

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

JUNE 10, 2004

The Honorable TED STEVENS,
President Pro Tempore of the U.S. Senate, Washington, D.C. 20510
The Honorable J. DENNIS HASTERT,
Speaker of the House of Representatives, Washington, D.C. 20515

DEAR SENATOR STEVENS AND SPEAKER HASTERT:

On behalf of the U.S.-China Economic and Security Review Commission, we are pleased to transmit our second annual Report to the Congress, pursuant to Public Law 106-398 (October 30, 2000), as amended by Division P of P.L. 108-7 (February 20, 2003). The Commission has again reached a broad and bipartisan consensus, this year approving the Report by a unanimous vote of all eleven Commissioners (11-0), on the most important aspect of our mandate, "to monitor, investigate, and report to Congress on the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China."

The Report includes a detailed treatment of our investigations into the areas identified by the Congress for our review and recommendations in the amendments of 2003. These areas are: China's proliferation practices, China's economic reforms and U.S. economic transfers to China, China's energy needs, Chinese firms' access to the U.S. capital markets, U.S. investments into China, China's economic and security impacts in Asia, U.S.-China bilateral programs and agreements, China's record of compliance with its World Trade Organization (WTO) commitments, and the Chinese government's media control efforts.

The Report is organized into an Executive Summary, which highlights our general assessments, conclusions and key recommendations in the areas of investigation, and is followed by detailed treatment of each area in nine separate chapters. We believe the level of bipartisan consensus the Commission has achieved is significant given the number of controversial issues the Congress directed us to investigate, and the continuing and growing concern over the direction of the U.S.-China relationship politically, economically and strategically over the next decade or more. We have operated under a key assumption of our mandate, that the United States' economic health and well-being are a fundamental national security matter, including the maintenance of a strong manufacturing base, a vigorous research and development capability, the ability to maintain our global competitiveness and a healthy employment level and growth rate.

This Commission arose from the debate that led the Congress to approve Permanent Normal Trade Relations (PNTR) for China and U.S. support for China's admission to the WTO, despite the fact that China clearly had not achieved the level of free market development normally required for WTO membership. The administration argued strenuously during that debate that including China in the world trading system would lead to political reform and a more open Chinese society to accompany the development of market economics. These expectations have, so far, been disappointed by China's lack of progress on any important measurements of political reform, human rights, openness, and the building of democratic institutions. That is the central dilemma of our bilateral relationship: that China remains an undemocratic, authoritarian state, while it is opening its market and seeking the respect and support of its trading and investment partners. This gap between our political and value systems is magnified by the fact that we compete for economic and political influence in Asia. As a result, the U.S.-China relationship is variously categorized as strategic engagement and competition. In some areas there is promising cooperation, in others sharp antagonism.

Certain fundamental issues have guided the Commission's work, and they span the broad range of topics mandated for review by the Congress. Those central issues include the questions of China's progress in four broad areas: (1) market reforms and trade commitments, (2) cooperation with the United States on national security matters, (3) policies toward openness, human rights, democracy-building, and the rule of law, and (4) the quality of the overall bilateral relationship. In most of these areas, the Commission believes China's progress has been far less than satisfactory, and that it is in the U.S. interest to continue to press China to do more. On the range of questions dealing with openness, human rights, democracy-building, and the rule of law, the Commission believes China simply fails to meet a minimal standard of progress.

This Report includes a number of recommendations for Congressional action, ranging from fair dealing in a range of economic arenas, to policies on media openness, to diplomatic strategies such as in the case of North Korea's nuclear weapons program. Some of these recommendations involve renewed efforts to cooperate with the Chinese in a number of areas where we believe the United States must use its influence to encourage China to live up to its commitments and to act as a responsible world power. In all cases, our success will depend to a large extent on the level of cooperation between the executive branch and the Congress on fashioning policies for dealing with China. Success will also depend on other countries actively engaging in a cooperative process with the United States.

The Commission believes that U.S. policies must be firmly grounded on the calculus of what will strengthen and advance our nation's economic health and national security—in a nutshell, our national interests. Second, although it is unrealistic to expect the United States to fundamentally transform the beliefs, structures, and governing dynamics of China's Communist dictatorship, we should continue to advocate strongly democratic values and principles, remembering that in the past strong American actions and influence have successfully brought about such values and practices in Japan, South Korea, the Philippines and Taiwan. On both scores, we can and should do better.

The Commission used a number of approaches to conduct its work on behalf of the Congress, including holding eleven public hearings on a broad range of topics, including field hearings in Columbia, South Carolina, and San Diego, California; new research in a variety of relevant areas; classified briefings from the intelligence community; and fact-finding visits to Asia and also the WTO in Geneva. We published complete hearings records, together with preliminary findings and recommendations in separate volumes for each of our hearings. The original research funded by the Commission is also posted on our Web site (www.uscc.gov).

We believe that this Report will provide a baseline for assessing progress and challenges in the U.S.-China relationship. We believe that the relationship is still in a fluid state and that the United States has an historic opportunity to help move China in directions that will be beneficial for its own development and for peaceful bilateral relations with the United States, the Asian region and the world community. In many ways, we believe the direction of the world trading system, and so-called globalization, will be significantly influenced by the progress that is made in our bilateral relationship. We encourage the Congress to become a genuine partner with the administration in formulating and evaluating this complicated and many-faceted relationship because we are persuaded that the quality and success of American policies toward China are far more likely to succeed if they originate from a bipartisan consensus with the administration. We hope this Report and the continued work of the Commission will contribute to facilitating and informing that process.

Yours truly,



Roger W. Robinson, Jr.
Chairman



C. Richard D'Amato
Vice Chairman