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PRESENTS

THE FUTURE OF POLITICAL REFORM IN CHINA

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1:00 P.M.

LUNCHEON KEYNOTE:

SENATOR CHUCK HAGEL (R-NE)

Q&A PERIOD

*Transcript by:
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JESSICA MATHEWS: I hope you enjoyed lunch, and I'm sorry for the crowding but this has been a conference that really exceeded our expectations of interest and certainly has been well worth it already.

It's a great pleasure to introduce Senator Hagel. I think most of you know the bare facts. The bare facts are that he is the senior senator from Nebraska serving his second term; a member of the Senate Foreign Relations Committee, the Banking and Housing Committee, and the Select Committee on Intelligence. He is also the chairman of the subcommittees on Trade and International Economic Policy of both the standing committees. Those are the bare facts. The more important things to know are that he is recognized as being one among a handful of the most broadly and deeply knowledgeable members of Congress on international affairs, that he is hardheaded and feared – fair about – (laughter). No, you laugh too soon. Hardheaded about American interests, as nonpartisan in spirit as a member of Congress can be these days, and unrelentingly international in his outlook. And as such, we value his leadership enormously.

I should mention also that he co-chairs the Congressional Executive Commission on China and therefore it's a particularly – we're particularly grateful for his agreement to come today in the middle of what is a very, very rushed day for him. But let me not take any more of his time, but introduce Senator Hagel.

(Applause.)

SENATOR CHUCK HAGEL: Jessica, thank you very much. Jessica, thank you very much and good afternoon. I feel reassured already seeing my dear friend and senior member of the Nebraska congressional delegation, Congressman Doug Bereuter, sitting down in front. I just feel not only more welcome, but more secure knowing that –

MS. MATHEWS: He can come sit here.

SEN. HAGEL: – he is here. He actually has given this speech, I suspect, many times on many occasions for many reasons, and I would tell you, as I noted to him a little bit ago, I was at NATO last week where I presented a speech – some thoughts about the future of NATO, and to assure my warm reception, I used Bereuter's name, and there were flowers and embarrassing acclamation. (Laughter.) But I mentioned there, as I will here, it will be a great loss for this country, for the Congress, and for me personally when Doug Bereuter retires at the end of this year at the end of his 26th season in the major leagues. And this country has derived a great deal of good, wise counsel from Doug. So that's enough, I recognize, about Doug Bereuter, but – (applause) - Doug Bereuter.

Many of you may know that Doug is also on the same commission that Jessica

referenced that I serve on: the Congressional-Executive Commission on China. In fact, Doug was the co-chairman of the last Congress, so he understands a little bit about the commission since he was one of the fathers, and certainly understands an awful lot about what you are doing here today.

Jessica, thank you for allowing me an opportunity to be here and share some thoughts. I really look forward to spending most of the time getting some sense of what is on your minds out there in a question and answer period, and I'll be glad to respond if I can and would look forward to getting your thoughts and advice on a number of the big issues that you are dealing with today.

I have noted on the agenda the stellar speakers – participants that you have had already and will continue to have. Obviously that is what has brought so many of you out today to participate in this, and I want to thank the endowment and you, Jessica, for hosting this and continuing to expand and deepen the process – not only the educational process on these issues, but also the development of new themes and theories and ideas that we never have enough of, so thank you.

MS. MATHEWS: Thank you.

SEN. HAGEL: I want to present some broader themes, at least from my perspective, on China: the U.S. relationship with China, the potential for China, the role of China in years to come, the challenges for China, and then with that we have a good jumping off point for questions, and I will assure you that with the time you have given me we will have sufficient time for questions.

I have believed for some time – actually before I became a United States senator, when I was a businessman and first went to China, arriving in China on New Year's Day 1982, and been back to China many times since as a private citizen and as a senator, that the future relationship of the United States with the People's Republic of China is one of the three biggest challenges this country has over the next 25 years. I say that for all the reasons I suspect you all might agree. The immensity of this nation called China, the potential, the resources, every category of measurement leads one to believe and maybe anticipate that China will be a great power in the world, maybe even a dominant power in the world. I believe that is possible. I don't believe that is reality yet. I don't believe it is near that point yet, and I may be wrong, but I think the potential for China to become a great power will depend partly on its relationship with the United States.

We, the United States, can't impose a peace in the Middle East. We can't rebuild Iraq or Afghanistan alone based on our principles, based on our standards. It requires a far wider, deeper understanding of history and culture and great power limitations among other things, and so we should apply the same formula to our relationship with China. I am very quickly out of my element in speaking too deeply. I can speak broadly, that's what senators do -- (laughter) -- broadly but not very deeply about China. You all are expert in these areas. The speakers you've had so far are the real experts, so I acknowledge my limitations here, but part of what I've tried to concentrate on over the

years I've been in the Senate, and before that as a private citizen and businessman, is the general dynamics of China, the future of our relationship, and like you all understand, you must begin with some appreciation of an individual or nation or institution's history and its culture. And we in the United States are too often impatient and don't spend the time required to focus on a culture, a history, a tradition, ethnicity or religion. And I do not know of a culture that requires more study and understanding for building a future relationship than the culture represented in China.

One of the observations I had when I first went to China has stayed with me since that arrival date on New Year's Day, 1982. China was not one monolithic country. It was not one monolithic government. It was defined in many ways, and that observation has helped me to appreciate what China is and what China can become, and when you step back over the last two centuries and recognize what the Chinese people have had to endure through great disorder and great mismanagement of a country and its resources, you get some sense of what the Chinese people are dealing with today, and the challenges facing the fourth generation of Chinese leadership.

The Chinese government is not only challenged with but charged with developing this country in a positive way. There's great hope, it seems to me, both internationally and I suspect within China, that this new leadership represented in President Hu and Premier Wen represents a more sophisticated, more dynamic, more intelligent, technological, and worldly leadership than China has ever had. The potential is significant. Certainly it's significant that each of those two Chinese leaders has been here in the United States in the past two years and each has traveled considerably over the last year. I think those are hopeful signs. Entry into the World Trade Organization is also a hopeful sign. Any time, in my opinion, that nations can be brought into international regimes that are connected to international responsibilities, that's good news. And there are many other measurements. Hong Kong's political development is important. Expanding use of the Internet in China is good news.

On the not-so-good news side of this is still a reluctance to let go. Meaning what? Well, still being captive to the same sense of control over its citizens and over technology that we have seen in the past. Certainly the increased arrests of Internet essayists over the last year is one example, but if the full potential of this new leadership is to develop – meaning the future of China – it is going to have to come as a result of reformist courage in these two leaders and those they represent. Now, recognizing it isn't as simple as just these two leaders. We all know that. But it is going to take a rather considerable amount of courage coming from President Hu and Premier Wen if the PRC government is to accept change. Not overnight, but in ways that Chinese society, culture, infrastructure and institutions may both be prepared for, and willing to accept. I don't know where that goes. Many in this room are far more expert than I am to answer that question, but I do know this: the United States has no choice but to work very closely with the Chinese government and with the Chinese people. It is, first, in our interest – clearly in our interest to do that.

When you look at the economic challenges that confront the Chinese, the good

news is that the leadership has been partly defined by those economic challenges and issues, and the realities that drive a certain amount of their policy decisions: feeding, clothing, and employment for 1.3 billion people. Not an easy task. Some rough estimates place unemployment as high as 20 percent, nearly a 170 million people. That's a good chunk of America.

So these economic realities are driving the PRC government into directions I suspect that at least some within the Communist Party have not wanted to go. Corruption is still very much a factor, as you all know, and may be the greatest challenge to internal reform that the Chinese are facing and will continue to face. That's not unique to China. That is an issue that our South American friends continue to deal with – countries all over the world. But the size of China makes it more significant. It is, it seems to me, very much in our interest for the United States to continue to work broadly and deeply with the Chinese using all the bridges and opportunities to help shape and mold a direction that will be responsible.

China will not match America's interests on every issue – we're still working with the French on that -- but it will be up to the Chinese, as it will be up to the Iraqis and the Afghanis and others, to determine where their country goes and how it gets there – what kind of government each will have and how they will use their resources. When you step back for a moment and examine the economic realities and great challenges these new leaders are dealing with – nearly 40 percent of the oil now used in China is imported. In the early '90s, China was a net exporter of oil. Steel. Liquefied natural gas. This is forcing China to look outside for resources that heretofore have not been an issue. They have been able to sustain the required measurements of progress by their own definition, but that is no longer the case. Membership in the WTO is another dynamic. Now, they have a long way to go before full WTO compliance is realized, but overall the assessment, at least in my mind, is positive. And I say that because every time I go back to China, as many of you are in and out of there often, I see progress. In some cases I see impressive progress.

We also need to recognize that the size of this country and what this country has been through – just take a small piece of their history, the last 200 years – the people – you can't turn that or shape that or mold that in one generation of leaders or two generations of leaders -- maybe not four, maybe not five. But as long as it's moving in a dynamic way where every year it is becoming closer to an island of responsibility, then that's progress. That's significant.

It seems to me, too, that the integration of their interests into our interests and the integration of China's interests into Asia – Southeast Asia – is absolutely critical, and we're seeing more and more of that. You're seeing it through many vistas, through many optics. Participation of the Chinese government in various forums in Asia and Southeast Asia including defense forums and other forums, where five years ago they were not present is progress – all significant progress.

The defense dynamic, including the political role of the military, has not gone

away or maybe even diminished, but it is getting beyond where the military can dominate decisions, partly because it is in the interest of the Chinese for their future. Like all efforts diplomatic, it is critically important that we, the United States, continue to anchor our relationship with China around the common interests that we have with China. Certainly trade is one. But there are also other interests: human rights and religious freedom. These are areas where the Chinese in some cases have actually lost ground. We will not be able to turn the Chinese on these big issues until we have a relationship strong enough, confident enough on the common interests so that we will have some significant input into the differences. And without the common interests that we can build on and around, there are very limited prospects for our efforts to work with the Chinese on the differences in a positive way that gets us to where the world wants to see China.

These are not profound thoughts or suggestions or observations; they are ones that have been with the world for a long time and they have been components of our foreign policy and international relations for a long time. I have, over the last couple of years, been somewhat critical of some of our foreign policy in this country in that we, in my opinion, have dangerously veered away from internationalization not only in Iraq, but in other places that has undercut the United States' ability to influence outcomes, aside from the other dangers. And I think China in a more subtle way is a very clear example of that.

The issue of Taiwan is one that we have to be careful with. Again, it is not the role, nor can it be the role, of the United States to dictate policy to Beijing, nor can it be the United States' policy to dictate policy in Taiwan, but not unlike many other regions of the world that are in more pronounced conflict, like the Israeli-Palestinian issue, without the United States' involvement and wise counsel and effort to build bridges, then there's probably little likelihood that things will get better. A delicate balance always, but that's what diplomacy and international relations are about. As you know, it's never a perfect choice and often it's not a good choice, but it is a reality of the world and our responsibility and privilege at this time in history to help shape events as we did – like very few countries in concert with their allies have done since World War II. These times in history do not come often. And I think we live at such a time. The Chinese are a very big part of that and this will impact, in my opinion, the future course of China, its role in the world, and its responsibilities in the world.

Well, now that I have, like a true United States senator, meandered all over and said nothing, I'd be glad to respond to anything that you want to talk about. Anything that's too tough I'll ask Doug Bereuter to address.

Yes, sir?

Q: Wayne Jaquith (ph). Every year or so, China, Russia, and many other countries approach the United States in Geneva to negotiate an agreement to prevent the weaponization of space and every year they get rebuffed by the United States, and so you think that it's in the long-term interest of the United States and our relationship with

China and others to enter into an agreement that would provide for the peaceful use of space, or by our example to challenge them to an arms race in space?

SEN. HAGEL: That issue is as important an issue as we will deal with over the next few years. We're dealing with it now. To defer, whether it's an agreement or more importantly to defer an active discussion on that issue, is not in our long-term interests. Now, we have many interests. We have geopolitical interests, including space. Defense capabilities, commercial capabilities, and so on. That general issue that you ask about is one that we've essentially deferred in many ways, not just with the Chinese, but others. And partly we've deferred it because we haven't had to deal with it because there has really been no one – the Russians were the only ones, or the Soviets before – that contested us in a way that was in any way a potential threat or a threat to us in outer space. The Europeans were our allies – are our allies, and their space endeavors were pretty much connected to ours, and so it wasn't certainly ever perceived in the last 50 years that they were threats.

The Chinese represent a certain new dynamic to all this, and I guess the bottom line to me is we can continue in some way to defer, and eventually through an uncontrollable process push toward an adversarial relationship, which is very dangerous for the world, or we can be a little wiser and more aggressive and try to shape a partnership. Maybe a friendly rivalry, or however it's going to be classified over the years, but certainly we do not want to let go of a process, through deferring it or any other reason, that will allow us to drift into an adversarial relationship, and that's one that we have to be careful with.

Thank you.

Q: Michael Swaine, Carnegie Endowment. Senator Hagel, we recently witnessed a situation when Premier Wen came to the United States in which the president publicly cautioned the president of Taiwan against taking actions that would change the status quo regarding the China-Taiwan situation. Since that time, there has continued to be developments on Taiwan that some people regard as very concerning. We've all been around the idea of a referendum and then possibly subsequently if President Chen is reelected, the establishment of a new constitution, which could be viewed by people in China as fundamentally altering the status quo across the strait by altering the basis of sovereignty of the Taiwan state.

How concerned are you about this whole train of developments and how – how activist do you think the United States should be in not just deterring China from using force, as we've been doing for many years, but also deterring Taiwan from doing certain things that we think would fundamentally threaten the status quo?

SEN. HAGEL: I think we have to be very concerned about it. I think our government is. There's some good news. You noted on the referendum that President Chen has redefined that referendum. It's now stated a little differently – the two main questions. But nonetheless, it represents a threat to a process that's actually worked

pretty well since 1979.

I'm a supporter of the one-China policy, and we all know that's our government position, and I – as a United States senator and as a citizen support it. I think it is the wisest process that we now have. If there is a better process, I would hope you would let Secretary Powell know about it, and he would welcome that effort.

It is the most responsible, accountable process we have to almost evolutionize a problem. I believe it will work. Look at the trade, look at the bridges, and the exchanges that have occurred between Taiwan and mainland China over the last 10 years -- very significant. We can't dismiss that. Still a lot of problems, still a lot of inequities, still a lot of issues that need to be dealt with, but I don't think anyone envisioned that this was going to be changed or dealt with in any finality over a defined period of years. It's going to require responsible leadership on both sides. The U.S. is, I think, the only broker in this that is somewhat trusted. I don't know how the People's Republic of China defines its trust in our government, but I think as much as they would trust anybody, they'd probably have some confidence in us. And we have a role to play; we should play that role.

As I stated and you mentioned, we cannot dictate the terms to anyone, but we certainly can't back away because it is far too dangerous, not just to our interests, but for all of Asia and the Pacific, particularly all the consequences that would surely come if this would get out of hand, but I have some confidence that we're moving back in some right direction here, but it is one of those issues that requires a constant, clear-headed understanding and maintenance and effort and leadership to keep it moving in the right direction.

Yes? That's okay. You go first and we'll –

Q: Sure. Naison Mahubi (ph), visiting scholar at G.W. Law School. Let me start by expressing my respect for the care and deep nuance of your comments. The concern, of course, is whether there's a similar level of thoughtfulness elsewhere on the Hill, and there's a – (laughter) -- there's a great story, which I am sure everyone is familiar with, by your former colleague, Ambassador Sasser. When he was in Beijing and he was welcoming a congressional delegation to Beijing and the Chinese host gave a very elegant and gracious introduction and the first question that was put to him was, have you accepted our lord Jesus Christ as your personal lord and savior? The question is, that level of – the level of disconnect that's embodied in that sort of interaction, do you think that that is still prevalent on the Hill? B, does it matter? And, C, if it does, what can you and what can we do to change it?

SEN. HAGEL: Well, first we'll recall Bereuter's retirement. We'll have to bring him back. Doug Bereuter, Jim Leach – by the way, I wanted to mention Jim because he's chairman of the China commission and he is one of the stalwarts in understanding how this fits and I admire him and always look forward to working with him. But I do have two comments: one, and it goes to what I mentioned earlier in my remarks, we don't do a

very good job in Congress studying these issues. We don't understand these issues enough, and that's a responsibility we have as members of Congress who are charged with being part of policy development and making. And that's where I would begin: we need to understand the issues deeper than we do. That requires a lot of attention, a lot of time. Doug knows better than anyone that this means actually traveling rather than making a speech on the floor of the Senate, and avoid castigating or bringing someone up short when you've never even been in the country. That's what has to happen, number one.

Number two, it seems to me -- and Doug and I both share this in Nebraska -- here we come from a state of 1.7 million people, an agriculture-based state, and Doug and I've often been asked, well, Congressman and Senator, why do you spend so much time at NATO or understanding China or some of these other issues? And what Doug and I have tried to do, and he's done it a lot longer than I have and been successful at it, is connect what we're doing with the interests of the people we represent. Is it in the interest of the people of Nebraska that we get this relationship with China right and we develop trade and all that comes from a good relationship? Absolutely it is, aside from the military and the security component, because our kids from Nebraska go serve and die in foreign lands during conflict and war just like anybody else's. So you can make the case that what we are doing and attempting to do with China and other relationships is in the interest of those we represent. And I think that's another piece of this. We often don't make this clear enough in the Congress.

And I recognize that you have to have an interest to do that and a commitment to do that, but that also gets me to the other point I wanted to make on this. These day-long seminars and meetings and conferences are very important for many reasons, but one reason is if you can translate your outcomes and results to the local level in Nebraska or Illinois or Maryland or wherever, that's absolutely important because our politics work from the bottom-up. Bereuter and Hagel respond to our constituents and if we have a strong constituent base informed on these issues or at least aware enough to ask questions, then that helps too.

Yes?

Q: I'm come from China as a professor of the Qinghua University. Three years ago I gave a lecture about the -- a talk about the corruption economic costs in the -- there's a real -- I agree your opinion. A big challenge for the new leader is the corruption. My question is, from your side, how to cooperate with Chinese government to anti-corruption? We funded the China corruption more and more -- (unintelligible). Some the officials considers you as like peaceful harbor for the corruption officials. Most corruption officials like to go to the American and other distant country so shift some of money, some asset from the state. What opinion -- what suggestion cooperation with Chinese government? Thank you.

SEN. HAGEL: What suggestions do I have for cooperation --

Q: Yeah.

SEN. HAGEL: – with the Chinese government?

Q: Yeah.

MR. : (Inaudible) – anti-corruption.

Q: Anti-corruption.

SEN. HAGEL: Okay. What suggestion do I have in dealing with the corruption?

MR. : Officials who –

(Cross talk.)

SEN. HAGEL: Oh, I see. Okay.

Q: Not only – (unintelligible) -- corruption case, but also even the top – legal system knowledge and so on, even the academic change.

Thank you.

SEN. HAGEL: Well, that's a very difficult issue because we in the United States certainly have laws to deal with corruption and corrupt officials and that's spread across many regulatory agencies, whether it's the Securities and Exchange Commission, or others. For foreigners entering our country who flee China or any other country, we have to deal with that as well. But when we don't have bilateral law enforcement relationships or extradition treaties it's a more difficult issue.

We can net up some of those people if we have grounds to do it. How are they in the country? Are there warrants for their arrests? China is a member of Interpol.

I think the focus should be on dealing with the corruption issue as much as we can where it happens. Now, we're obviously limited – greatly limited with that, but there are certain standards and regimes that come with membership in international organizations including the WTO, and I think we are placing our focus in more realistic places to work within these bodies to get at the issue of corruption.

Now, we can't change all that – can't change most of it. I mean, Russia's going through, I think, a very corrupt era right now and that's an area that we've not given much attention. Not today, that's not the subject, but that's going to come back to haunt us in many, many ways, through energy relationships and so on. But staying on China, those are the areas where I think we have the most input, can have the most impact, and have the most significant ability to change things.

As you know, we put a tremendous focus on this since September 11th, 2001,

working with countries more specifically focused on how terrorists are financed, but it is a wider net than just that.

MS. MATHEWS: You can take one more.

SEN. HAGEL: One more? Okay.

Yes?

Q: Senator Hagel, you mentioned – I'm Christine Casati, China Human Resources Group, Princeton, New Jersey. You mentioned the need for depth and understanding China-related issues, and there are some influential member of – on Wall Street who have talked about funding a new center – let's say a center for understanding China. Would you welcome such an initiative and would you recommend that it be funded totally privately, or that perhaps Congress could kick in some money to perhaps advance the cause? Thank you. (Laughter.)

SEN. HAGEL: We don't have any money. (Laughter.)

MR. : Borrow. (Laughter.)

MS. MATHEWS: A fresh idea.

SEN. HAGEL: Yeah, you sound like a senator. Borrow it I say.

I've always believed that the most effective avenues and institutions come from the private sector. NGOs, PVOs, trade – any time you can enhance the quality of life for the individual citizen in China, Afghanistan, Iraq, Vietnam, that is important. And you need both, the private sector and the government-to-government relationships, but private investment in countries for all the right reasons I think pays enormous dividends for the future of countries and eventually getting to the core of corruption and dealing with the human rights violations that are significant in China, and all of the other problems that are there in China: individual rights and religious rights.

Getting to those challenges and problems through the private sector in more effective ways than government-to-government is important, because if for no other reason government-to-government is always seen as government-to-government. It's a cold, impersonal – the United States is pushing the Chinese government around. I mean, that's what you get. Great powers are always subject to that, and not without good reason many times, that we're demanding certain behavior and standards from the Chinese government. And so that gives the Chinese government an ability to reach into their own society and say, see, these Americans are telling us what to do again.

So I am a tremendously strong supporter of every private effort that can be made in these areas. I'm a strong supporter of trade, not because it's perfect, not because it is the answer to everything – it's not, it's imperfect. There are a lot of things trade can't do,

but when you can break barriers down in countries you can start realizing change through the optics of people at the other end and through everything that comes with free markets. Trade's not a guarantee. I recognize that, but it breaks barriers down. When people are trading with each other that means normally they're not fighting each other. They call each other names, but usually are not sending armies against each other. In the end I always have believed that it's the private endeavors and efforts that make the most lasting and meaningful changes.

Thank you very much.

(Applause.)

MR. : Good afternoon. It's me again. We're going to start in about 10 minutes at 2:15. In about 10 minutes we're going to start the third panel, so please be prepared for that. Thanks.

(End of luncheon speech.)