thoughtfully constructed programs designed to bring the best from the investment that goes in. And there is some concern that sometimes the Chinese money goes in without these conditions, and not in coordination with these international efforts. And we don't think it is intentional, we don't know, but we think that it may undercut some of the efforts that are being made.

And then there are investments in areas where there are real abuses, such as Zimbabwe, the Sudan, et cetera. And as I said earlier, we really need China to use the very real leverage that it has in Sudan to get the government in Khartoum to accept the robust African Union/United Nations hybrid force under U.N. command, into that country, consistent with the agreements that Bashir's government has already accepted. And we think this is of vital importance, and we are working hard with the Chinese to try to convince them to use that influence in an effective manner to get this done.

There has been some positive movement from the Chinese Government on this score in recent months, but we think the Chinese can do more to get this done.

And in terms of engagement, we engage the Chinese extremely robustly on these issues. And the Senior Dialogue, which I mentioned in my opening statement, which is run by Deputy Secretary Negroponte, has as one of its broad themes that we are trying to move beyond just the bilateral relationship in our discussions with China, and toward cooperation in handling problems of shared interest around the world. So we have regional sub-dialogues.

And Assistant Foreign Minister Zhai Jun, and Assistant Secretary of State Jendayi Frazer had two sets of dialogues about Africa policy of the United States and China. Most recently, earlier this month they had a sub-dialogue here in Washington, and they addressed these very issues. And we think that is a very constructive product of the Senior Dialogue that was created during this administration.

On human rights, I think I have addressed those. We do worry about human rights around the world, about human rights violations around the world. And we do push China when it engages Af-

rica or Latin America to take those concerns extremely seriously; to push for good governance.

I will just say on a broad philosophical level, I do believe that at least in the terms of good governance, if not democratization, China will have increasing incentives to push for good governance in these areas as they bring more capital investment into those areas. Once you have a multi-billion-dollar contract with a government, you suddenly start to be concerned about whether that government honors its contracts, and whether there is some transparency in the legal system.

So I am hopeful that China, as in the other things we engage China on, will realize that it is in its own interests to push for good governance in these areas for its own sake, in addition to being for the benefit of the many people who live in those regions.

Thank you again for your excellent and wise questions. If I could just say one thing. One thing I disagreed with you on. I grew up in the New York area, and there is still no skyline like New York City.

Mr. FALEOMAVAEGA. Let me just follow up on the questions Mr. Meeks had raised earlier.

I think recently the Premier of China hosted 40 of Africa's top leaders all went to China; hosted them in the most official capacity, for which our country has never done that.

But the fact is that there is a human element here why China does this. It appears to me in the years that I have served in this committee, we seem to pay more attention to the industrialized countries than countries who are of lower economic standing, countries that really have no contribution to our own economic interests.

And so China comes out with a very human-like presentation in looking at countries like in Africa. They have human rights problems, like all other countries. We can point to a lot of democracies that have human rights problems, as well.

But my point I wanted to take is that we have never done this in all the years that I have served as a member of this committee, where we have, as a gesture of good will, if you will, of inviting the top 40 leaders of these African countries—went to China, was hosted first class. And there was no interest of trade.

And I don't think in the history of our country we have ever done that to these African countries. Let us face it: Africa is one of the low economic continents that it seems to me that the industrialized countries really have never paid serious attention about in providing any real economic assistance, real programs that really could be helpful.

I realize that we contribute about 25% to 30% of the assets in the IMF, the World Bank, the Asian Development Bank. But when it gets to the bureaucratic maze, I never seem to really feel as if the funds intended from those regional lending institutions really go out to meet the needs of those poverty-stricken countries that never qualify, I suppose because we have these standards that we expect for them to come up to our level. When how can they come up to our level when they don't have the means to—our Millennium Account situation is a concrete example of that.

So I just want to express that concern, that we need to put a human face sometimes on the policies that we enunciate, not only with other regions of the world, but with other countries, on a bilateral basis. My basic criticism of our policy toward the Pacific Region, it is only with Australia and New Zealand, and the heck with the other countries, who are only incidental to our policy.

What happens? President Chirac hosted the Pacific Island nations in Paris. The Premier of China hosted the Pacific Island leaders in Fiji. The Prime Minister of Japan hosted these Pacific Island leaders in Tokyo.

My point is that they put a human face on how they deal with other countries. And I am sad to say—and correct me if I am wrong in my observation—we seem to stress more if you are not up with the big boys, we don't want to talk to you. And I am really concerned, because these poverty-stricken countries are not given the kind of assistance that I think they deserve and we should.

Now, we keep saying all these bad things about Sudan. And of course, there is a crisis there in Darfur. And we have been talking and talking and talking, it is all talk. But what can we do? I mean, in terms of the OAS, an ability to do this, the United Nations doesn't seem to have the capability.

So now we are pointing the finger at China, saying do something about it, because China has a very substantial trade with that country. Here we are pointing the finger at China with Iran. And correct me if I am wrong, the biggest trading partners that Iran has are those European countries. And nothing hardly, our media here has hardly said anything about that. And I am talking about real serious trade.

So we are pointing the finger at China because of their involvement with Iran. The Russians, the only reason for a refusal of giving this nuclear stuff to Iran is because they couldn't pay their bills, if that is really the real reason. And then these European countries have substantial trade with Iran, and we are not saying anything about that. Can you comment on that?

Mr. CHRISTENSEN. Okay. Well, we have moved very far from my area of, my purview.

Mr. FALEOMAVAEGA. Well, we are talking about China, Mr. Christensen.

Mr. CHRISTENSEN. Yes, that is true. I mean, it is a humbling experience. As you know, I come out of academia. I have been on this job since last July. It is a great privilege and honor to serve in this position.

But working on Chinese foreign policy issues does take you around the world in a hurry, and you do end up dealing with issues like Iran and Darfur.

Mr. FALEOMAVAEGA. Mr. Secretary, and I want to apologize. We have been battering you all afternoon with questions left and right.

Mr. CHRISTENSEN. No, it is a pleasure.

Mr. FALEOMAVAEGA. But we really are honored having you here, and your expertise in this country that I feel, as you said, should not be treated as an adversary, but as a partner in solving some of the most serious problems that we face now in the world.

Mr. CHRISTENSEN. It is a pleasure to be here today, and I certainly don't feel like I have been abused in any way.

So I do think that working on China foreign policy issues does make you travel, intellectually and otherwise, in a serious way. And I don't want to speak too much about our broad strategy toward the world, but I would note that it is my impression—and we can get you the statistics, and we can check it—but my impression that the Bush administration has increased aid to countries in Africa above and beyond anything that has been done before, and by a very significant percentage. Starting in the first term of the Bush administration, this issue has been treated with great seriousness.

Do we need to do more as an international community in Africa? Absolutely. And I think that that is something that Secretary of State Rice takes extremely seriously, and it is taken very seriously by the President himself.

On issues that are a little bit closer to my area of coverage in the State Department, the Pacific Islands, you are obviously much more expert on these issues than I am, and I would not pretend to—

Mr. FALEOMAVAEGA. I still eat my coconuts, under a coconut tree, believe it or not.

Mr. CHRISTENSEN. But I do think, and I know from my own office, I serve in the Bureau of East Asian and Pacific Affairs. And I know that my boss, Ambassador Hill, takes the Pacific Islands very seriously. He traveled there extensively. It is not just about Australia and New Zealand at all.

And we are hosting this spring an organization called the PICL, which is the Pacific Island Council of Leaders. They will come to the United States in very much the fashion that you laid out in describing, in a congratulatory fashion, the Chinese effort—

Mr. FALEOMAVAEGA. You know what I told them? Don't come if they don't have a chance to meet with President Bush.

Mr. CHRISTENSEN. That is above my pay grade, sir. [Laughter.]

Such decisions are above my pay grade. But I do think it is constructive that we are doing that.

But we are doing something else that I think touches on both of your comments, and that is we are having a donors conference for countries that give investment and assistance to the Pacific Island nations. And they are going to come to Washington just before that council. And they are going to engage in issues about how best to use the resources that are being put into the region to guarantee good governance, et cetera.

And I do think that programs like the Millennium Challenge Account are good programs, because the idea behind them is that you don't just put money into the problem, you try to use that money in a way that will create better governance. Because at the end of the day, it is the better governance and the better policies in those places that will produce the real wealth, moving forward.

And you provide opportunities with the capital, but it is really going to require those places to maintain transparency, create good markets, and remain open to the international marketplace to move forward in their economic futures.

I think it is very constructive to engage with these countries. The Millennium Challenge Account asks those countries to write their own loan proposals. You know, tell us what you want to do with it, and how you are going to use it best. That gives them voice in

the process. And that is something that as far as I know has been missing from a lot of assistance programs in the past.

So I think these are constructive programs. I think the Bush administration at large takes the less-developed areas of the world extremely seriously. And I can say with great authority in my own bureau, that we do take the Pacific Islands seriously. We worry greatly about developments in Fiji and elsewhere. And I hear about them every day, although my portfolio is China, Taiwan, and Mongolia.

Mr. FALEOMAVAEGA. Well, Mr. Secretary, I have a million more questions that I wanted to ask you.

Mr. CHRISTENSEN. I would be happy to meet with you again.

Mr. FALEOMAVAEGA. Because of the constraints on time, I thank you again. Also my good friend from New York, our vice chairman of the subcommittee. Thank you so much for coming. I will look forward to another round.

Mr. CHRISTENSEN. Thank you, sir.

Mr. FALEOMAVAEGA. Thank you.

[Whereupon, at 3:50 p.m., the subcommittee was adjourned.]

