PANEL III

POLITICAL AND SECURITY IMPLICATIONS OF CHINA'S EMERGENCE

MR. BADER: Hello everyone. If you can take your seats, we'll get started on the last panel shortly. Thank you.

I'd like to welcome you all to our last panel of the day. I particularly admire those who have stuck it out all day, and forgive us for the temperature in here. This is what happens when you have TV lights. There's nothing we can do about it. The air conditioner is on full, but I invite all gentlemen here to take off their jackets if they wish and if ladies have jackets, they can follow suit.

I'll introduce myself for the fourth time today. I'm Jeffrey Bader. I'm director of the China Initiative here at Brookings.

I'm delighted that for our last panel of the day, when people start to get a bit tired, we have three very dynamic speakers who are guaranteed to provoke you and keep you awake. For those of you who were expecting Admiral Dennis Blair, former CINCPAC, I hope you were here for the last panel. Admiral Blair had to catch a flight, so he spoke a few minutes before.

I'm not going to give you biographies of our speakers. I think you've got them, and these people are I think pretty well known to you. Let me just say a personal word or two about them.

I had the great pleasure of working for two of the gentlemen in this panel. Our first speaker, Sandy Berger, I worked for at the National Security Council from 1977 to 1999 at the Clinton White House. Sandy was the architect

of the rebuilding of U.S.-China relations after the low point in 1989 and thereafter. During the years when Sandy was National Security Adviser and when I worked for him, there was a cacophony of voices on China and about what we should do on China that could have led us in very many directions, a lot of them not so good. I think that history will judge that Sandy's steady hand steered the right course.

I'd also like to mention the third speaker, who I also worked for, Ambassador Stapleton Roy. Stape was American ambassador to China from 1991 to 1995, a pretty hectic time in the relationship. Stape was not only my boss but was my mentor and the mentor to every Foreign Service officer who worked for or near Stape. I'm delighted to be able to direct him today.

[Laughter.]

MR. BADER: Our second speaker is Mr. Zhang Tuosheng. I've never worked for Tuosheng, but maybe we'll set up a joint venture.

[Laughter.]

MR. BADER: I have been on panels with Tuosheng, which is why I invited him here today, because he's terrific. He's the director of the Center for Foreign Policy Studies at China's Foundation for International Strategic Studies. Mr. Zhang is one of China's foremost civilian experts on strategic issues, and we're very pleased to have him here to present China's perspective on the issues we'll be discussing today.

I'd like to turn over the mike to Sandy Berger first.

MR. BERGER: Thank you, Jeff. Congratulations on the China Initiative, the program that you've stood up here at Brookings with John

Thornton's support and others. It's something I think we very much need and I can't think of anybody who would do a better job of establishing this institution than Jeff.

I recently attended the Fortune 500 Global Forum in Beijing--some of you may have been there--made up of mainly business people and regional experts, regional leaders in Northeast Asia and particularly China. Listening to those discussions in contrast to listening to the discussion of China here in Washington was almost a surrealistic experience for me because I was listening to a discussion of two entirely different universes.

From the perspective of many in Washington, and particularly on Capitol Hill, China is eating our lunch economically, has an unprecedented trade deficit that will rise to $200 billion this year, has moved only slightly on its undervalued currency, is stealing our intellectual property; it's moving in a more repressive direction on human rights, it's threatening Taiwan, and it's substantially increasing its military posture. I would say that's not a far-fledged exposition of what most members of Congress would say if you said the word China. No wonder one freshman Congressman asked one business constituent of his recently, why would you ever want to do business with China? The businessman, I'm sure, answered, to make money.

As a result of some combination of these factors, we know, it's indisputable, that anti-Chinese pressures are building in our Congress. We saw that most recently when, in order to get a trade agreement with Central America, the administration had to offer as a sacrificial lamb a law that would apply countervailing duty laws to China notwithstanding the fact that it's a mixed

economy. No one paid much attention to this, but as a former trade lawyer, I will tell you when the anti-dumping cases start getting filed against China, you'll realize what a significant step that piece of legislation was. The infamous Schumer Bill to put a 27 percent tariff on all Chinese goods unless the currency was revalued or let float is postponed, but I can assure you it is not forgotten.

But the reality that I heard in the Fortune Business Conference was quite different. These were global companies, many American, doing business in China mostly successfully. They were not without complaints, the most serious being intellectual property protection, but they were generally optimistic.

But before we go to DEFCON 3 here in Washington with China, or on the other hand romanticize China's emergence, I think it's worth stepping back for a moment. What are the realities and the politics of this relationship, is what Jeff has asked me to address. Let's separate out the economic, strategic, and political dimensions.

The economic dimension you know very well. You had an excellent panel this morning that covered the subject. Suffice it to say that, since Deng Xiaoping began economic reforms in the late 1970s, China has embarked on the boldest economic experiment in human history. It is in the process of moving a country of over 1 billion people from a state-driven to a capitalist economy, from an entirely rural to an increasingly urban economy, from poverty to middle class. In fact, China has moved a good distance along that way in the past 25 years. Nearly 600 million people have joined the middle class, almost

three times the size of the United States middle class. And China has moved more people out of poverty in the past 20 years than any nation in history.

But there is an assumption here and in most of these litanies of China's success, and also I hear this assumption in China, that the Chinese juggernaut is inevitable, that China inexorably is going to keep rising. To which I would say: Not so fast.

Walking through the bustling shops in the Beijing Airport a few weeks ago, I had a sense of déjà vu. I really couldn't place it until I got on the plane, and then I realized it felt just like walking down the Ginza in Japan in the 1980s. Let me say I generally am bullish on China, but there is nothing inevitable about its continuing success. We should bear this in mind as we take actions here that affect China. The quality of our relationship will affect how China integrates into the global community and whether it evolves as friend or foe.

I sometimes use a metaphor to describe China. China is like a big snowball, and during the 1980s and the first half of the 1990s, the Chinese were pushing the snowball up the mountain. The snowball was getting larger and larger and many, many, many people, millions, billions of people, were pushing the snowball up the mountain. Finally, sometime in the late 1990s the snowball got to the top of the mountain, and now the snowball is rolling down the back of the mountain. By its own momentum it's getting larger and larger. There's only one problem: There are boulders down that mountain. And if that snowball hits any of those boulders, it will either break apart or be diminished.

Can China maintain social cohesion in a country with growing inequality of wealth? Resentment runs deep in underdeveloped China, including against corruption of some party officials. How long can China live with a political system unlike any other in the advanced world, one without serious outlets for opposition or dissent? Do they get ahead of an expected wave of dissatisfaction or get swamped by it?

The ideology of China today is prosperity, gaining it and increasing it. What if the metaphoric bicycle--to mix my metaphor now--slows down or stops? What about an extremely inefficient financial system that misallocates resources to inefficient state enterprises, a sector significantly shrunk in recent years but still substantial?

And I could go on and on. China faces serious environmental challenges. The largest cause of death in China is respiratory illnesses caused by pollution from coal and, increasingly, from cars. There's a shortage of water, as you know, particularly in northern China and Beijing, which leaves 400 cities in vast rural areas with chronic shortages.

I say all of this not because I'm not bullish about China. I do believe China's future is bright. But I think China's future is not preordained, and what we decide and what the Chinese decide will have a great deal to do with whether that snowball continues to come down the mountain or whether it hits one of the boulders. All these tensions exist below the surface of the sparkling cities and the large shopping malls in China.

It means the Chinese fear of breaking apart--the greatest fear that China has had in its history--is still very real for them and must be kept in mind

for us. There was a time, of course, when we thought Japan would dominate the world economically.

Let me switch briefly to the strategic. There are many in Washington, including, apparently, the secretary of defense, Mr. Rumsfeld, who see "China rising" as an ominous term, China rising as a threat. In my judgment, with one blind spot, Taiwan, China does not pose a strategic threat to its neighbors and certainly not to us. China does not have a history of imperialism. They basically have remained within their borders for 4,000 years. There have been wars on those borders, but it has not been acquisitive. For the next generation, China is focused on the internal dynamics of growth and of prosperity. Taiwan is different. Taiwan is a matter of national identity not subject to reason on either side, to some degree, or easy compromise, and it's a dangerous issue still.

Within this economic and strategic context, what about the politics of the China issue in the United States? From the time of Nixon's visit until 1989, there was a broad bipartisan consensus for a positive relationship. Every Rotary Club, every garden club from Toledo, Ohio, and from Nashua, New Hampshire, went to China, and walked on the Great Wall. There was a love affair that we had. We fell back in love with China. That, obviously, deteriorated greatly after Tiananmen.

In the last 15 years, government-to-government relationships have unevenly but steadily improved as China has grown economically and politically as its influence has grown. But as China has become an economic powerhouse, especially in the last year or two, it has become one of the most combustible

issues in the Congress. The argument is over whether China's rise is a zero sum game for the United States. Some believe that any rising power inevitably threatens existing power, that China wants the United States expelled from Asia.

What is so dangerous about this issue politically is that the American political left and the American political right converge on this issue of China. This may be the only issue, the only issue that Nancy Pelosi and Tom DeLay agree on.

[Laughter.]

MR. BERGER: Nancy Pelosi comes at this from the perspective of human rights, Tom DeLay comes from the perspective both of Taiwan and from the perspective of the abortion argument. We now have Duncan Hunter, a conservative Republican, and Chuck Schumer, a liberal conservative, agreeing on the Schumer Bill, the only real constituency that exists for this relationship. At one time, the constituency was the Northeast foreign policy establishment embodied by Brookings and the Council on Foreign Relations.

[Laughter.]

MR. BERGER: But with the exception of Bader and Talbott, that Northeast establishment no longer controls the Congress on foreign policy. Politics has become democraticized. And the business community, which has stepped in in the 1980s and 1990s, is now divided as China moves up the value curve and becomes a competitor. As China has gone from an agricultural economy to a low-cost manufacturer of toys and shoes and textiles to an increasingly sophisticated value-added producer--appliances, computers, soon cars, that compete with U.S. companies in third markets and in the Chinese

market, and then eventually in this market--what's happening is that American business now is divided between the large multinationals heavily invested in China and the medium-sized companies that find China to be a competitor.

There are several potential triggers, I think, for a confrontation. One is the trade deficit itself. We're not likely to see change in that soon. It is largely structural. Someone pointed out--Josette Schneider at lunch today--that if you look at Northeast Asia as a whole, the trade deficit has actually decreased by 1 percent over the last 20 years and what we're really seeing is a reallocation of imports from Taiwan and Japan to China. I think that's an interesting way of looking at it, something that we need to explain better to the Congress. But if the overall deficit number continues to rise, it's going to be doubly important for China to continue opening its markets, increasing its imports, and dealing with the irritants that arise in the relationship.

Currency, some progress has been made from the perspective of the critics. The renminbi still, however, gives China an advantage in exports. I think we need to recognize that revaluation is no panacea either for the trade deficit problem or the competitiveness problem. And we cannot forget that China not only is the third-largest consumer of our exports but also, more than anyone, is financing our budget deficit, essentially loaning us $200 billion a year so we can continue to consume more than we produce and spend more than we earn. Notwithstanding that, this is still a hot-button issue.

The third trigger issue besides Taiwan, I would say, is intellectual property, and this one, I think, in fact will be the trigger issue. It's the most dangerous issue politically because it's no longer just DVDs. Now we're talking

about piracy of cars and high-value products, and the United States and the American people will not stand for that. So this is a problem and I know that the Chinese government has embraced this objective. But I would argue that when the Chinese government really wants to find things, they can find them. If they really want to find people, they can find people. Therefore, if they really want to put an end to pirating, they can put an end to pirating or at least a serious hole in it. And it is the most dangerous issue in my judgment, economic issue, between our two countries.

Beyond economics, human rights will continue to be part of our agenda. At many levels there is more freedom in China today than at any time in history--freedom to live where one wants, freedom to work where one wants--essentially, freedom to live. Obviously there is one red line, and that is a one-party system. I think over the long term China cannot realize its full potential if it does not open up politically on its own timetable. China is not Singapore. It cannot exist as a one-party closed society politically. It's either going to open in some fashion or, in my view, it will either explode or implode.

So let me draw this to a conclusion. I think if any of us were standing on Mars at this moment looking down on Earth and we were able to see socioeconomic trends from that vantage point of Mars, you would see a tectonic shift going on from West to East; from a shift in economic power comes a shift in political influence.

In recent years the United States has been unambitious, I would say, in its relationship with China, except regarding North Korea. And that, I think, is dangerous. We have not tried to deepen and broaden and widen this

relationship. We are a Pacific power. We have fought three wars in the Pacific in the 20th century. If we don't focus more on this region, the world will pass us by. Except in economics, trade, and to some degree nonproliferation, our relationship with China has been quite thin. There is great potential for new cooperation on the environment, on health, on energy.

Let's just take one sentence about energy. We are the two largest consumers in the world where the producers already are organized. It strikes me we can either approach this as competitors, or we can approach this as collaborators since our interests are the same--lower prices, more supply, not the same interests as the producers. So we can either compete or this could be a great new area of collaboration. I would say the same thing about the environment and the same thing about health.

My fear is not that we will be defeated by China, but that we will not have a sustained and coherent political and economic strategy with China and that we will drift into mindless confrontation.

And my fear is not that we will isolate China. It's too late for that. China is too large, too much of a global power. It is that we will isolate ourselves in the act of trying to isolate China.

As Nick Kristoff, who is no friend of China, wrote in The New York Times about China, we can't turn back the clock of globalization, but we can learn to compete in a global economy.

Thank you.

[Applause.]

MR. TUOSHENG: First of all, I would like to express my heartfelt thanks to the Brookings Institution for inviting me to this important event. I extend my wishes for the success of the new China Initiative.

Now I would like to express my personal views on China's foreign policy and the Sino-American relations.

China's current foreign policy can be summarized in four points: adhering to an independent foreign policy of peace; totally opening to the outside world for a win-win solution; maintaining national sovereignty and territorial integrity; and striving for an international and a regional environment conducive to long-term modernization.

Some of those policies were proposed almost immediately after the People's Republic was founded. Some of them were proposed during the implementation of the reform and opening up, and others in recent years. What the most new developments?

In my view, they fall into four areas. First is the emphasis of holding high the banner of peace, development, and cooperation. This has been repeatedly stressed by Chinese leaders recently and hotly discussed among Chinese scholars. It reflects China's concept of the international situation, offers fundamental direction to Chinese foreign policy, and identifies the principal paths for the country's peaceful development.

There is an old saying in China: Once night is raised, the details will be made clear. Peace, development, and the cooperation of the Internet in China's foreign policy in the new era.

The second is the proposition of a new security concept, the crux of which lies in mutual trust, mutual benefit, and equality and cooperation in the context of seeking mutual and comprehensive security. In recent years under this concept, China made major progress in resolving territorial disputes, developing economic diplomacy, promoting mechanisms for regional security, strengthening cooperation in antiterrorism, nonproliferation, and other nontraditional security areas. Among them, nonproliferation has become more and more an important part of China's foreign policy.

The third is the adoption of a series of measures consolidating relations with major developed countries with China's peripheral regions and with developing countries, and its endeavor to achieve a more balanced development among all three.

Of the three, regional relationship is vital. It involves ties with both major powers as well as developing countries. In recent years China has strengthened work in the Asian region by adopting the policy of being friendly with neighbors and taking neighbors as partners.

In dealing with major powers, China concentrates on expending common interests and strives for stable development in order to safeguard and promote global strategic stability. As for ties with developing countries, China emphasizes that they constitute the basis of China's overall foreign policy, with the objective of integrating political and economic cooperation.

The fourth is actively participating in international affairs, shouldering the responsibility of a major nation. This is reflected in increasingly active multilateral diplomatic activities. China strives for safeguarding the

authority of the United Nations, supports multilateralism, proposes dialogue among different civilizations, and extends international assistance. This shows that, since the country's reform and opening up, China has gradually been integrated into the international community and is exercising its influence as a responsible nation.

I will now talk about China's policy towards the United States; that is, on the basis of the three communiqués, develop a constructive and cooperative relationship between the two countries and ensure its long-term stability and development. Such a policy is made on a deep understanding of a Sino-American relationship. From China's point of view, the Sino-American relationship is one of the most important pillars of China's foreign policy. Some Chinese have even described it as the most important.

First, the United States is the only superpower with the greatest comprehensive national strength. This will not change for a long time. For China, in its effort to strive for a peaceful environment, it is imperative to develop a good relationship with the United States.

Second, there are vast common interests and effective cooperation in areas of economy, trade, and security between the two countries. However, they have different social systems, ideologies, and culture. China must handle its relationship with the United States very, very carefully to resolve such issues as Taiwan and human rights to avoid confrontation.

Third, in recent years Sino-American relations have evolved into one of the most important bilateral relations in the world. Improvement or deterioration of the relationship is increasingly exerting a deep impact on

regional and international arenas. This has heightened the importance, complexity, and sensitivity of the relationship between the two countries.

Since 2002 this relationship has seen generally smooth development, to the extent that former Secretary of State Colin Powell described it on a number of occasions as the best in 30 years. However, since the beginning of this year, Sino-American frictions have been on the rise again. Apart from the intensification of economic and trade frictions, frictions have also appeared in the political and security areas. Under these circumstances, the China threat has regained currency in the United States. Some Americans argue that now that the antiterrorism war has entered a new stage, conflicts between the United States and China will once again emerge and the United States should consider China a major competitor or adversary.

I'm not in favor of this kind of argument. In fact, on the whole, I have a cautious optimism on the current and future relationship between our two countries. In this there lie several profound factors.

First, China's psyche has been changing. China has a greater understanding of the external concerns and the apprehensions of the country's rapid development and has responded in a far less ruffled manner. This is fairly pronounced in its attitude towards the United States.

Second, in the United States, although there is a new round of debates on its China policy, the Bush administration has adopted an even policy which has not changed the tenet of its cooperation with China.

Third, Sino-American relations are far different from the Soviet-American relations of the past. China is in no position, nor does it have the

ambition, to challenge the United States. At the same time, their mutual interests have continued to increase. For a long time to come, the greatest threat to the United States remains terrorism and weapons of mass destruction, and not a rising China.

Of course, since the end of the Cold War, China and the United States have gone through several major ups and downs, but both countries have accumulated a great deal of experience in handling their differences. Many mechanisms have been established, including the new development of strategic dialogue and the joint study of crisis management, so that the ability to counter the risk of confrontation has increased.

Fifth, the argument that the development of China's military strength may upset the regional military balance is without any basis. Many American experts who are more objective in their views do not agree with this argument. On this question, through increasing strategic dialogue and through increasing transparency of China's military affairs, America's concerns should be allayed.

Sixth, the United States is increasingly worried that China is curtailing American influence in East Asia as well as in the whole of Asia and is attempting to exclude the United States from the region altogether. It is an undeniable fact that China's influence is increasing in the region, but it is definitely not China's policy to exclude the United States from the region.

The Chinese government has explicitly stated that it welcomes the United States to play a constructive and positive role in this region. China and the United States have worked well in regional multilateral mechanisms such as

the Six Party Talks. China will not object to the U.S.-Japan Alliance as long as it does not affect the sovereignty of other countries.

Seventh, the energy security issue is a new problem for China and the United States. The rapid development of China's economy has made positive contributions to the global economy, but it has also increased its demand for energy and, to some extent, exerted pressure on the world oil supply. On this question, many people in both countries realize that this can only be resolved through dialogue and cooperation and that the potential of Sino-American cooperation in this regard is great indeed. China's efforts in striving for a conservation mode of society are also a major element in resolving this issue.

As to the questions of sustaining peace and stability in the oil producing region and maintaining the freedom of a line of communication, there exists a mutual interest between the two countries.

Lastly, the Taiwan issue has all along been the nuclear of the Sino-American relationship. The reduction of tension in the Taiwan Strait this year is conducive to its stable development. In this cooperation between China and the United States, restraining the Taiwan Independence Movement is a major factor. China is both determined and patient on the question of peaceful reunification and will continue to try its best with greatest sincerity for the prospects of peaceful reunification.

Time is on our side. However, China will not tolerate Taiwan independence. We hope that the United States will join the Chinese side in safeguarding peace and stability across the Taiwan Strait. Should a cross-strait

framework for peace and stability and development be formed, it will accord precious time for the United States and China to build strategic reassurance.

Generally speaking, China's foreign policy under its policy towards the United States has shown that it is determined to proceed on a path of peaceful development. I hope the United States will react to this policy positively.

Yesterday, an American friend told me there was a book entitled "The Coming War with Japan," but he would suggest someone write a new book, "The Coming Peace with China." I hope both China and the U.S. can jointly write a book for the future, which the title is "Sino-American Relationship: Sustained Peace and Cooperation."

Thank you.

[Applause.]

MR. ROY: Good afternoon. I don't know how I earned the right to be the last speaker. I suspect it had something to do with age.

[Laughter.]

MR. ROY: In any event, I join my colleagues in congratulating Brookings for having finally discovered China under the brilliant leadership of Jeff Bader. I look forward to even more stimulating meetings in the future.

The function of our panel is to look at the political and security implications of China's emergence. But the first thing that has to be said is we can't look at China's emergence in isolation from the external environment that affects China's rise. The reality is that it's really China and the United States that are driving the process of change in the world to an unprecedented degree. China

is doing so by virtue of the extraordinary economic growth rate it's been able to sustain for some 15 years now, and the United States is doing so by virtue of our virtually unchecked military power that gives us the ability to intervene at will anywhere in the world that we choose to. And we have combined this with a doctrine of preemption and unilateral action which has altered the view in Asia of our security role in very significant ways.

But these aren't the only considerations that we have to fit into the framework for thinking about China's emergence. As some earlier speakers have referred to, one of them is that India, after 50 years of irrelevance in East Asia, is showing signs of interest in taking on a role as a player in East Asian geopolitics. And the East Asians, rather than turning to the United States, as many of us assumed would be the case as China rose, are looking to countries like India as a way of balancing China's growing influence in the region.

Another consideration--and I'm beginning to verge on political incorrectness in mentioning such factors--is that the end of the Cold War didn't produce an end of history, it produced an end of geopolitics in the United States. Now, what I mean by that is by removing a strategic threat that enabled us to subordinate other considerations to a strategy for dealing with the threat, we now have a situation where domestic politics is able to impact on our foreign policy in a much more direct way. And this has not only affected our relationship with China but, as some people have mentioned in the case of Indonesia, in the case of Burma, it's impacting on our ability to conduct a coherent foreign policy in the region. And we need to be conscious of that fact, because frequently, domestic constraints on what we think we ought to do are being cited as so strong that we

can't do the wise thing. And this is a troubling situation when we're looking at China's emergence in the region.

But there's another consideration, which is in the entire post-Cold War period we have had two presidents who came into office with no experience in national security affairs. This is a little bit like putting someone without a driver's license at the engine of a powerful Maserati--they can do all right, perhaps, in the straightaways, but they have difficulty navigating the turns.

This is not an irrelevant consideration. Some of us can spend an entire career in diplomacy and never develop a good feel for national security strategy. But even the best person cannot do so overnight, and in fact cannot do so in a short period of years. You can only do so essentially by finding how your judgment and your instincts interact with the real world. And if we didn't have people like Sandy Berger helping out in the process, we could face a much more troublesome situation now. Because it's not easy to be the world's sole superpower when you have presidents who come into office without a sense of how that power should be used.

And lastly, we have to mention the recent emergence of Sino-Japanese frictions as a very important factor affecting China's emergence, particularly down the road. I think it's fair to say that while China correctly anticipated that its rise was going to cause concern on the part of other countries--and it has struggled to deal with that sensibly by coming up with ideas of peaceful rise or peaceful development--but I think it's fair to say that China underestimated how strong the impact was going to be on thinking in Japan and the United States as its economic weight and military strength have increased.

Now, why are these factors relevant, and why can't we look at China in isolation from these other considerations? Because one of the important implications of China's emergence is that China has been able to take advantage of the fact that it shares a concern with every other power center in the world over the predominant U.S. position. Despite literal paranoia in Russia about China's rise, Russia and China have found ways to improve their relations, as symbolized by the joint military exercises that they have just concluded--the first-ever such exercises between the two countries. And Russia now seems to have reversed signals and seems more prepared to let its Far Eastern oil pipeline end in China rather than in Nakhodka.

Frankly, we are an important factor in making these things possible. And it's not because of overt actions by us; it's simply by virtue of our position in the world. People have already mentioned the East Asia summit that will be taking place in December. It's really striking that the United States will not be there, and it has a lot of implications which I'll touch on, perhaps, in a moment. At the same time the United States is reaching out to India to try to form a strategic partnership, in part with an eye to China, we find that New Delhi and Beijing are acting to improve their relationship, in part with an eye to the United States.

So again, we are part of this brew in terms of what's going on. And in Europe, we know there's been a strong move to try to lift the arms embargo that was put in place in 1989 after the Tiananmen incident. And if you visit Europe, you will find that there's a prevalent view there that a stronger China will play a useful role in producing a more stable global balance. So in

other words, we are the factor in all of these considerations, and it's not so much China's emergence, but it's the role that we occupy in the world.

I think it's useful to keep stepping back from China and looking at other considerations, because in many ways, what's driving developments in East Asia is not simply China, but some developments over which China is a reacting power rather than the precipitating power. Let me mention several.

First, of course, is the fundamental change that occurred in 1995 with the political changes in Taiwan. That created a political situation where parties advocating independence could become significant players in the local scene. This was not produced by China. But the combination of that factor and some outside factors produced a fundamental change in China's policy, where it began to use threats of force as a way of trying to contain independence forces in Taiwan and it began to accelerate overt military preparations for conflict contingencies in the Taiwan Strait. And that has had a very negative impact on U.S.-China relations and has created the view in too many quarters in the United States that somehow military conflict between the United States and China is inevitable. And you can point to evidence that China is preparing for such a conflict; and of course the United States is not sitting idly by under these circumstances. But this was an event that wasn't precipitated by China's rise. It was precipitated by political changes in Taiwan.

Secondly, the 1997 Asian financial crisis represented a real watershed in U.S. relations with East Asia that isn't adequately appreciated in this country. The crisis damaged our standing in the region and it gained credit for Beijing. Rightly or wrongly, Asians felt that our reaction was too slow and

inadequate, whereas China passively gained enormous credit by not devaluing the renminbi.

It's not accidental that the first informal summit of the ASEAN-plus-three occurred in December 1997, the year of the financial crisis, in Kuala Lumpur. That was an informal gathering, but it was quickly formalized and now such summits take place every year. You recall that at that time there was a proposal for the creation of an Asian monetary fund, which the United States and the IMF reacted to negatively. But the idea didn't go away, and in 2000 you had something called the Cheng Mai initiative, which took place in Thailand, and now you find that there are swap arrangements among the Asian countries, there's even talk about a combination currency, and essentially the Asians are quietly taking steps so that they will be able to deal with a future comparable regional financial crisis without having the United States or the IMF coming in and dictating how the response should be.

It was in 2002 that China suggested that the ASEAN-plus-three be expanded to include regional, political, and security issues. So it's not simply the ASEAN Regional Forum, which frankly hasn't been going anywhere, in which political and security issues can now be discussed in Asia--and the United States is part of that process. Instead, you now have an Asian grouping bringing together all the principal Asian countries, without the United States, that can address the whole range of economic, political, and security issues that they wish to. This is a fundamental change in our relationship to the region.

I respect highly Kishore Mahbubani, but I disagree with him that the ASEA-East Asian is somehow a path to revitalizing APEC. The fact of the

matter is that the losing of momentum by APEC and the gaining of momentum by this drive for an East Asian community in part reflects a response to the shifting trade patterns, where earlier, in the '90s, the trade patterns were largely trans-Pacific and now we find that intra-Asian trade has assumed much greater significance. We're still a very major player in trade relations with all of the Asian countries, but Korea, Japan, Taiwan, they all have more trade now with China than they have with the United States. These are very significant considerations.

The third factor which is independent of China's emergence but which has a major impact on it is the results of the 2000 elections in the United States. The outcome produced an immediate serious misunderstanding between us and the Republic of Korea over the approach to the Korean Peninsula and, I would go so far as to argue, fundamentally altered attitudes on Korea toward the United States. The Korean government, sensibly, has been trying to repair the damage, as has the Bush administration, and they've been quite successful. But attitudes in Korea have not been changed, and there is a remarkable propensity there to view the United States as a bigger threat to stability on Korea than North Korea. And this is important in terms of how we respond to China's emergence.

The other factor is, of course, September 11 and the U.S. response. This is important because it diverted attention, as it would have under any administration, from East Asia. But not any administration would have taken us into Iraq. And it's the Iraq war, more than our response to 9/11, which makes it impossible for this administration--understandably--to devote the attention to East Asia that it needs to, given the genuinely earth-shattering

significance of the developments that are taking place in East Asia, whether it is the emergence of China or whether it is the emergence of serious Sino-Japanese frictions or whether it is the changed U.S. relationship to the region where, after 50 years where we have been an embedded element in every significant East Asian security, political, or economic development, we are now finding ourselves as an outside player in some of these key areas.

So there's a tendency to see the Chinese as skillfully exploiting these issues in a way that makes us look like chumps. I think Sandy referred to the Chinese eating our lunch. And to a very significant degree, I think they are, although they may get indigestion because I think the pattern is it takes the Chinese two years in this country before they can eat U.S. lunches without a feeling of genuine nostalgia for back home.

[Laughter.]

MR. ROY: In any event, I think it's important to remember that China is not naturally endowed with an ability to conduct skillful diplomacy. If we look at Northeast Asia, we see that China in fact has not only taken the initiative, but been quite skillful in its management of the North Korea nuclear issue through the sponsorship of the, first, Three Party and then Six Party Talks. But without pointing any fingers at anybody, I think you have to say that China and Japan have been remarkably inept in managing their relations with each other. You can't really point the finger of blame at either of them, but you have to say that the consequences are damaging to both of them and are going to be difficult to manage down the way.

If we look at Taiwan, we do not see a brilliant and skillful Chinese approach to the island. Sometimes they take very sensible measures, as I think they have most recently in contributing to the easing of the cross-strait situation through the resumption of the charter flights, through the initiative in welcoming the Taiwan opposition leaders. But earlier, they have tried to use pressure tactics in Taiwan that have backfired and there have been shifts and turns in their approach, which suggest they're struggling with a difficult issue without an automatic ability to know exactly how to handle it despite their 5,000 years of history in the region.

If we look at Southeast Asia, however, we see a situation where the Chinese are running circles around us. And not only are they skillfully taking advantage of the opportunities, but we are not playing a skillful hand. In part because of the factor I mentioned at the beginning, which is the end of geopolitics and the intrusion of domestic factors, we have a situation where essentially the Burma tail is wagging our ASEAN dog. We have been unable to engage effectively with ASEAN because of the problem of Burma and, at a time when it's very much in our strategic interest to try to promote ASEAN cohesion, we have in fact been doing exactly the opposite by resisting working with ASEAN collectively and instead preferring to pursue bilateral ties on the trade front and in other areas with ASEAN countries, which doesn't contribute to ASEAN cohesion.

The Chinese, in contrast, have done a remarkable job in defusing what should have been a much stronger reaction to China's emergence in Southeast Asia, where it's been evident for a long time that the concept of China

as an economic threat and as a security threat had just as strong roots as it does in the United States. But China has essentially defused these attitudes in ASEAN without eliminating them. And it's done it through a whole series of initiatives, including an ASEAN code of conduct for the South China Sea in 2002, the formation of a strategic partnership with ASEAN in 2003.

People earlier referred to the Chinese move with Indonesia, where they've concluded again a strategic partnership and China is now becoming a source of advanced weaponry for Indonesia, while we are forced to sit on our thumbs because of congressional restraints on what we can do. This was particularly striking because the president of Indonesia was just here and gave a witty and sophisticated speech, in English, which is a result of the fact that he went to military training in the United States. He's the last Indonesian president from the military who could possibly do that, because we cut off such training and Indonesia's senior military now don't speak English and don't understand us. And this is a very serious problem.

A final factor is, at a time when we really need to consolidate our relations with ASEAN, it was not simply in ASEAN that Secretary Rice's absence from the ASEAN Regional Forum was noted. I found Koreans, Japanese, and others all commenting to me on the significance of that absence and what it says about the way the United States is responding.

So what we see, I think, is that China's emergence is in a fundamental way changing our relationship to the region. It is not in any way making us an unimportant player, but it is increasingly leaving us in the position

of a semi-outside player instead of an embedded element in the region. And this has significant implications.

The additional problem we see is the potential now for a bifurcation in Northeast Asia because China's emergence is having the opposite impact on our security arrangements with Korea and our security arrangements with Japan. It's weakening our security ties to Korea and it's strengthening our security ties to Japan. And the potential there for a division which would adversely affect the outlook for East Asia is very significant.

An underlying problem, which probably is not true but which is the Asian view, is that the United States lacks a strategic approach to the region. This is a shame because, frankly, the United States has a stronger hand to play in East Asia than China does. We are the distant power that, under classical Chinese precepts, is the party that the regional players should reach out to because of China's emergence, and it's not playing out that way. And this is one, I think, of the most significant effects of China's emergence in the region.

Thank you.

[Applause.]