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It is a pleasure to be invited to speak to the Committee of 100, the premier organization of Americans of Chinese descent. Before commenting on issues of the day, I would like to recognize just a few of the many Chinese-Americans present who have made such an enormous contribution to our nation.

I note that YoYo Ma is Chairman of your Board of Governors. His background and accomplishments as a cellist need no further introduction to this audience, so I'll just mention the outstanding work he has done in musical and cultural education. Particularly impressive is his work creating and supporting the Silk Road Project, which examines and furthers musical and cultural exchanges on the assumption that there are mutual benefits to be derived from artist and idea exchanges as well as those of goods and services.

Major General John L. Fugh represents another first in the Chinese-American community. The first Chinese American to be promoted to the general staff of the U.S. military, General Fugh served with distinction as the Judge Advocate of the U.S. Army. Following his retirement, he subsequently has worked in a variety of positions in private

industry. These accomplishments are all the more impressive given the fact that General Fugh arrived with his family in the United States at the age of 15. His service to this country is a testament to the commitment so many immigrants have made to their adopted country. General Fugh, we salute you, and thank you for your service.

Ambassador Julia Chang Bloch has also served the United States during a rich and varied career in public service. As the U.S. Ambassador to the Kingdom of Nepal, she was the first Chinese American to serve as a U.S. Ambassador. Julia also served with distinction as a senior official of the Agency for International Development and, leaving public service, as the President of the U.S.-China Educational Trust. Ambassador Bloch's inclination to work on these important issues is rooted in family tradition. Her father, F.Y. Chang, the first Chinese graduate of Harvard Law School, and was a dedicated public servant in both China and the United States. A noted philanthropist, he placed great value on education and imbued his daughter with a sense of the importance of the educational and social interactions between cultures.

There is nothing more difficult than to attempt to put perspective on events of the day because many issues can only be understood clearly, if at all, with the passage of time. But if we ask what is new on the Asian landscape over the last several years it seems to me that five issues stand out:

- The acceleration of trade with China. It is the assumption of most Western economists that trade is mutually advantageous and that free markets are more

likely to lead to ties that bind rather than cause friction. But the more unbalanced a trade relationship is, the greater the likelihood that tension will build.

- The increase in demand for petroleum at a time that political stability in the Middle East cannot be counted upon and at a time that world-wide oil resources appear increasingly fragile. America has unfortunately maintained a love affair with big cars during a period in which China and India are developing vast new appetites for petroleum products.
- The heightened danger of political-military confrontation on the Korean Peninsula as well as across the Taiwan Strait. Averting war in Asia has to be the most important geopolitical challenge in America's relations with the world today. Given the various traumas in the Middle East, conflict in Asia could untenably stretch the strategic and economic resources of the United States.
- The rise in Islamic radicalism in Asia. Islam in Asia has generally been of a moderate character, integral to national development and even democratization – as was impressively demonstrated in recent elections in Muslim majority countries as diverse as Indonesia, Malaysia and Bangladesh. But there are many lessons of 9/11, one of which is that it is relatively easy to destroy. A few can inflict havoc on the many, with advanced economies more vulnerable than less advanced ones to terrorist acts.

- The increasing relevance of friction between countries in Asia, the cause of which has little to do with the United States. In South Asia, for instance, while recent political and economic trends have been generally positive, it is nevertheless conceivable that conflict could erupt at any time between India and Pakistan. Likewise, while the Second World War and the expansionism that preceded it in Asia is a past-tense phenomenon for short-memored Americans, the first half of the 20th century lives far more vibrantly in the hearts and souls of millions of Chinese, Japanese, and Koreans. A surprising new level of antagonism has sprung up between South Korea and Japan over historical issues, including competing territorial claims for a chain of islets that lie between the two countries. Likewise, Sino-Japanese relations have deteriorated, with the Chinese people reflecting anger at the possibility Japan could become a permanent member of the United Nations Security Council, and the Japanese people becoming increasingly angry at Chinese attitudes both toward the past and competitive approaches to the future.

In this context, I might mention a view of mine which is different than that held in various capitals about the nature and possibility of United Nations Security Council reform. I believe that it is in the world's interest and the U.S. national interest to expand the Security Council. The claim of India, Japan and Germany for a permanent seat is compelling. Likewise, it seems to me that the Security Council could be expanded on a co-country basis as well. For example, Brazil and Mexico might be awarded a seat in which they would alternate terms. In a similar way, Nigeria and South Africa might be

given the right to alternate terms with each other, as might Indonesia and Egypt. Such an approach would expand the Security Council by six seats involving the granting of new rights to nine countries.

I find the case for veto power for new full-time members to be credible, but my guess is that for various reasons one or another of the current five permanent members would use their veto power to object to a dilution of their own veto authority. Expansion of the number of permanent seats would involve a modest enlargement of the Security Council, but this would be with Members who reflect power balances in the world today. It would cause the Council to reflect greater religious and racial diversity and be composed of a higher percentage of the world's population. Such a new Security Council arrangement would underscore the role of Asia in world affairs as well as reflect a more credible African and Latin American presence.

As a member of Congress, I must tell you that I am increasingly worried about Chinese attitudes towards America and American culture. I sense growing antagonism. While American respect for China as indicated in polling data this group has commissioned appears to be increasing, American angst about Chinese policies is also on the rise. Citizen concerns about human rights, the imbalance of trade, the outsourcing of jobs, the piracy of intellectual property, and currency manipulation are real. Tension is palpable.

In addition, just as nationalist sentiment in China exploded into public expression after the EP-3 aircraft incident in 2001, it was institutionalized in the recently-adopted anti-secession law. Asian nationalism is matched on this side of the Pacific in the American neoconservative movement's concern for national sovereignty issues. Neocons are attempting to tap into the growing angst of citizens around the world that families are caught up in a web of forces beyond their control. Whether the issue be globalization of economics, culturally hegemonistic views of films, TV programs, or other forms of mass communication, destabilizing forces are in the ascendancy.

It is in this context that so many people in the world have expressed their sorrow this week at the passing of a Pope whose life emphasized the need for attention to issues of collective respect for human liberty and individual respect for human dignity. While many adherents of the Pope's faith, as many people of other faiths, had doubts about aspects of the conservative theology to which he subscribed, there was total respect for the Pope as a moral leader who articulated and paid attention to our collective hunger for a simpler, values-based state for the human community.

With respect to Taiwan, we marked in 2004 the 25<sup>th</sup> anniversary of the enactment of the Taiwan Relations Act (TRA). I am proud to have been among the proponents and supporters of the Act, and I am also proud of a small provision I authored relating to human rights and democratization. And as a lead member of what came to be known at the time in Taiwan as the Congressional "Gang of Four" – a small band of Senators and House members that also included Senators Kennedy and Pell and Representative Solarz

– I came to know many of the current Taiwanese leaders who were then political dissidents. It is with the greatest respect that I observed the courage and sacrifices of those who challenged the Kuomintang government to open up to democracy. It is therefore with the humility of a legislator who never had to face, as they did, the prospect of imprisonment for holding views different than those of the authorities in power that I am obliged today to emphasize the need for restraint by Taiwanese leaders.

But first let me stress that the vibrant multi-party system and opportunity-oriented economy that has developed over the past 25 years on Taiwan is a prototype for the world of progressive political and economic change. The miracle of Taiwan's peaceful democratic transition is of great significance not only to its 23 million citizens but also to the 1.3 billion residents of the Chinese mainland. These Chinese now have the chance to examine another model of governance and social organization made successful by a people with a similar cultural heritage.

The government and citizens of the United States have an enormous interest in peaceful relations between Taipei and Beijing. All Americans strongly identify with Taiwan's democratic journey and we join in celebrating the fact that the people of Taiwan now enjoy such a full measure of human freedom.

More broadly, we are acutely conscious that wars, ethnic hatreds, clashes of ideology, and desire for conquest marred the 20<sup>th</sup> century. And the prideful miscalculation of various parties compounded these antagonisms. Hence, the vital

interests of potential antagonists in the world, particularly those on each side of the Taiwan Strait, require them to recognize that caution must be the watchword in today's turbulent times. Political pride and philosophical passion must not blind peoples to the necessity of rational restraint. Peaceful solutions to political differences are the only reasonable framework of future discourse between the mainland and the people of Taiwan.

As this audience well understands, United States diplomatic recognition of China was formally ensconced in a carefully negotiated communiqué and two subsequent understandings. The U.S. accepted a "One China" framework for our relations with the most populous country in the world. At the same time, the three Executive Branch initiatives were complemented by the Taiwan Relations Act, which establishes a commitment of the United States that no change in the status of Taiwan be coercively accomplished through the use of force.

While free market and anti-communist, the party of Chiang Kai-shek on Taiwan had certain organizational attributes similar to the Communist Party on the mainland. And in one circumstance of philosophical consistency, both the Kuomintang of Chiang Kai-shek and the Communist Party of Mao Zedong claimed to be the governing party of all of China, including Taiwan. Hence, the Nixon "one China" approach did not contradict the nationalist positions of the old Kuomintang or the old and new Communist Party on the mainland.

The dilemma which comes to be accentuated with the passage of time is the question of whether Taiwan can legally seek today *de jure* independence on the basis of a referendum of the people. Here, there are contrasting models in American philosophy and history as well as security concerns for all parties to a potential rupture that must be prudently thought through.

Philosophically, Americans respect Jeffersonian individual rights approaches which may implicitly countenance revolutionary societal objectives. We also respect Lincolnesque concerns for national unity: a house divided, he noted from Scripture, cannot stand. It is in this context that America delivered a split judgment. The three Executive initiatives affirmed “one China” and the Taiwan Relations Act affirmed *de facto*, but not *de jure*, relations with a government of a non-state, one which was authoritarian in the 1970’s but democratic today.

From the perspective of the American government, there should be no doubt of the consistency of American policy. Under this President, as each of his predecessors – Presidents Nixon, Ford, Carter, Reagan, Bush, and Clinton – the governing American position is the acknowledgment of the Chinese position that there is but one China of which Taiwan is a part. For U.S. or Taiwanese leaders to assert any other position would create an earthquake in world affairs.

The issue of Taiwan is unique but anything except abstract. It is conceivable that missteps of political judgment could, more readily than many suppose, lead to a catastrophe for Asia, the United States, and the world.

The precepts of “self-determination” and “independence” may in most political and historical contexts be conceptually almost synonymous. But these two precepts are juxtaposed on one place on the planet. Taiwan can have *de facto* self-determination — meaning the ability of a people to maintain a government accountable to its populace — only if it does not attempt to be recognized with *de jure* sovereignty by the international community. To be precise, the Taiwanese people can have self-determination as long as they do not seek independence; if they assert independence, their capacity for self-determination will collapse with hundreds of thousand if not millions of lives becoming jeopardized. Hence, for the sake of peace and security for peoples of the island and the broader Asia-Pacific region, there is no credible option except to emphasize restraint.

Any unilateral attempt by either side to change the status quo across the Taiwan Strait is fraught with danger of the highest order.

As we make it clear to China that the U.S. is steadfastly committed to ensuring that the status of Taiwan not be altered by force, we also have an obligation not to entice Taiwan through ill-chosen rhetoric of “ours” on Capitol Hill or elsewhere in government into a sovereignty clash with China. Substantial Taiwanese self-determination can be maintained only if sovereign nationalist identity is not trumpeted. The ambiguous non-

state status of Taiwan may be psychologically and aspirationally awkward for Chinese-Americans as well as for Chinese on both sides of the Taiwan Strait, but ambiguity is preferable to sovereign clarity if the former implies peace and prosperity and the latter a ruinous war.

In this regard, there should be no doubt that Congress stands with the Administration in a common determination to fulfill obligations under the Taiwan Relations Act. However, these obligations presuppose that Taiwanese leaders must understand the realities of mainland resolve and refrain from capricious actions that invite conflict or make constructive dialogue impossible. Just as a military effort by Beijing to unilaterally alter the status quo would necessarily precipitate an American reaction, a unilateral political effort by Taiwan to seek independence and dissolve all bonds with China could cause America's commitments under the Taiwan Relations Act to become inoperable.

Unusually, but profoundly, foreign policy options for the two great powers whose interrelationship will disproportionately determine the shape of the twenty-first century are constrained by discretionary statutes. From an American perspective an unanticipated problem of the codification of policy is that a perceived promise of support for Taiwan even if it is Taiwan that precipitates a crisis with the mainland puts us in a kind of geopolitical double jeopardy. Statements and actions of leaders on either side of the Taiwan Strait could force us into war. To be precise, the Taiwan Relations Act contemplated American defense of Taiwan in the event of a civil war precipitated by

Beijing. It did not contemplate American intervention if such a war was triggered by Taiwan. That is why it is so imperative that we clarify our commitments and do nothing to invite decisions on Taiwan which may contribute to a societal suicide. Leaders in Taipei have heavy responsibilities to international order as well as their own people.

Beijing also has implicit obligations to world order. Yet it is amazing how so-called realists in government circles in so many capitals underestimate the “soft power” of people-to-people and cultural relations.

While recent years have witnessed a new maturity and sophistication in many elements of Chinese foreign policy, more nuanced and pragmatic policy approaches have not generally been applied to Taiwan. For whatever reasons – perceptions perhaps of the importance of the Taiwan issue to leadership legitimacy, growing Chinese nationalism, the role of the military in policymaking and internal communist party politics – Beijing appears to be wedded to an uncompromising policy toward Taiwan, even though that approach has been demonstrably unproductive.

Passage last month by the National People’s Congress of an anti-secession law, which among other things codifies China’s threat to use force against Taiwan, is seen in Washington as unhelpful and is universally viewed on Taiwan as a hostile, counterproductive act.

Instead of seeking to intimidate and isolate Taiwan, isn't it in Beijing's interest to be magnanimous toward the people of the island?

Shouldn't it, for instance, shepherd Taiwanese membership in international organizations that do not imply sovereignty—such as helping Taiwan gain observer status in the World Health Organization?

Rather than setting deadlines for unification or continuing a counterproductive military buildup, wouldn't Beijing be well-advised to emphasize culture and economics in its relations with Taipei?

And, on the military front, wouldn't it be in both side's interests to upgrade communications, widen professional exchanges, and engage in confidence building measures to reduce the likelihood of accidental conflict?

There is an assumption among students of Beijing politics that no one in or aspiring to power in China can afford to be “soft” on Taiwan. Hence, given the proclivity for independence rhetoric within the governing DPP party on Taiwan, the risk that an escalation of rhetoric could trigger an irrational confrontation is high. Likewise, mainland leadership may choose to precipitate a crisis. Singapore's leaders, who follow trends closely in Beijing, even suggest that China may be prepared to press conflict over Taiwan in the next several years.

The greatest geo-strategic irony in world affairs is that the U.S. and China have a commonality of interest and are working well together to resolve or at least constrain challenges associated with North Korea where the economics and politics of an isolated, rogue regime may ultimately deteriorate to the point of potential implosion. By contrast, it is Taiwan, an island on which economics and politics have conjoined to allow more progressive strides to take place than any place on earth over the past generation, where the greatest prospect of great power conflict may exist in Asia.

At the risk of over-statement, an alarming build-up of polarizing attitudes is occurring on both sides of the Taiwan Strait. Whether prospects of conflict are 50% or only 5%, they are too high. The human toll could be great and the rupture in trade and cultural relations devastating, causing impacts that could last decades after any conflict concluded.

While Taiwan is the geopolitical trigger point in U.S.-China relations, trade is the economic challenge. Here I would like to stress that China's WTO accession in late 2001 was a benchmark event.

WTO accession represented much more than a promise to reduce tariffs and modify a few trade-related measures. For China, WTO accession requires adopting the most far-reaching set of legal commitments the country has ever considered. The specific requirements of reductions in tariff rates and market access barriers are daunting. But they pale beside the implications of the general commitments to increase transparency,

implement effective laws, and develop a balanced system of administrative and judicial decision-making. If the rule of law is to be instituted in China rather than “rule by law” or “rule of man,” the example of the United States may be instructive.

In America, process is our most important product. We Americans place a great deal of emphasis on the “how” rather than the “what” of policy, on the assumption that the public will not like all laws; therefore, to have respect for the law, people must have respect for the way a law is made. Otto von Bismarck joked that the public shouldn’t be allowed to watch too closely the way either laws or sausages are made, but the fact is that, if anything, openness is America’s secret sauce. It is no accident that the first protections we established in our Bill of Rights were freedom of expression and freedom of the press so that public officials could be held accountable.

As Jefferson observed: “The basis of our government being the opinion of the people, the very first object should be to keep that right; and were it left to me to decide whether to have a government without newspapers or newspapers without a government, I should not hesitate to prefer the latter.”

In America, we developed a system of separation of powers at the national level and purposeful tension between the Executive, Legislative, and Judicial branches; and then we decentralized power by quadruplicating the same separation-of-power arrangements at the state, county, and city levels. We established a system of courts,

legislatures, and executive offices in which there would not only be separations and tensions within but also between levels of government.

I stress these decentralized tensions because they form the guarantee that the processes of our government, and by extension our society, remain transparent. All societies have problems of accountability, of reconciling freedom with equality of opportunity. In America, the greed of a few is evident in periodic corporate excesses and, now and again, comes into play in politics. But while corporate scandals sometimes involve large sums of money, American political scandals are generally quite cheap. The egregious sums of money that slosh through the political system are manipulated by interest groups to advance the electoral ambitions of candidates, but they cannot be used to enrich the candidate himself. The decentralization of power in America has by and large kept government accountable to the people and allowed an incentive market system to operate with a minimum of conflicts of interest.

Self-interest may not seem to be an attractive underpinning of moral philosophy, but history is demonstrating that a private incentive system effectively complements a political system based on individual rights, and vice-versa. As Mandeville in his 18<sup>th</sup> Century satire of capitalism, the poem *Fable of the Bees*, so poignantly noted: “these are the blessings of the state, their crimes conspire to make us great.”

In contrast with the Marxist foundation of socialism, Jeffersonian democracy embraced Lockean property concepts. Emphasis was placed on individual rights and

private property, rather than social obligations defined by others and government ownership of the means of production. Unlike Marx, who believed that religion was the “opiate of the people,” our country’s founders held that ethical values, derived from religion, anteceded and anchored political institutions. It is the class struggle implications of Marxism—the exhortation to hate thy fellow citizen instead of love thine enemy—that stands in stark contrast with the demand of tolerance built into our Bill of Rights.

It is the rule of law, operating within a decentralized checks and balances system that has provided political stability relatively divorced from the instinct to hate that becomes manifest in the individual and unleashed in society when governments do not provide safeguards for individual rights and fail to erect civilizing institutions adaptable to change and accountable to the people.

In contrast, Chinese citizens feel little connection to their government and, by extension, to a common good. What is missing is the concomitant democratic change to accompany the profound economic changes that have occurred in the aftermath of the Cultural Revolution and the normalization of relations with the United States.

In this context, many in and outside China ponder the question whether democracy can help the Chinese people resolve the enormous problems facing the country.

China is large and diverse with a multi-century tradition of decentralized provincial autonomy and, at various points in its history, a reliance on magistrate-scholars. It is this decentralized magistrate-scholar tradition coupled with expanded democratic rights that authorities in Beijing might be advised to think through as they deal with various tensions in internal citizen relations. Indeed, decentralized democracy might fit Chinese heritage better than smaller countries of Europe.

Hong Kong is a case in point. America and China both have an enormous interest in the success of the “one country, two systems” model in Hong Kong. From a Congressional perspective, it would appear self-evident that advancing constitutional reform – including universal suffrage – would contribute to the city’s political stability and economic prosperity.

The people of Hong Kong have made plain their aspirations for greater democratic autonomy, aspirations that are fully within the framework of the “one country, two systems” formula. After the first peaceful expression of such aspirations in July 2003, the Hong Kong government appeared to listen to the people and withdrew controversial national security legislation. But the central Chinese government’s April 2004 decisions setting limits on constitutional development in Hong Kong appeared to be inconsistent with the “high degree of autonomy” promised in the 1982 Joint Declaration and the 1990 Basic Law.

In this context, the September 2004 Legislative Council elections demonstrated the tensions inherent in “one country, two systems.” A record number of Hong Kong's voters turned out and voted heavily for candidates favoring continued reform, but the process was constrained by rules under which the Hong Kong people could not enjoy full democratic autonomy.

Former Chief Executive Tung Chee-hwa's mid-March resignation and the appointment of Sir Donald Tsang as Interim Chief Executive pending elections in July can be seen through different lenses as either a good or bad sign for democratic development in China. Mr. Tung's stepping down probably reflects popular will in Hong Kong, and creates an opportunity for improved communication between the government and the people of Hong Kong. Nonetheless, no immediate crisis of popular confidence seems to have prompted Mr. Tung's decision; rather it appears to be the result of a growing lack of confidence of Beijing's leadership in him. Thus, Mr. Tung's resignation represents another instance of top-down decision-making rather than bottom-up democracy. The Chinese government now has, however, an opportunity to reverse its earlier decision on universal suffrage, owing to changed circumstances.

Congress and the American people will be observing closely the Chinese government handling of issues relating to the future selection of Hong Kong's Chief Executive. From the perspective of people on this side of the Pacific, there would appear to be no credible reason to thwart democratic transformation in the city.

The principal trade issue that affects all others is the size of the U.S. current account deficit with China. Economists generally agree that the current situation is unsustainable. We are obligated to focus on this deficit because reasonably balanced and mutually beneficial trade is the cornerstone of good U.S.-China relations. Likewise, unbalanced trade – particularly in periods of economic difficulty – may negatively affect a host of other bilateral issues that are important to both countries. Normal trade relations must be based in the concept of mutual benefit. A trade deficit of over three billion dollars a week betokens troubling danger in our relationship.

In this context, the Chinese government can no longer defend its policy of pegging the renminbi to a fixed relationship with the U.S. dollar. I have long supported free trade in currencies – i.e., flexible exchange rate regimes – for all countries and have advocated such a policy for China at the highest levels of their government. Flexible exchange rate systems result in more stability than government-managed currency relationships. In general, neither Chinese government policymakers nor Chinese central bankers dispute this idea: policy-makers in China as well as the United States support full convertibility. The missing element continues to be a methodology and a timetable – that is, a reliable sense of when and how Chinese officials might make appropriate changes. Decisions do not need to be etched in stone; modification in approach is always possible; but a credible Chinese commitment to cease manipulating its currency and instead to subject the renminbi to market discipline could defuse much bilateral tension.

We also have a continuing concern about the Chinese government's attitude toward the pirating of intellectual property. Innovation drives the growth of the U.S. economy, and therefore protecting intellectual property is central to our trade diplomacy. Nowhere in the world is theft of U.S. intellectual property more pervasive than in China. The counterfeiting and piracy of U.S.-made and marked products puts us at a severe bilateral trade disadvantage and raises American citizen angst about fairness issues. Free trade simply can not be credibly supported unless it is perceived as fair to all sides. Accordingly, the Chinese government has a profound responsibility to make real its obligations under the WTO and assess meaningful penalties against infringers.

The future of the U.S.-China relationship relates primarily to the direction of change in China, but it also relates to the direction of change in American governance and culture.

Americans see issues between our countries reflected in the negative balance of trade, in the sharing of global obligations, in addressing tensions on the Korean peninsula, and in Chinese belligerence, or lack thereof, toward Taiwan and China's neighbors. But Chinese leadership is apprehensive about the possible development of an American enemy-oriented mindset. The Chinese public is also concerned about the violence in our culture and the break-down in traditional American family values. They would like us to be more Confucian as we would like them to be more Jeffersonian.

In conclusion, let me stress that the nature of politics is that pride plays a disproportionately large role relative to its role in other human enterprises. The human factor—foibles in particular—can never be underestimated in governmental decision-making. As two obscure 19<sup>th</sup> century Italian political theorists—Vito and Pareto—noted, whatever the political system, at critical times a few at the top have the authority to make decisions for a nation. In times like these, no matter how democratic and well intended (or the reverse) they might be, leaders can make mistakes that carry monumental consequences. It is in this sobering context that we recognize that the most important bilateral relationship of the 21<sup>st</sup> Century will be between China and the United States. If we manage that relationship poorly, the likelihood of conflict and economic trauma will be great. But if we manage the relationship well, the benefits in terms of economic prosperity and world peace will be commensurate.

Thank you.

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