

*East-West Center/US Asia Pacific Council
7th Annual Washington Conference*

U.S.-Asia Pacific Relations: Transitions In a New Era

May 6, 2010

Introductions and Opening Remarks

“China and the United States Congress”

Speakers:

Dr. Charles E. Morrison, President, East-West Center and International Co-Chair, PECC

Amb. J. Stapleton Roy, Chairman, U.S. Asia Pacific Council and Director, Kissinger Institute on China and the United States, Woodrow Wilson International Center for Scholars

Hon. Rick Larsen (D., Washington), Co-Chair, U.S.-China Working Group, U.S. House of Representatives

MORRISON: I'm very happy on behalf of the host organization, the East-West Center, to welcome you. So many of you are close friends, personal friends and also institutional friends of the East-West Center and friends of our mission, which is to promote the U.S. relationship with the countries of Asia Pacific.

We've been doing that for 50 years. In fact, next week is the 50th anniversary of the legislation that created the East-West Center. So that's why there are all the banners inscribed with "50."

We've been having a great celebration, so far mainly in Hawaii and also in Hong Kong and today's conference is indeed one of the main events of our 50th year celebration.

The East-West Center created the U.S. Asia Pacific Council seven years ago. It was created as a national institution of Americans who are dedicated to construc-

tive engagement and the relationship with the countries of Asia Pacific. This is a very broad region that goes from Pakistan, Afghanistan and sweeping through the Pacific Islands up north to Japan, Korea, and China.

We've been having annual meetings since 2003. I believe this is the only kind of regularly scheduled annual meeting on U.S.-Asia policy in the Washington area in existence today.

When the U.S. Asia Pacific Council was created we were looking for a leader, and the logical chair was Amb. J. Stapleton Roy. Amb. Roy is a career diplomat. He has served in eight of the APEC economies including the United States, so he possesses great experience around the region. This also included four years as Ambassador to China as well as for shorter periods, Ambassador to Indonesia and Ambassador to Singapore. We're very grateful for his leadership and we now turn to him to open the program.

ROY: Good morning, thank you, Charles, and Congressman Larsen, glad to see you here. The theme of this year's conference is "transitions in a new era" and I think it's very appropriate. World affairs don't move in a smooth process. They move by fits and starts, by great lurches, like earthquakes that direct rivers into new courses.

Such an event was the U.S. breakthrough to China in 1971. It directed the Cold War into a whole new direction. A similar event was the collapse of the Soviet Union in 1991. The Asian financial crisis pushed East Asia in a new direction with the formation of all-Asian institutions that did not include the United States, which was an important development. And I would argue that the global financial crisis is such an event as well.



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One of the results of the global financial crisis has been to bring the Asia Pacific region to prominence, not simply because of China's rise, but more broadly because the Asia Pacific region has recovered from the impact of the financial crisis more successfully than most other regions of the world.

China grew at a 9 percent growth rate last year. It's projected to possibly exceed 10 percent this year depending on the degree of success of the Chinese government in slowing down the economy.



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The region is a success story in many, many ways. We had democratic elections in Japan and Indonesia last year.

In Japan these are not a new event, although the results of the elections were new because you had a landslide victory for a party that ousted the Liberal Democrats from power for the first time in nearly 50 years, except for a brief period in the early

1990s.

But in Indonesia it is a relatively new phenomenon to have free and fair democratic elections, the third in ten years. This is the first time that a president in Indonesia was elected by direct vote and we have seen what most people didn't expect—an active electoral process in which multiple Islamic parties participated, no strengthening of radical Islamic parties, rather a strengthening of centrist forces in Indonesia. This has been a remarkable development.

We also have to remember, however, that East Asia in some ways is the most dangerous region in the world because of the existence of issues that could produce great power confrontation, something that's absent from most other regions of the world. So this region is really important.

And it's important that we now have a president who actually came from the Asia Pacific region, grew up there, speaks Bahasa Indonesian, lived in Hawaii, understands the importance of the region.

The region brings together some core United States interests. We're going to be discussing the security relationships we have in the region, we'll be discussing economic relationships, and we'll be discussing the trade relationships. I hope that in the course of these discussions we'll get some new insights into how the United States should be relating to these issues.

The trade issues are of particular importance and we

have a very strong panel that will be talking about the trade issues after lunch. It's an area where perhaps the United States is not as clearly focused as we should be. We really need a clear trade policy for dealing with the region and I hope that we'll be seeing positive steps in that direction during the course of this year.

Nobody could be better at introducing the themes of this conference than Congressman Rick Larsen. He hails from Washington State, which is a state that does not have to be told about the importance of the Pacific. It faces the Pacific. He graduated from Pacific Lutheran University, he has been active on Pacific issues, and he's the co-chair of the U.S.-China Working Group in the United States Congress.

He's completing his first decade in the United States Congress this year. I hope there will be further decades ahead. I think there will be. If you are attuned to the political world you will realize that Congressman Larsen was destined to come to Washington, D.C. because he was born in Arlington, Washington. That combination of names, it seems to me, was probably worth at least \$1 million in campaign funds in terms of ensuring, Rick, that you would end up here in Washington, D.C.

But you have paid attention to the issues that this conference is about and please join me in welcoming Congressman Larsen to kick off the conference this morning.

LARSEN: To be honest, my Arlington, Washington is a much more pleasant place to wake up than the current one. I want to thank the East-West Center and the U.S. Asia Pacific Council for inviting me to give a keynote talk.

There are some points I want to make about the U.S.-China relationship. And you'll note the agenda says that I'm going to talk about "China and the United States Congress." So the first thing I want to do is apologize to all the countries I don't mention in my talk. But I'll mention New Zealand, in particular, because Amb. Roy Ferguson, New Zealand's ambassador to the United States, is here and we are good friends.

As Stape said, in Washington State we do not wake up looking east to Chicago or New York or even to Washington, D.C. We wake up looking west across the Pacific, across that large swimming pool to our neighbors' backyard—just as we believe that many of our friends in the Asia Pacific wake up looking east into our backyard across that swimming pool.

As a result, I've spent a lot of time in my ten years in Congress focused on the U.S.-China relationship, in particular. However, in my office we are beginning to spread our wings a little more to look at other countries in Asia and other relationships there.

But the countries of the Asia Pacific are at a very

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important political crossroads and the United States has to continue to foster strong cultural, diplomatic, and economic relationships with the region as we move forward.

The implementation of our commitment to the region certainly didn't start with the Obama administration, didn't start with the Bush administration, or even the Clinton or earlier administrations. But I think over the last 15 months we've seen a real heavy interest from the Obama administration in developing a relationship with China, but also with the rest of the Asia Pacific.

Engagement Agenda

This engagement agenda, echoing Secretary of State Clinton's speech in Hawaii at the East-West Center this past January, means that the United States will continue to engage Asia through multilateral organizations such as



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APEC and with multilateral organizations such as ASEAN. This engagement agenda also will ensure substantial commitment to our bilateral relationships in the region and particularly with China and I want to talk a little bit about that.

I believe a positive U.S.-China relationship is critical for our nation and critical for the Asia Pacific region. Last year was an extremely important year for this relationship. In 2009, there was actually no other country with which the United States engaged more than China. If you look at the numbers of cabinet-level visits and other diplomatic visits there was no one country with which the United States was more deeply engaged.

And as the world's largest developed country and the world's largest developing country, the United States and China can work together to assist in solving many issues facing that region and the globe—but it takes developing that relationship.

U.S.-China Competitiveness Agenda

As an example of what we're doing in Congress, last

year, four members of the U.S.-China Working Group, myself, Rep Mark Kirk [R., Illinois], Rep. Susan Davis [D., California], and Rep. Steve Israel [D., New York], introduced four pieces of legislation aimed at furthering this relationship with China, something we called the U.S.-China Competitiveness Agenda.

These bills would do a variety of things. They will expand the U.S. diplomatic infrastructure in China, increase assistance for small- and medium-sized business-

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es to help them export their products overseas, boost domestic Chinese language programs, and dramatically expand U.S.-China energy cooperation.

All of these bills have not become law, but there have been many strides to further this particular agenda. The President has rolled out his National Export Initiative aimed at helping American companies and, particularly small businesses, export their products overseas, including to China.

Additionally, the U.S. footprint in China has expanded to five consulates and ten virtual-presence posts. The President has introduced his "100,000 Students in China" initiative, and the U.S. and China have signed a memorandum of understanding on energy cooperation.

Moving forward on these issues is important for the bilateral relationship and shows the importance of engaging the Chinese on matters important to both countries. But also note that many folks in the foreign policy community and critics of both the Bush and Obama administrations criticize them for not hitting enough home runs with China.

In fact, building a successful relationship is more about hitting singles and maybe attracting a few base home balls and scoring one or two runs at a time as opposed to scoring grand-slam home runs. I think playing a little "small ball" once in a while is not a bad idea when you're trying to develop a long-term relationship.

Storm Clouds

However, there's been a few storm clouds over the last several months with the U.S.-China relationship starting in December 2009 and moving into January and February of this year. These episodes include the Copenhagen climate-change summit, where there almost was a tussle between the United States and China, the Taiwan arms sale, the President's meeting with the Dalai

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Lama, Chinese currency issues, and what is known affectionately on Capitol Hill as the Google issue, just to name a few issues that have caused some turbulence in the relationship.

In fact, I'd describe this period as the beginning of a roller coaster ride. If 2009 was the ride up to the top of the roller coaster on the chain, the end of 2009 and into 2010 was hitting that crest and then screaming down that first hill. However, I would say using that same analogy, that we've now sort of hit the bottom of that screaming hill and we're starting to level out that relationship a little bit more.

We've seen that certainly over the last month and a half with the nuclear security summit, the conversations that have been publicized between President Obama and President Hu as well as in a deliberate effort to try to move on to a more stable phase because of a lot of things that we need to be doing.

Changes in Business Attitudes

But it also is important to note a significant change in American business attitudes. Earlier this year, the American Chamber of Commerce in China, or Amcham China, did a survey of its members. The group polled 203 of its member companies about the current business climate in China. It found that the percentage of companies that feel unwelcome to participate and to compete in the Chinese market jumped to 38 percent in 2010. That was up from 26 percent in 2009 and 23 percent in 2008.

This is the highest level of dissatisfaction recorded by Amcham China since it began recording this information four years ago. This growing unease among the American business community includes concerns about two major policy directives being pursued by the Chinese, both of which have substantial negative impacts on U.S. companies doing business there.

Chinese Policy Directives

The first major policy concern is something called the "indigenous innovation policy directive," which was released by three Chinese ministries late last year. The directive requires the intellectual property of any product procured by the Chinese government to be developed and owned in China.

The second policy concern that has received the most attention is China's currency peg—although I would argue that as important as China's currency policy is, it may not be the most important issue. China's kept the currency peg at 6.83 yuan per dollar since 2008 to help its exports. A Chinese revaluation would help increase U.S. exports into the Chinese market, create jobs here at home, and, frankly, is one of the last policy tools China has to

deal with its growing inflation problem.

Over the course of this year, both the administration and the U.S. business community have been very articulate in expressing their concerns to the Chinese government about these two issues as have Members of Congress.

Last December, Rep. Kirk, my colleague on the U.S.-China Working Group, and I sent a letter to the Chinese ambassador regarding the indigenous innovation policy and also spoke with the ambassador over the phone about the currency matter. I know other members have expressed concerns about these issues as well.

Pressure from Washington

Treasury Secretary Timothy Geithner visited with Vice Premier Wang Qishan in Beijing last month to underline currency concerns. Other U.S. Federal agencies, including the Departments of State and Commerce and the Office of the U.S. Trade Representative, have consistently met with their Chinese counterparts given the importance of these and other issues.

We have begun to see some movement both in fact and in rhetoric. First, over the last few weeks Chinese officials have publicly stepped back from their very aggressive rhetoric opposing any currency reform. In fact, on April 13th, President Hu Jintao indicated that China is, "determined in pushing forward reform of the exchange rate formation system of the renminbi." That's, at least, how it was translated.

While this issue is not yet resolved, the evolution of China's public statements, from outright opposition to currency reform to opening the door to the possibility of a non-pegged currency, is an indication that consistent engagement and dialogue has begun to pay off.

Second, in mid-April the Chinese Ministry of Science and Technology released new rules regarding the indigenous innovation policy that ease restrictions on the procurement of high tech products. Again, this represents an important step forward and an indication that concerns expressed by the administration, the business community, and, frankly, Members of Congress are being heard in Beijing.

Acknowledging Progress

In response to these changes we wrote a follow-up letter to the new Chinese ambassador acknowledging these positive steps and encouraging continued dialogue on these issues. I think it's important to communicate when things are challenging, but it's also important to communicate when things get a little better. We tend to always do the first and forget the second.

So while there are still several steps that the Chinese

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must take, I would argue that some of the directions they are taking on currency reform and indigenous innovation seem to be positive. On two key issues facing the U.S.-China relationship, sustained dialogue and engagement by the administration and others have produced some deliverables this year.

Near-Term Engagement

Over the next few months, the United States and China will have numerous opportunities to build on some of these “small ball” successes and further the engagement agenda. Later this month Secretary Geithner and Secretary of State Clinton will lead the U.S. delegation to China for the second iteration of the U.S.-China Strategic and Economic Dialogue. Commerce Secretary Gary Locke will lead a trade delegation to China this month as well.

President Hu has accepted President Obama’s invitation to travel to the United States for a summit meeting at some point this year, which would follow up President Obama’s visit last fall to Beijing. I’m probably not going to China this year. I’ve got my own places I need to visit this year, namely Washington State’s Second Congressional District, so I can fulfill Stapleton Roy’s vision of further serving in Congress. But one member of my staff just returned from an eight-day visit to China and another is going over the Memorial Day holiday.

Building on “Small Ball” Successes

So as I said, we don’t really need to be hitting home runs every time we get up to bat. Stringing together some singles, some doubles, some walks, with an occasional base-clearing triple is just as effective for putting runs on the scoreboard. And this engagement approach, while frustrating at times to outside observers, has the potential to lead to long-term successes. Certainly, the United States is committed to that and it seems the Chinese also share that view.

QUESTION AND ANSWER PERIOD

STANLEY O. ROTH, The Boeing Company: Over the past few years, you and others led an incredibly successful effort in Congress to block legislation that would have had a very deleterious effect on U.S.-China relations. My worry this year is the possibility of an intersection of geopolitical problems and economic problems.

You spent a lot of time discussing the economic side. But we have serious challenges posed by the nuclear programs of Iran and North Korea. If China is seen on Capitol Hill as not being helpful or even being obstreperous on geopolitical issues, do you think we might begin

to see an alignment of people disappointed with China’s behavior on national security issues with those who are disappointed with Beijing’s management of economic issues, the end result being very harmful, anti-China legislation?

LARSEN: Thanks for the question, Stanley. The short answer is no. I really don’t see Members of Congress making that connection. The concern about China’s currency policy is all about the trade effects and U.S. jobs—it’s all economics. My colleagues really do not seem to be making a connection between any actions—or lack of action—by China on Iran and the currency issue.

With respect to the currency issue, I think it’s telling that Rep. Sandy Levin (D., Michigan), chairman of the House Ways and Means Committee, reacted the way he did when the Obama administration indicated that the release of its biannual report to Congress on exchange

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rate policies would be delayed. [It was supposed to be released on April 15.]

Chairman Levin said, and I am paraphrasing, that the delay certainly sounds reasonable because there is a lot of work and discussions taking place. He said that his committee would revisit this issue in June. I think his reaction is important for two reasons.

First, Sandy Levin has been a very strong critic of China for a variety of reasons, but he’s willing to create some political space there. The second important point is the June time frame. I would argue that this presents the Chinese government with an incredible opportunity to look hard at currency reform. But that window might close because of political developments here.

In addition, and I alluded to this in my remarks, China doesn’t need to do this for any other country but China. They’re running out of policy tools to deal with inflation. And one of those tools, in fact, is currency reform.

CHRISTOPHER NELSON, The Nelson Report: Concerning the motive behind a currency bill, if the ideal happens and China revalues to some percentage, do you think the debate in Congress will shift to reindustrialization? I ask you because it’s never been quite clear to me how many Members of Congress buy into the notion that if China does the right thing for China, that, it turn, will

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enable us to recapture industries and domestic markets that we lost years ago.

LARSEN: I would say that every Member of Congress I know is extremely sophisticated—particularly in understanding how things affect our districts. But let me give the serious answer.

Regardless of what China does, we in the United States still have to realize some control over our structural budget deficit, bring the deficit to GDP ratio down to something sustainable, and move the debt to GDP ratios down to something that's sustainable. It's not up to any other country. It's up to us to do that.

Regardless of what China does on currency, we ought to be investing in an agenda that makes us competitive. Stape mentioned a trade agenda. A trade agenda is great, but a trade agenda is not a competitiveness agenda. A trade agenda is about trade.

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Being competitive is about negotiating trade agreements, but it's also about investing in research and development, establishing a permanent R&D tax credit, conducting basic research in our universities, and investing in infrastructure, especially at our ports and rail facilities. Competitiveness also is about investing in clean and renewable energy and building a manufacturing base. So in my view, we should be doing all of those things anyway and we shouldn't be looking to any other country for an excuse not to do it.

But getting back to the currency issue I also would say that it's important that the United States not be the lone voice urging currency revaluation in China. A multilateral approach and a variety of voices on currency is very important as well. It's not just a U.S.-China issue. What China does has an impact on a lot of its neighbors. So in the end, I would argue it's still a good economic policy move for China to revalue its currency. Thank you. ♦