

**THE CNA CORPORATION'S
CHINA STUDIES CENTER**

SINO-U.S. RELATIONS: THE VIEW FROM CONGRESS

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SPEAKERS:
REPRESENTATIVE RICK LARSEN (D-WA),
U.S. HOUSE OF REPRESENTATIVES

REPRESENTATIVE MARK KIRK (R-IL),
U.S. HOUSE OF REPRESENTATIVES

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DAVE FINKELSTEIN: We'll go ahead and start our program.

Well, good morning everybody, I'm Dave Finkelstein, the director of CNA's Corporation's China Studies Center. Welcome to the City Club of Washington, which is our downtown headquarters for our various programs.

As you know by now, the mission of our China Studies Center is to provide the public, business leaders and government officials with the best possible insights into the dynamics and implications of a rapidly changing China.

This morning, we are honored, truly honored, to have as our speakers, Congressman Mark Kirk representing the 10th Congressional District of Illinois and Rick Larsen, whose constituents reside in the 2nd Congressional District of Washington state.

They join us this morning in their capacity as co-chairing of the bipartisan U.S.-China Working Group. Established in 2005, the U.S.-China Working Group is dedicated to enhancing congressional relations with the People's Republic of China, enhancing U.S. relations with China, and especially educating members of Congress on the very important issues attended to this critical bilateral relationship.

As part of their mandates, Congressmen Kirk and Larsen regularly convene small working groups to discuss matters of importance in the relationship, and I've been honored to have a chance to participate in them from time to time. They have a tremendous staff working for them. They're great folks and on every important issue in U.S.-China relations Congressmen Kirk and Larsen have really been proactive and on the leading edge of engaging U.S. officials, engaging Chinese government officials and also engaging in a wide range of specialists on the issues of the day.

So without further adieu, I'd like you to join me in welcoming our guests this morning, Congressmen Kirk and Larsen.

Thank you.

(Applause.)

REPRESENTATIVE RICK LARSEN (D-WA): Well, I want to start off by removing the microphone directly from my mouth so it doesn't blow me away here.

Start off by thanking the CNA for inviting Mark and I to speak this morning and we're kind of a tag team show that we tended to do over the last two and a half years.

I think what I'll do, what I want to do is I'll start with a quick overview of what the U.S.-China Working Group is and why and give a quick, quick rundown of three

topics that we addressed while we were in China in this last trip, which was our second U.S.-China Working Group trip. It was my fourth trip as a member; I think, Mark's third trip as a member – but a fourth trip, his fourth trip overall.

We started this U.S.-China Working Group – to give folks a quick rundown on this – in June of 2005 right in the middle of the debate regarding the CNOOC, Chinese National Offshore Oil Company, about whether or not – CNOOC had put a bid into purchasing UNOCAL and was at a competing bid with a U.S.-based oil company. And Congress thought that it had a role in this. And there was a resolution on the floor of the House to say that if CNOOC actually won its bidding, its UNOCAL, it would be a threat to our national security and so on and that passed 380 something to 15, 15 against. Six of the “no” votes were the six Democrats from Washington State, including myself. One of the Republican votes was Mark Kirk.

So we sort of, as I said, in the middle of this we started the U.S.-China Working Group. So I like to say that we bought China when its stock was low, if you will. (Chuckles.) Well, its stock hasn't appreciated all that much in Congress over the last two and a half years, although I'd like to think that if it has appreciated and we've had a little bit to do with it because the U.S.-China Working Group, we created it not to necessarily say China was good or bad or indifferent, but we created it to basically create a space in the House of Representatives where members of Congress could educate themselves about China and bring in their own biases and their own opinions, but at least have the willingness and the openness to hear from a lot of other people, a lot of experts about China so that folks could refine their opinion or confirm their opinion, whatever conclusions they would come to.

And we think through that process over time we can have a better dialogue in the House of Representatives because usually when we have a dialogue about China it's on the floor of the House when it's way too late to have a dialogue about China.

So as part of this, we created two advisory groups, one a business advisory group and the second an academic advisory group, of which members of CNA are members, and so we've received a couple of briefings on a variety of issues from a variety of academics throughout the country over the last couple of years and have had them come in, most recently yesterday. We had Chung Li in to discuss – from Brookings to discuss the 17th Party Congress, and not the Party Congress as a whole as much as what might the standing committee look like on Friday.

So there's, you know, a lot of speculation. One interesting bit of conversation we had over there in China is that – I think, it really hit home for me – is like, Washington, D.C., runs on, basically, speculation about politics. You go to Beijing and you talk about the 17th Party Congress and you can't get anybody to speculate about anything, much less the day that it's actually going to happen, even though it's on the calendar.

And so there is a difference, certainly a difference in styles, and so there's a lot of guessing about what the Party Congress might be and we try to crack that code a little bit while we're over there, rather unsuccessfully.

But I guess there are three things we looked at when we were over there. One, the main goal was to go over there and discuss counter-narcotics and counter-terror cooperation potential. And first and foremost, I'd say there is a lot of potential for counter-narcotics cooperation. When you talk to cops in Beijing or cops in Irumchi, it's like talking to cops in D.C. or cops in Seattle, Washington, or anywhere else in the country.

Cops are cops and there is a lot of cooperation potential, and we're doing some now on counter drugs, but there is a lot of potential as well, including continued training with the DEA, the Drug Enforcement Administration agency to train Chinese police in counter-narcotics operations and we had a chance to talk to some of the folks from the National Narcotics Control Bureau about that along with our DEA person in Beijing.

So that was one thing that we did. And part of that was to go out to the Kyrgyzstan-Chinese border. How many folks have been to the Chinese-Kyrgyzstan border on either side? Yeah. Okay. There's two or three in the back. Yeah, sure, Alex has. Well, check it off your list, you've done it and you never have to do it again. (Laughter.) It's a long way out there.

But the point, I guess, I want to make on that, is as we were coming back from the border, the DEA guy were – because I represent a border district – we were brainstorming ways that we could smuggle drugs into China because I think – not that we would; I'm not saying that, but because there are definite holes in the borders there between Kyrgyzstan and China, presumably through Kazakhstan and China, Pakistan and China. And what's interesting about this is that this year is the first year in Sichuan Province, a western province that Southwest Asian heroin will actually outpace Southeast Asian heroin in interdiction.

And so there's more Afghan heroin now coming into Sichuan than Burmese heroin coming into Sichuan Province for the first time ever. And is an indication, not only of the U.N. report on the increase in Afghan opium production, but also the potential that they're going to turn it around into heroin and then bring into places like China. So that is an area that we looked at; it's an area of potential cooperation, continued cooperation.

Space is another issue. We visited CAST, the Chinese Academy of Science and Technology, which is an arm of the space program there. I guess the most significant thing I want to mention on CAST, regarding CAST, it's the R&D arm of the space program there and before we left, meeting with folks from the CNA to talk about this, they tried to discern whether or not the military runs space or its civilians. I guess I'd have to say that the military – I conclude the military does run the program, but they're basically running it like a business, and the reason I say that is because you go to CAST

and there is a showroom there, a showroom that shows the history of the satellite program in China as well as its latest model, and we can get you into that model for \$5,000 less than their competitor. Right? We'll finance it for you. We'll, you know, we'll back it up with service and we'll get you on the road.

That's what the showroom is like and they are out selling to as many companies and countries as they can and cooperating with as many countries as they can in their space program on the civilian side, and they're not waiting for the United States. And I think that's an important thing because we have a debate, obviously, going on in this country about export controls and about China's space program and so on. And while we're debating about that, they're basically saying we'd love for you to come in and cooperate with us and help, but if you don't, that's fine, too; we're going to continue going forward and doing what we need to do. And I think that part of the debate, that needs to be part of the debate in the U.S. that we can debate all we want, but China is not waiting for us when it comes to space.

And so there are some security issues we have to deal with, but I don't know that we have internalized the fact that China is not waiting for the United States when it comes to their space program.

I guess, third and finally, I'll just talk about food safety very quickly and then I'll turn it over to Mark. We had gone over there to look at the space to look at counter drug, but we ended up meeting with Vice Minister Wei who was over here a few weeks back from the – I call it something else, but it's AQSI – AQSIQ, it's their inspection folks for exports. It's a long, long name for the folks who do the inspections of the exports, and I guess what struck home for me is that the time, as it continues – China, they would argue that part of the problem with food safety and toy safety in this country is media propaganda. Yes, there is a problem with some of the exports that have come to the U.S., but it's getting blown out of proportion and that we are just doing it, we're blowing it out of proportion in order to leverage China into other things, on other trade issues.

I think Mark and I tried to really hit home for them that that argument probably doesn't fly in most homes in America where moms and dads are having to package toys in plastic bags to send them back to the toy maker while their child is crying, wondering why he or she can't play with that toy. It is very real to Americans; toy safety is very real to Americans. If their pets are eating food that is laced with melamine, believe me, that is very real to Americans, and we aren't making this stuff up, and that these issues have to be addressed. We need to do our part, but the Chinese need to do their part and the toy makers and the food producers all need to do their part. And if we don't solve this problem, if we don't keep it in the box of food safety and toy safety, it will spill out into bigger, much bigger problems in Congress.

And so we tried to impress that upon them. We think, at least, we did our part doing that. I think the meetings that Vice Minister Wei had with administration officials went fairly well when he was here I think in early September, but we'll see how it goes, but when it comes to this issue, we also told folks, Congress's view on this is lead, follow

or get out of the way. We are going to do something on food and product safety because it's important to do that.

So that's sort of a quick headline view of some of the things that we discussed and talked about. There's a million other issues that we could talk about, but I'll turn it over to Mark Kirk for a few other things.

REPRESENTATIVE MARK KIRK (R-IL): Rick and I joined to form this group. A country caucus in the House of Representatives generally meets once or twice a year; we meet once or twice a week, probably talk to the U.S. government or the Chinese government once a day on a big issue for us.

My read on the people that I represent and that most Americans is there is a very low awareness on the change that has happened with China. I represent a lot of people who work for Motorola. Many of them would know this, but just about all their neighbors wouldn't, that China long ago surpassed the United States as the premier cell phone market on the planet, passed the United States long ago in the production of steel and grain and coal. As a Navy electronic warfare officer, I am struck by the Chinese military expansion: eight major electronic warfare programs ongoing, which is way more than the United States.

Rick and I have become the Americans who visit the Chinese space program. We were the first foreigners into their space launch complex in Inner Mongolia, and now out to CAST. Very low awareness by the American people that there is a lunar race that is white hot in Asia right now between Japan, China, and India. The Japanese lunar probe already launched; Chinese probe on the pad; Indian pad soon to follow and the only question is whether India or China launches this month first or not.

We are intensely watching the 17th Party Congress and with Cheng Li's briefing yesterday, I guess I was compelled by two things that he said: Number one, he said he likened the Party Congress to an old airplane joke about how the pilot gets onto the plane and says I have good news and bad news. The good news is we're ahead of schedule; the bad news is we're lost, that the Chinese economy is moving so fast, so far, that they are far ahead of where they want it to be, but exactly where the society and the country is going is unclear. And when we met with the party school, that was one of the questions that was – you know, the elephant smoking in the corner is that if you're leading party ideology and party school, exactly what does this mean in the China that we just saw right outside the door as far as a political ideology meant to weld the society together?

We also are intensely watching what Cheng Li would call the populists versus the princelings. So five candidates that we think are vying for contention to succeed Hu Jintao, very much Li Kai Sheng is the person that we heard the most about in China and the one that we're watching, but Cheng Li cautioned us that four others are at least a go, if not a surprise on that front.

Part of the China Working Group is to explain the United States Congress to China, but most of it is to explain China to the United States Congress. One of the areas that I think we have to do a lot more work on is the central role of China in what Jim Kelly knows all about, DPRK diplomacy. I am struck by how few people who watch the Korea situation closely understand that the 33-day Chinese energy interruption in September was the key to bringing North Korea to the table and getting them to agree to what they have agreed on. And the growing Chinese role in Iranian diplomacy with, I think, an overriding domestic imperative to meet that now 11 percent of China's needs, but only growing, is a key problem for the United States, both in the Security Council and in any kind of a coalition of the willing.

I was struck in our discussions by how consistently the Iranians mistreat the Chinese, how there are very poor foreign ministry to foreign ministry relations giving opportunities for us. We had put forward a concept that we think could propel the U.S.-China dialogue on Iran, which is, right now, on the eve of the World Bank-IMF meeting, I think, a particularly good idea to put forward, and that is the creation of a World Bank secure energy loan facility – \$20 billion fund designed to accelerate energy efficiency, distribution and energy exploration in Central Asia and the Gulf to meet Chinese market needs entirely separate from Iran.

This is a win for U.S. diplomacy and meets a critical Chinese political domestic goal. We have had a number of wide-ranging discussions ranging as high as Hu Banguo on the Chinese side and with Secretary Paulson on our side. I think a kind of facility like that – by the way, I speak as a foreign operations subcommittee appropriator that, given the paid in capital ratio and the gearing ratio in the bank – and I speak as the only member of Congress that is a former World Bank staffer – for three tranches of \$50 million you can generate a \$20 billion fund at the Bank to do this. I think this would be a key win-win policy objective for both countries.

Lastly, I'll just touch on the two hot issues in the Congress, as Rick mentioned: Number one, an issue, which is all press release and no chance of legislation actually making it into law, and that is the currency issue, you know, a set of unending press releases from Senator Schumer's office, et cetera, and zero chance of being enacted into law. So we emphasize that point over and over again with the Chinese government that this is press releases chasing legislation that will not make it onto the books. On the other hand, there is the real trade legislation that Congress is working on, which is on product safety.

We met with Vice Minister Wei at the ACSIQ and he said to us as he said in public here in the United States, is part of this a plot or effort by the United States to simply discredit or gain leverage over China? We said this is in every village in America. This is a white-hot issue in Deerfield, Illinois. We said this is particularly true because as the United States ages – and I'm speaking humorously, but very, very pointedly politically – as the United States ages, pets become more important in the emotional life of Americans. This crisis broke out first as a pet food crisis. You cannot underestimate the emotional power, as we said to the Chinese, of this issue. It moved

from pets, which is a hot issue, to children, which is a white-hot issue. As one toy manufacturer said, congressman, you have to realize you have to eat a thousand of these tank engines to have a child poisoned. And I was, like, boy, do you not get it.

And for some folks in the Chinese government, they didn't get it either. It was interesting though on the side for some of our handlers, quietly, as we walked around, the Chinese folks came up and said on product safety, go man go. This is a hot issue also for the Chinese middle class that has suffered as much or more product safety problems and is a problem for the Chinese Communist problem as much or more domestically in China as it is for the United States.

When we met with Vice Minister Wei, he said, as you know, the head of the Chinese FDA was executed. We said, wrong solution. (Laughter.) I'm impressed with the realization that this does show that you feel that you have a problem, but the American people are looking for a systemic solution, and Rick and I have put forward a number of systemic solutions: Number one, the deployment of the U.S. FDA inspectors to China; number two, the deployment of Consumer Product Safety Commission inspectors to China. We're building on the port security initiative in which U.S. Customs already operate with Chinese Ministry of Public Security at ports side by side. So the precedent has been established; now we want to expand it to other agencies.

We even had a fairly technical discussion with Sandy Randt, our ambassador there, to say if the Congress loads 35 personnel on you in 60 days, could you handle it at U.S. Embassy Beijing. He said absolutely we could and we would. And the message that we had for China is while the currency legislation is 100 press releases and no chance of being enacted, the product safety legislation is three press releases and it is going to hit U.S. books; will be the law of the land and you will have to make sure that we have as much as a win-win solution as possible and as little rancor as we have a virtuous cycle of upgrading product safety and quality, both for the protection of the American people, and, quite frankly at the moment for the Chinese middle class as well who would like to see this.

You could imagine we're quite active on a whole range of issues, and, obviously, there are 20 other issues I didn't mention. But I think this is one of the most exciting things we've done. Our caucus has gone from an initial 11 members to now over 70 – very, very active on Capitol Hill and I know that we're making some difference.

Let me just close by seeing the executive branch always, either President Clinton or President Bush, as having a sophisticated nuanced view towards China. The United States Senate is having at least a multifaceted view about China, a series of ups and downs, and the United States House of Representatives being relentlessly anti-Chinese. It's okay to be anti-Chinese when they've done something bad. The point of the U.S.-China Working Group, a combination of the three tribes of the House – panda huggers, dragon slayers, and panda slayers – is that we think that criticism of China is warranted where accurate, but misperception is rampant on the House floor right now and our group is about making sure that that happens as little as possible.

Thank you.

(Applause.)

MR. FINKELSTEIN: We would like to take some questions from the floor.

Okay, at this point, the congressmen have said they'd take some questions, so the floor is open.

MR. : (Off mike, laughter.)

Q: Good morning, congressmen. My name is Jim Loi. I'm a visiting State Department fellow at CSIS, but I recently left the embassy in Beijing where I was in our economics section there.

I was wondering to what extent do you think the Chinese really do understand Congress and the role it plays in our government? I mean, they will – have told me many times in my discussions with them and negotiations with them that they do, but you see plenty of instances where they really fundamentally don't. And so I'm wondering if you could illuminate that from your recent trips.

REP. LARSEN: Part of what we're trying to do is to ensure there is an understanding of the United States Congress – let me be clear, the United States House; we can't certainly speak for the Senate or for the administration. But what we are trying to do is to – well, there is a saying that your point of view comes from where you sit at the table, right, and if you're a member of the National People's Congress, your job is to parrot the view of the government and of the party. That's what the National People's Congress does externally – internally, they have their debates and so on, but externally.

So if you hear a U.S. member of Congress say something, your assumption probably is that that's what the government of the United States thinks. And what we're trying to – (chuckles) – you know, in some sense teach the Chinese is, like, no, that's what that member of Congress thinks on that day. (Laughter.)

So don't put as much stock in necessarily what you hear is going to be the policy or the law of the land, but do understand that at least one person in Congress thinks that and there might be some more. And rather than look at it as something that you absolutely need to respond to, like, you know, 180 degrees, you probably ought to be getting to that person and talking to that person about what they said and try to understand why they said it to get a broader feel for trends.

But that's, you know – there are, what, 2500, 3,000 members of the National People's Congress, and I can probably name five of them by name, you know. There's a lot of work to do, but I don't know that they can name 10 members of the House or the Senate either. So we have a lot of work ahead of us.

REP. KIRK: I would just say that 90 percent of what we do is translating Chinese into the House of Representatives. And we've made some progress, like, I think for especially members of the China Working Group – a party secretary of a province we've now marketed as an extremely important person, whereas before a minister in the government was someone that a congressman would think is a big deal. And so we've managed to translate that pretty effectively, at least for the members of the Working Group.

On the other hand, translating the Congress into Chinese is – I've been very frustrated on. When you look at Chinese perception of democracies, of course, the major perception they have is of parliamentary democracies. And so I found with so many other foreign embassies, the more you know about how a parliament works, the less you're going to be able to understand how the United States Congress works because the U.S. government is a unique animal among democracies.

That all being said, the current Chinese Foreign Ministry team is the best that they have ever fielded on understanding the United States. You could clearly see Hu Jintao's priority on the U.S. relationship. You can see it with Madame Wu Yi, who is an extraordinarily able Chinese minister in being able to negotiate with the various parts of the U.S. government. Ye Chin Cher (ph), about the best that there possibly is, you know, when I see a committed North Americanist head up the entire foreign ministry, it gives me great assuredness.

And He Yafei was in charge of North American affairs, and we had a very revealing meeting with him in which, you know, he started out kind of distant – having his words translated, and in the middle of an initial discussion about currency, the translator said, talked about how there were differences in exchange rates, and He Yafei cut off the translator and said, no, I meant arbitrage. (Chuckles.) Is like, do you mind if we just have this meeting in English because your sophistication is clearly there.

What I am seeing is not just a front end on who understands the United States well in the Foreign Ministry, but now a bench that understands the United States well. So at least at the top end, a sea change from what we would have seen 25 years ago.

Q: My name is Elliott Feldman (sp). China's economy is, obviously, in transition. A number of countries have recognized it as a market economy. We refuse, in part, over currency. We say it's a non-market economy, but the Department of Commerce is now pursuing cases against China for alleged subsidies in that transitional economy and you have legislation pending in Congress on that subject.

Could you comment on that?

REP. LARSEN: With regards to the Department of Commerce pursuing cases to the WTO against China, what I've tried to convey to folks is that, first off, it's not protectionist to do that, rather it's an attempt to use the rules that we've created in order

to make sure that the rules are fair for everybody. And I think – I have this feeling that China believes essentially the WTO still didn't mean they didn't have to live by the rules of the WTO, but I think that they're finding out that it does, just like what we do.

Once again, we lost our cotton case to Brazil yesterday in front of the WTO – I think, the second time in about a year. So there are rules that have to be enforced at the WTO, and the Department of Commerce is choosing that route on a very specific set of issues.

With regards to legislation, I don't believe, frankly, that the House and the Senate, if it passed, if each of us passed something could agree on something, and if we did, I know the president wouldn't sign it. I also know from my perspective and where I'm from, as sympathetic as I am to people who believe that every job lost in their district they've lost to China, that if we were to pass along the lines that people are discussing on currency, I will lose jobs in my district, and I don't want to be in that position. So I'm not going to be one – as a Democrat, I'm not going to be one who is supportive of the kind of currency legislation that we see coming before the House or the Senate.

Q: I'm Lois Chan. I was born and raised in Taiwan and I have seen China from the outside and I see U.S. on the outside. I think there's a lot of misunderstanding and a lot of misinformation.

Allow me to use one example. In Taiwan, whoever is the enemy of China is a friend of Taiwan, so I revere Dalai Lama very much. About four years ago, I had a trip to Tibet, and I learned so much about the history, the practice of Tibetan Buddhism, and the reality there before the so-called Chinese invasion into Tibet. And I wonder how much do the American people or the Congress know about this, the reality on the ground and also the actual practice, the essence of Tibetan Buddhism. And on this date, today, Dalai Lama will be honored by the Congress. How did it come about? Is this really necessary at this junction when we have a Sino-American relationship at a very critical point?

Thank you.

REP. KIRK: (Off mike) – going to leave it over to my Democratic – (laughter).

REP. LARSEN: And I don't know why President Bush is going to this ceremony. (Laughter.)

I guess in response to your question, is it necessary? I don't know if it's necessary, but it's going to happen and it's going to happen today. And the U.S. and China are going to have to sort it out, the impact of it.

Q: I think I was a charter member of Paul Wolfowitz's panda hugger club, at least I've heard that over the years.

I'd like to give sort of a long-term view of this relationship to get your observations on it. I can remember the Tiananmen Square, and it was totally misread by the U.S. government and improperly described by top executive branch leaders. The consequences of that, of course, are mishandling of a very sensitive issue, which should have been handled more with empathy and sympathy than – because, really, it was a product of the speed of Deng Xiaoping's reforms, and when they moved it into the city you had the upheavals you had. It wasn't a suppression of democracy; nobody really knew what it was at the time – (chuckles) – and I don't think they do even yet as you have observed.

Secondly, even going back to Vietnam, it was the Chinese who really prevented what used to be the dirty word in Vietnam, the domino theory, which has now been totally suppressed as a reality, but I can remember a visit from the Chinese ambassador in Brussels when I was with NATO. And he came in and said we're going to have to prevent what you call the domino theory, and so we're going to have to take action and punish Hanoi. And it cost them 50,000 dead.

Now, our president at the time who will remain unnamed – not my favorite – (chuckles) – and I don't want to get animosity with the Democrats because I have some favorite Democrats, but this was not my favorite. He condemned China for aggression, for preventing what would have been the overrunning of Thailand following Cambodia and Laos by a Soviet-sponsored Hanoi-led military operation.

These are the kinds of things that are really quite disturbing, along with the question that was just raised on the Dalai Lama and why we are continually sending jolt after jolt after jolt. And I think most of us are concerned that this relationship, which has, you know, as a great supporter of Ronald Reagan, to take credit for winning the Cold War, which some of his minions did, which he didn't win at all; he was a catalyst in the process of the declining and rotten system, but the most important catalyst in the whole collapse of the wall was, of course, the initiative to China. And we never even say it in our government; in fact, the implication is it's a dirty word if you suggest it.

I just think we're our own worst enemy on this if we want to get ahead and I wonder if you feel this kind of imbalance has to be – there has to be an educational process on the Hill and I really do feel that way. I suspect you do too, but I'd like to hear your observations on it.

REP. LARSEN: One of the underlying premises of the U.S.-China Working Group is that the U.S.-China diplomatic relationship is the most important one we have over the next century, and, as a result, we want to take at least as members of the Working Group, want to take actions consistent with that, and that means rewarding and praising China when it does things that we agree on and where are the challenges, we engage and try to fix those problems.

Much of what you discussed, Mr. Secretary, has to do with the perceptions and misperceptions that we create here in the U.S. through whatever lens we're looking at, at

China. And so we – Mark mentioned the panda huggers and the dragon slayers and the real tough folks, the panda slayers. Another way to look at that is some folks are looking for the next 1980s Japan to battle economically. Some are looking for the next Soviet Union – not Russia – the next Soviet Union to battle in a cold war and I think those are both very inaccurate reflections through that prism to China.

China is what it is and we don't understand what it is. But I think from the start we should understand that we don't have one relationship with China; we have many relationships with China, depending on the category of issue, and we have to have an approach tailored to those balanced against each other, but tailored to those sets of issues, and if we start there and take a little more, I don't know, realistic view of China in that regard, I think we're better off in the long run.

I talked to a group in Seattle this past week, two weeks ago and I said, you know, my goal is to really grab China and not let go, and not let China let us let it go. And this gets back to Mr. Zoellick's framework of a responsible stakeholder or the way I put it to the Chinese is once you got in the world you leave footprints and you can't not leave footprints. Once you're there you're there and then you have a responsibility to do things that are expected of you when you're in the world like they are expected of the U.S. And we need to grab them in a nice way and keep them out there in the world with us because there is a lot of things that we can work over the next century. But if you're battling panda slayers in Congress it can be tough, but we've got to get through that.

REP. KIRK: The first election campaign I really worked on was not my own; it was Margaret Thatcher's reelection. And as committed Anglophile, I sort of take the lessons of what they went through and sometimes apply it to our own international obligations. And what struck me about pre-World War I Britain was how many people in the British private sector understood the rise of the United States, and how no one in the British public sector understood the rise of the United States.

One of the reasons why I wanted to join with Rick and start this group is when I was here in Washington, the only foreign policy issue that I heard about was Iraq, sometimes punctuated by North Korea. When I was home in the suburbs of Chicago, the only market in foreign policy issue that I heard about, which directly related to the income of the Americans that I represented, was China, at Motorola, at United Airlines, at Abbott Laboratories, at Boeing, which moved from Seattle to Chicago in a wise move. (Laughter.)

REP. LARSEN: Only their headquarters – 72,000 Boeing employees in Washington state – (laughter) – 500 in Chicago.

REP. KIRK: The ones in Chicago all make a million dollars each, but – (laughter). But when I saw how my constituents put money on the table for their families and how closely linked, especially in the emotional roller coaster that was United Airlines where the CEO said there are three issues before this company, and I thought it was fuel prices, taxation, and the bankruptcy court, FAA regulation – and he said the three issues

before the survival of this Elk Grove, Illinois, employer are access to Pudong Terminal One, access to Pudong Terminal One, and access to Pudong Terminal One. I got it.

And so I noticed that there was a disconnect similar to in pre-World War I London, that throughout the government in Washington, D.C., there was this fixation on Iraq, but throughout the economy that I represent, not too many jobs depended on Iraq, but tens of thousands of jobs of the people that I represent depend on access to China and so to fill that gap we started this group.

Q: I'll be very brief. But, congressmen, thank you for your leadership on this issue. Just one quick question: Do the recent changes in congressional ethics make it harder for members to visit China because it seems to me that seeing firsthand the dynamism that is there is something that potentially we hope that every member will go through and be able to ask questions of people on the street if they want or in offices.

Is this harder than it was?

REP. LARSEN: It put in a six-month hiatus as we established the new rules, but quite frankly now, it's not a significant impediment. The groups that can't conduct a trip probably should have never have been able to in the first place, and, for example, we did a non-governmental trip and once we went through the six-month process of establishing the new rules, it was no sweat.

REP. KIRK: Yeah. Once the rules were established, we went the National Committee on U.S.-China Relations, and it really consisted of ensuring that we had a schedule, an itinerary that the ethics committee could say, yes, was business related; it was related to the work that we do in Congress, and then it had to get approved ahead of time that we could go. And then after that, it's just disclosure afterwards that's publicly disclosed about the trip, the cost of the trip, so on – who paid for it, and all of that is disclosed. So it hasn't changed all that much, but for a little bit of the timeline we need to get the actual schedule approved.

(Audio break, tape change.)

Q: One of the areas of the relationship that I think is particularly susceptible to a variety of interpretations is the military side – I mean, both our involvement in the Pacific and China's growing military capabilities. And I'd be curious on sort of the robustness of your dialogue with the Defense Department and how that is going and whether there is headway being made on that kind of issue?

REP. KIRK: Chris Carney and I are the only two active reservists in the United States House of Representatives, so I – you know, like next weekend I'll be back working in the Joint Chiefs of Staff. So I look at the military side intensely. And, you know, when we talk about the rise of China, we have a military rise of China, which is very distinct.

I think a number of analysts who would look at China through Napoleonic eyes see the wrong story. A Chinese military which is going from 5 million people to 1 million people to me represents a greater danger because, you know, most infantry formations were not armored; now they're all armored. When I look at the naval expansion and three new keels laid for aircraft carriers, it gives me great pause. Probably the greatest worry that I had was the anti-satellite test, which showed a number of problems: one, lack of communication between the foreign ministry – president's office and the defense establishment, that it appeared to catch several parts of the Chinese government unaware for something so major.

Secondly, it was a political disaster for China because it convinced a large part of the Pentagon, which was on the bubble, if this was the next big problem, and it convinced everyone they were. Lastly, just throughout the seats of the House of Representatives, you know, the story that, for example, we had to add money to the last supplemental to buy the fuel to move the space station from the 40 million pieces of debris caused by the disintegration of the FH-1 satellite in ways that the Chinese military had no idea where all the pieces of that satellite now were. And the public relations disaster that if one of the pieces of the FH-1 happened to go through the International Space Station and the head of a cosmonaut and what that would have done, I think, all lays out a number of key issues that the Chinese hadn't fully thought through.

REP. LARSEN: I want to be quick here. It's a concern for Congress that China increases its military budget 17 percent or so a year. And it's still as an absolute number much less than what we have. But looking at some of the capabilities that we think they're creating, it causes a lot of questions for us in Congress and the administration, presumably the next administration. And we'd like to get better and more clear answers.

The Chinese – they talk about transparency in terms of their strategy and how they see themselves in the world, which is fine as far as it goes. In talking with some of their military leaders, I tell them, I can't go back to my colleagues and say, well, you shouldn't worry because General Tsao told me. That doesn't cut it. It just doesn't cut it.

So what we're trying to do is encouraging and hopefully we won't get in PACOM's way, Pacific Command's way, is that they're actually doubling the number of military-to-military exchanges this year into next and driving down below the flag officer level and general officer level into majors and your captains, so you can start building some longer-term relationships. That's a good thing.

Mark and I have been part – many people, we've been banging on getting a defense telephone link established between the Minister of National Defense and the DOD, so we have someone to contact. The problem is the Chinese are trying to figure out who will pick up that phone, who will take the responsibility for picking up that phone, and that's a very difficult issue for them to deal with, but it's one they have to deal with because we need to have someone to call when North Korea fires a missile or tests a nuclear bomb.

MR. FINKELSTEIN: We're going to have to make that the last question. I don't think that anybody in this particular room would be surprised to hear me say that the work of the U.S.-China Working Group is just absolutely so critical to our relationship with China, to educating the American people, to educating our elected representatives.

We are privileged at the CNA Corporation to have the opportunity to support your working group from time to time and I'd like to leave the open invitation to call upon our analysts whenever either of you and the rest of your working group needs that support. And I think we all owe the congressmen our applause and thanks for the tremendous leadership and personal energy and drive that they've put into making the U.S.-China Working Group the rising and important group it is today.

So without further ado, gentlemen, thank you so much for being with us.

(END)