



Statement of Chairman C. Richard D'Amato  
Release of 2005 Annual Report to Congress of the  
U.S.-China Economic and Security Review Commission

November 9, 2005

Good morning,

Today the U.S.-China Commission is releasing its third annual Report on America's relations with China in the economic and security spheres. The complete text of the Report, including an Executive Summary and our List of Recommendations is available for you here today and is posted to our Web site [www.uscc.gov](http://www.uscc.gov). We are pleased to tell you that this Congressional Commission, composed of 6 Republicans and 6 Democrats, has approved this report to the Congress by a bipartisan vote of 11-1.

The Commission explored our 9-point Congressional mandate in substantial detail through a series of public hearings, including regional hearings conducted outside Washington, D.C. in Akron, Ohio; Seattle, Washington; Palo Alto, California; and New York City. The hearings were conducted to try to develop an understanding of the impact of the U.S-China economic relationship upon various regions of our country, and different economic sectors and industries.

China is America's most important relationship, and there is a growing number of economic and security issues that need work to reach solutions and pragmatic answers. The Commission is concerned that, over the last year, there has been little in the way of solutions to problems which we have identified in our economic relationship, most importantly China's manipulation of its currency, its lack of enforcement of violations of Intellectual Property Rights – which are important for virtually every business that enters China – and there have been no answers to other problems that we have identified as WTO –illegal, such as Chinese subsidies to their centrally –directed industries as well as forced technology transfer. Our overall conclusion, on balance, is that the trends in the U.S-China relationship have negative implications for the long-term economic and security interests of the United States. We are urging greater efforts be made to make progress on this agenda.

This past year Congress has become actively engaged in trying to find answers to persistent problems in the relationship. Congress was active in the matter of the attempt by the Chinese government-owned CNOOC Energy Corporation's attempt to take over UNOCAL, on the question of reform of the CFIUS process, and is trying to influence Chinese currency manipulation.

We propose a series of recommendations for the consideration of Congress to develop answers for the outstanding issues which persist in the U.S.- China relationship. These include using the tools that are available through the dispute settlement procedures of the World Trade Organization, which China is a member, and to use bilateral U.S. mechanisms, such as the 421 Product Safeguard procedures, Countervailing duties and Anti-dumping laws to correct many of the imbalances in the relationship. These mechanisms have been allowed to atrophy, and we strongly believe the effective use of American leverage is important to make progress in many of the problem areas.

The Commission has also offered two major proposals for U.S initiatives, bold proposals to engage the Chinese at the highest levels on (1) Energy. We propose the creation of a U.S.-China Energy Working Group, which will offer proposals to develop new sources of alternative energies, and new efficiencies, to get both nations off their dependence on foreign oil sources, and (2) Security. We suggest the establishment of a system of Confidence Building Measures (CBM's) in the Pacific Region to regularize the relationship of our two military forces, which are operating in close proximity to each other, and to manage and contain accidents and incidents that might occur from becoming full-blown crisis. We think that it is important to put some successes up on the scoreboard in terms of solving mutual problems, because these issues are not going away and we have been stuck for several years now not able to solve any of the outstanding issues on the table.

Most importantly, I would like to paraphrase a section from our report's introduction, which I think highlights the key issue we have to address in terms of our relations with China. The Commission's "greatest concern is that the United States has not developed a fundamental assessment of how American national interests are affected by our relationship with China. A detailed architecture that advances all areas of cooperation with China while reducing negative impacts on American economic and security interests still does not exist...the United States has no coordinated, national strategy for dealing with China. We need one that specifies and prioritizes what we want to accomplish, what outcomes are and are not acceptable, and how to reach those goals. (P 21)

In Chapter 3 we deal with China's military modernization and cross-Straits issues regarding Taiwan. Testimony before the Commission indicated clearly that the U.S. intelligence community has been understating China's military progress over the last decade. China is fast becoming a modern military power, with robust naval and air forces, precision weapons, and space-based capability, and is increasingly projecting its forces in the Pacific regions in particular. Already there are military tensions with Japan over conflicting maritime issues. It is important that the U.S. ensure our force capabilities protect our interests and those of our allies and friends in the region, and that we make every effort to create a security zone in the Pacific, which reduces the possibilities of incidents or crises. That is why we feel the effort to introduce Confidence Building Measures at a high level between the U.S. and China is imperative.

The Commission examined U.S. technological competitiveness in light of increased efforts by China in this area. We reinforce the recommendations recently by the National Academy of Sciences that the U.S. is lagging in our competitiveness and that a new, even Apollo-type program be instituted to promote science and engineering education, and higher levels of basic research and development and other programs be put on a fast track at American Universities, in DoD and American-based corporations.

Among our recommendations I would like to identify two of them for you. We recommend that the Committee on Foreign Investment in the U.S., or CFIUS, be reformed to give it more effective oversight by the Congress, to ensure its standards of review include national security, which includes economic factors, and do post-transaction reviews. The Chinese now have some \$800 billion in spare cash, much of as a result of our unbalanced trade deficit, and the reform of CFIUS is needed in the likely event that Chinese companies come calling in the U.S. more frequently in attempts to acquire American firms.

Secondly, the Commission has been concerned over the extensive and successful controls that the Chinese government has exerted over the Internet and the Chinese media. There have been disturbing indications that some American firms have helped the Chinese authorities to track down dissidents. The Commission, in recommendation #55 on page 214, recommends that Congress prohibit disclosure by U.S. companies to the Chinese government, in the absence of formal legal action by the Chinese government, of information about Chinese users or authors of online content Congress should require that where a US company is compelled to act, it shall inform the U.S. Government. A compilation of this information should be made publicly available semi-annually. The purpose of this is to try to put some chilling effect on the Chinese government pressuring U.S. companies and to give U.S. companies an argument to use as to why they should not be asked to act in this anti-democratic manner.

I'd like to turn the proceedings over to the Vice Chair of the Commission, Mr. Roger Robinson, Jr.

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