

**Written Testimony for the
Subcommittee on Asia, the Pacific, and the Global Environment
Eni F. H. Faleomavaega (D- American Samoa), Chairman**

on

“The Strategic and Economic Dialogue: Setting the Agenda, Achieving Results”

by

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1 p.m., September 10, 2009

Mr. Chairman and members of the committee, thank you for inviting me to testify before you this afternoon. I am very pleased to have this time to share my thoughts on U.S.-China relations and the Strategic and Economic Dialogue, along with some specific ideas for increasing cooperation between the United States and China.

This opportunity comes at a timely moment. I returned from China last Thursday, where I led a small American delegation that included Senator Tom Daschle (D-SD), Ambassador Wendy Sherman, Professor John Deutch, former Deputy Secretary of Defense Rudy deLeon, and SEIU President Andy Stern to Beijing. Our group spent three full days speaking with some of the senior-most government officials, leading academics, and members of the financial industry about a range of issues of utmost importance between our two countries.

On the whole, our conversations convinced me that relations between China and the U.S. are on solid footing. Although many areas of difference remain—lead among them those that touch on China’s sense of territorial integrity—the Chinese seem eager to keep bilateral relations on an upward trajectory. They demonstrated a willingness to increase cooperation with the United States on a range of pressing global problems, spanning national security, economic, and environmental challenges.

Dai Bingguo, China’s state councilor, expressed his support for closer ties in extremely strong terms that I’m sure this committee will appreciate: He told us the government hoped President Barack Obama’s upcoming visit in November would rival the historical significance of President Richard Nixon’s 1972 visit. Just as Nixon’s groundbreaking visit to China marked the beginning of normalization, the Chinese hope that President Obama’s trip will introduce an era in which the United States and China can build a “positive, cooperative, and comprehensive relationship.” This was the description that Presidents Obama and Hu agreed upon when they met in April at the G-20 summit, and we heard it repeated like a mantra during our three days of meetings.

Indeed, we no longer have the luxury of not getting along with China. We cannot meet today’s most pressing global challenges, be they climate change, nuclear proliferation, grinding poverty or deadly viruses, without its pivotal participation—not only in implementing solutions, but also in devising them. We should move beyond the “engage and hedge” framework for China policy – an approach openly premised on

mistrust and suspicion—to a strategy that maximizes opportunity but also manages risk. Building a relationship will accelerate China’s development into a responsible stakeholder and increase our ability to solve today’s most difficult global problems. The touchstone for a successful U.S.-China relationship should be effective collaboration against global challenges and strengthening the global architectures we need to battle them.

We are off to a positive start. Despite initial apprehension among Chinese leaders about President Obama’s position towards China given their lack of familiarity with him, they seem reassured by what they see to be an unusually smooth transition with clearly stated policy priorities, even though strong points of difference cut across a range of issues. The restructuring of the Strategic and Economic Dialogue, and the fact that the first full meeting under the new format was held after President Obama had been in office only six months, played a large role in dispelling the uncertainty that has marked previous transitions and could have hindered progress on a number of issues critical to U.S. interests. Continuing to engage in frequent dialogue is integral to maintaining a relationship with China that encourages their constructive participation in the international system.

Today, I would like to offer my impressions on two broad aspects of our relationship: national security and climate change. Both areas contain major challenges, but both also present unique opportunities to move bilateral relations in a stable,

constructive direction. The new format of the S&ED, which now includes a security track led by the State Department alongside the existing economic track led by Treasury, will be instrumental to progress in these areas.

On the national security front, China's active engagement continues to be necessary to constrain North Korea's nuclear ambitions. Our discussions in Beijing suggest that China remains firmly committed to a denuclearized Korean peninsula and will work to re-engage the DPRK in multiparty communication. China's recent enforcement of UN sanctions against Pyongyang is a new and encouraging sign of their position.

Iran's nuclear program is another major national security concern that requires China's cooperation. Here, however, we have a longer and rockier road ahead. China has acknowledged that Iran should not possess nuclear weapons, and has been engaged in the diplomatic process to find a solution. However, Beijing has declined to use its leverage on this issue. And while the international community has been trying to increase the pressure on Tehran, China's energy companies continue to sign multibillion-dollar contracts with the regime. China, like the United States, has a profound interest in ensuring Iran does not achieve nuclear armament, which could trigger a regional arms race. This is an issue that the U.S. government should continue to press with China, given our mutual interest in promoting long-term regional stability.

In order to improve cooperation on issues of mutual concern as well as to discourage any potential tensions or misunderstandings between our two countries in the future, we need to improve our military to military ties with China. Historically, our militaries have generally comprised the most conservative elements of state policy. U.S.-China military-to-military relations have been marked by a start-stop-restart quality that has not always been helpful.

To bring cooperation and confidence to levels consistent with other areas of U.S.-China relations, senior leaders of our two militaries should continue to engage in a regular and candid dialogue on issues of mutual concern. The resumption of our formal bilateral defense dialogue is an important first step. There are a number of other activities that could follow: additional exchange among senior levels of military leadership, including continued coordination on maritime operational procedures, or jointly addressing security issues in weak or failing states. These could provide valuable opportunities for strengthening U.S.-China military to military relations. Our ships that are battling pirates side by side off the coast of Somalia are symbolic of how American and Chinese national security interests are not a zero-sum game.

Let me just say a few words on the swine flu pandemic, which is also a national security issue. China has learned its lesson from SARS and is actively cooperating with the World Health Organization. In fact, the WHO is now under the leadership of Dr. Margaret Chan, a Chinese national, and China held a major international conference last

August to discuss strategies for fighting the virus. While some Chinese officials have been overzealous in quarantining potential victims, including American visitors who were not sick, overall China is showing real responsibility in this area.

I would like to use the rest of my time to discuss the Strategic and Economic Dialogue in the context of clean energy and climate change, issues that have the greatest potential both to drive and to benefit from a new kind of U.S.-China relationship. Although it is still uncertain what steps China will take in advance of the U.N. Summit in Copenhagen this December—as it is still unclear what steps the United States will take over the next few months— last week we were told by China’s top climate negotiator, Xie Zhenhua, that we would find China’s commitments in the next Five Year Plan positively surprising. As expected, the Chinese government is not likely to abandon its self-understanding as a developing country that requires assistance to catch up to OECD countries, but we were assured at every stage that China will “do its part” to address its skyrocketing emissions rates.

Although China was originally slow to acknowledge the threat of climate change, it is now moving quickly to capitalize on the economic advantages a robust clean energy industry offers. While debate over climate legislation rages in the United States, Beijing is keenly aware that investing in the building blocks of a low-carbon economy will drive job growth and innovation in the years to come. China’s leaders frame the development of clean energy as an opportunity to stimulate consumption, increase investments,

achieve stable export opportunities, and adjust their energy structure, all while increasing international economic competitiveness.

A rapid change in policy priorities has accompanied Beijing's change in attitude. China has ramped up national targets for energy efficiency and renewable energy development, and its recent stimulus package spends around 3 percent of China's annual GDP in 2009 and 2010 on clean energy investments—considerably more than U.S. clean energy stimulus funding as a percentage of our respective economies. These measures have driven China's leadership in solar and wind component manufacturing, grid transmission technology, and electric vehicles, and helped Chinese clean-energy companies leapfrog competitors within only a few years.

As Beijing forges ahead with its aggressive clean-energy agenda, U.S.-China climate developments have also been on an upward tick. At the inaugural Strategic and Economic Dialogue in July, China and the U.S. signed a new "Memorandum of Understanding" to improve cooperation on climate change, energy, and the environment. The MOU sets up a platform for cooperation between our two countries while opening the door to the initial steps of a solution to one of the main obstacles to a global climate change agreement: uneven acceptance among developing countries that their emissions reductions should be "measurable, reportable, and verifiable." China, despite large investments in clean energy over the last several years, ambitious targets for energy intensity, and new efficiency standards, does not currently quantify resultant

emissions reductions in a way that is measurable, reportable, and verifiable within the international climate change framework.

The Chinese are anxious to move beyond broad guidelines for cooperation to initiate joint clean-energy projects with the United States, and the MOU establishes a format whereby such projects must demonstrate their emissions reductions capabilities in a measurable, reportable, and verifiable way. Implementation of renewable energy or smart grid technologies, for example, only works if we can actually see the results and make sure these technologies achieve the emissions reductions they are designed to do. By holding discussions regarding technology cooperation and emissions reductions with China, as opposed to working with the entire block of developing countries at once, we now have a pragmatic forum in which measuring, reporting, and verifying emissions reductions in China can be initiated. In short, this MOU has moved us from the principles laid out in the 2007 Bali Action Plan at 30,000 feet down to an approach position where we can enter Chinese airspace and see the runway.

Given the influence China and the U.S. have over the success or failure of the UN climate summit in Copenhagen, there is little time to waste in making the most of recent climate progress between our two countries. To capitalize on the opportunities the MOU facilitates, the Center for American Progress has recently partnered with the Asia Society's Center on U.S.-China Relations to propose a series of programs to advance

U.S.-China cooperation, focusing on carbon capture and sequestration, or CCS, technology.

The U.S. and China's continued reliance on coal-fired power for electricity generation—50 percent and 80 percent, respectively—must be addressed in any comprehensive climate change policy. CCS offers a potential pathway for achieving swift and sustained reductions in global greenhouse gas emissions from coal-fired power generation, and should be part of a portfolio that includes dramatic gains in efficiency, conservation, and renewable generation. But before we commit ourselves to this technological pathway, it is critical to conduct more CCS demonstration projects to generate accurate cost and environmental safety assessments, develop accepted practices and standards for sequestration, and establish a market for private sector investment. The Center for American Progress and the Asia Society's proposal identifies opportunities for immediate collaboration that will produce quick results, while simultaneously focusing on the longer-term goals of retrofitting existing plants and developing financing infrastructure.

First, the proposal lays out a blueprint for rapid cooperation on large demonstrations of geological sequestration of available pure CO₂ streams that exist today in China. China has installed over 100 coal gasifiers that produce pure ("pre-captured") CO₂ streams that currently vent into the atmosphere from a variety of heavy industrial plants, such as chemical and cement facilities. We recommend a set of large

projects at multiple sites within China with substantial U.S. contributions in practice, equipment, and science. Such collaborations could serve as templates to not only test various sequestration technologies, which we will eventually want to deploy in the U.S., but also to build regulatory and financial infrastructures at less cost than would be possible with unilateral development in the U.S. (We estimate \$50-100 million for each project with a U.S. contribution of \$20-30 million.) Such a project is highly likely to succeed and, in addition to providing assistance to the Chinese in an area where they lack capacity and opening a new market to U.S. suppliers, would build confidence for future cooperation.

The proposal also provides a framework for enabling collaborative research, development, and demonstration of CCS technology (such as post-combustion capture) to retrofit existing coal-fired plants over short, medium, and long-term timeframes. This would first and foremost identify plants in both countries for large-scale retrofit demonstrations and establish commitments for doing so. It would also test new technologies to improve effectiveness and lower costs, along with outlining a long-term strategy for retrofitting coal-fired power plants in both the U.S. and China that respects the political, industrial, and financial dispositions of each. Retrofitting older coal-fired plants is a key component to a low-carbon future if, and only if, the technology can be demonstrated. Most public investments in the U.S., such as the Futuregen project, are aimed at building new integrated “pre-combustion” plants. But even if this technology

succeeds, it will be difficult to encourage power generators from giving up older plants that may be more profitable. Attending to these older coal-fired plants is essential to avoiding a global rise in temperature of more than 2 degrees Celsius.

Additionally, the report discusses the creation of a global capital fund designed to distribute funds to private actors that innovate or invest in CCS endeavors and the development of public finance structures (price guarantees or other market value substitutions) such as those proposed in the American Clean Energy and Security Act to provide guaranteed returns in the short term.

In sum, both the United States and China stand to gain more through collaboration than through independent pursuit of CCS technology. Furthermore, by conducting sequestration projects in China, rather than in the U.S., both sides benefit from lower costs and faster execution. The experience gained by cooperating with China will accelerate the deployment of CCS facilities in the U.S., with benefits to job growth, utility and energy companies, and technology firms. We estimate that cooperation with China on this suite of programs could accelerate large-scale deployment of CCS technology in the U.S. by five to 10 years. Our initial assessment is that this could result in billions of dollars in savings if we can accelerate full scale deployment of CCS before the anticipated execution date of 2030. Just as important, in a few years, nearly 10 million tons of CO₂ that would otherwise have entered the atmosphere will instead be stored indefinitely.

If we are to achieve a best-case climate scenario, the U.S. and China must turn the seeds of good will into genuine cooperation. This holds true not only for climate change, but also for many other tough global challenges. In many cases, genuine strategic collaboration with China will be necessary, which won't always be easy for the U.S. It will take some adjusting on our part to work toward solutions that are not always entirely of our crafting. But while the U.S. and China do not constitute a "G2," as some have said—we need a whole community of nations working together to address the serious problems that plague us—both countries' commitment to solving global threats is pivotal. The Strategic and Economic Dialogue, therefore, is a critical framework for facilitating deeper understanding and cooperation between our two countries. The U.S. and China should move forward with efforts to build the "positive, cooperative, and comprehensive" relationship that our presidents have called for.