ADDITIONAL VIEWS OF COMMISSIONERS GEORGE BECKER, C. RICHARD D'AMATO, THOMAS DONNELLY, KERRI HOUSTON, PATRICK A. MULLOY AND MICHAEL R. WESSEL

This year marks the 5th anniversary of China's accession to the World Trade Organization and the granting of permanent normal trade relations by Congress. By almost any measure, the promises made by China and the arguments offered by proponents of Congress' decision to end the annual Most Favored Nation debate have proven spurious. China increasingly threatens our national and economic security interests. The current approach is failing to meet our core objectives. The status quo approach must be changed.

Ending the annual Most Favored Nation debate was touted as a path to greater openness, democracy and freedom in China. The record proves the emptiness of these claims. China's communist leaders continue to hold their citizens' rights hostage to the leadership's desire to maintain and increase power. The communist leadership continues to govern virtually every aspect of the people's daily lives from child bearing to religious observance to how they may express their opinions to their friends and neighbors. As the Internet has flourished so has the Chinese leaders' desire to contain it: More than 30,000 Internet cops observe the electronic musings, postings, communications and e-mail of their citizens.

Workers' rights are controlled with an iron fist. Even in rapidly expanding areas, where labor demand has increased, the ability of workers to fully share in the fruits of their labors is almost nonexistent. A formal filing on workers' rights abuses with the Bush Administration's USTR documented broad workers rights violations, including how many workers were never paid substantial percentages of their wages.

And, we now see that U.S. business interests who claimed that they would be agents of change in China are, in fact, fighting efforts to promote workers rights' in that country.

China continues to drag its feet, or completely ignore the commitments it made as part of its accession agreement to the WTO. It continues its massive subsidies to ensure the development and success of its companies. And, while many said that China's comparative advantage would be limited to low-value, high labor content products like toys and textiles, China has proven to be a fierce competitor all up and down the economic food chain. Today, the United States runs a huge deficit in advanced technology products with China in some of the areas that, just a few years ago, were viewed as the shining opportunity for America's future.

PNTR proponents claimed that the vast Chinese market would provide enormous opportunities for U.S. companies to sell and service the expanding Chinese consumer market. Here, too, the promises have fallen way short. Few profits are being made selling into the Chinese market. The profits come from exporting back to America. Almost 60% of the products China sells to the U.S. come from foreign-invested companies. China has proven to be more of a site for U.S. products to be "industrial tourists"—component products sent there by U.S. companies only to be assembled into the final products that are shipped right back to our shores.

China is more interested in having our companies share their technology and their production prowess than they are in them reaping profits. And, they're willing to get our technology by whatever means—legal or illegal.

China continues to expand its economic infrastructure to expand its capabilities as a production and export powerhouse. In steel, in autos and in many other areas, China is rapidly expanding its production capacity despite a global glut of overcapacity in many of these products. China is only further exacerbating the precarious economic position many American producers already face. Within a few years, China will send finished autos to the U.S. as its production capacity will exceed its domestic demand by almost 100 percent. An industry that is already on the ropes here in the U.S. with broad scale plant closures and workers thrown out of work will face further decline. Our steel sector continues to face rampant dumping and predatory efforts of the Chinese.

The limited and mostly one-sided economic benefits from China's entry into the WTO are irrefutable.

The Commission is tasked with reviewing both the economic and security interests of the United States vis-a-vis China as well as the interrelationship between these two issues. As in previous years, the Commission's work has shown that our national and economic security are inextricably linked and that China's actions threaten our own interests.

Around the globe, China has sought to capture natural resources so as to fuel its manufacturing sector. The result has been China's willingness to embrace the leadership of countries whose actions and activities are adverse to our own. For example, in Sudan China provides the weapons and support for those committing genocide. In Iran, Chinese companies have proliferated weapons and missile technology to a country that, many believe, is engaged in a nuclear weapons development program. Other countries benefit as well.

The Bush Administration has noted that China's military build-up raises serious questions in terms of its intended use. The size of its military, its capacity and its modernization is expanding rapidly. Without adequate justification for its activities, we are left only to guess as to their ultimate targets.

China is a great nation with a great people. Our goal should be to seek mutual advancement to enhance the lives and opportunities for the Chinese people, and our own as well. The two are not mutually exclusive. Unfortunately, our current policies rely on outdated, failed theories rather than realistic, honest approaches. And, the status quo approach has only strengthened China's communist leadership's power and hold on the people.

Our nation's policy of engagement must be updated to adhere to the reality of the competition and the approach that China's leaders have taken. We still have enormous leverage—leverage that, to date, we have largely refused to use. And, our leverage declines as our dependence on China increases.

Now is the time for us to review the lessons of past years and admit that a serious course correction is necessary. We need a policy that puts the interests of the American people first.

ADDITIONAL VIEWS OF COMMISSIONER PATRICK A. MULLOY

I was pleased to sign onto the Commission's 2006 Report and the additional views of Commissioner George Becker. The unanimously adopted Report and those additional views speak for themselves.

There is an issue about which I want to comment briefly because it illuminates the underpinnings of our present trade and economic policies toward China. It is implicit in the Report but I want to state it explicitly. The interests of the U.S.-based multinational corporations, which have done so much to influence our current policies toward China, are often not aligned with the broader interests of our nation. This is not because they have malevolent intent. It is a systemic problem for which we must develop a public policy response. These corporations, as they are charged to do in our economic system, are focused on "shareholder value." They are not charged to consider the larger impact of their decisions on the American economy and workers, and the impetus they give to China's growing international, political, and military strength.

China was, for many centuries, one of the premier economic powers in the world. In the early 19th century, due in some measure to China's engagement with the Western powers, its economy and society went into decline. The Communist Party gained power in China in 1949 in part, because it championed an ideology that explained why China's competitive decline had taken place, and offered a collectivist-based economic policy as a remedy.

That economic policy failed to produce the desired economic growth; and in 1978, a few years after the death of Mao Tse Tung, it was drastically reformed. A key part of the new economic reform program adopted under Deng Xiaoping consisted of attracting foreign capital, technology, and know-how to help build China's economy. China wanted that strong economy not only to raise the standard of living of its people, but also as a base on which to build what the Chinese describe as their "comprehensive national power."

China has instituted economic incentives, including subsidies and an underpriced exchange rate, to induce foreign companies including U.S. multinational corporations to increase their "shareholder value" by transferring production facilities and technology to China. There they can achieve higher profits by producing goods for sale back to the United States and to other markets. Such incentives are part of China's "export led growth strategy."

As this Report makes clear, the Chinese strategy contributes to the imbalance in our economic and trade relationship, and to the erosion and offshoring of America's manufacturing and technology base. America's corporations may achieve short-term increases in shareholder value by cooperating with such a strategy, but overall the situation poses a long term threat to America's economic primacy and even our national security as we lose skills and capacities essential to our defense industrial base.

America's policymakers must understand that the interests of the multinational corporations and the policies they advocate toward China are not necessarily serving the larger interests of our citizens and our nation. Many of the findings in this Report are designed to give our elected representatives a better understanding of China's export-led growth strategy and the Report's recommendations advocate some new tools to build a relationship with China that begins to serve our larger national interests. I feel fortunate to have been part of the bipartisan group that worked with a very capable staff to produce it.

ADDITIONAL VIEWS OF COMMISSIONER WILLIAM A. REINSCH

I voted in favor of this year's report, as I did in 2004, again as much because of what is missing as because of what is there. The report avoids some of the flights of semi-hysterical rhetoric that have plagued it in the past as well as many of the poorly conceived recommendations made in past years. (Our decision not to include recommendations from previous reports, on the grounds that they remain in force and do not need to be repeated, has made my decision easier. They may still be "in force," but since I doubt anyone remembers them, we can let them muddle about in the obscurity they deserve.)

Overall, the Commission continues to slowly lurch towards credibility, taking a modest step forward with this report. We continue our impressive record of thorough, balanced, hearings with expert witnesses from the government and the private sector. That body of work provides an in depth set of studies on topics important to the bilateral relationship, and the hearing records contain significant amounts of data and other information of use to scholars and policy makers. Some of that scholarship is highlighted in this report, but since the Commission has continued its practice of selective quotation, researchers should review the full hearing records in addition to this report to get the full picture of our work.

Particularly noteworthy this year are the report's sections on the Chinese financial system and its government's energy policies. At the same time, we have missed opportunities to delve more deeply into other important issues. For example, while I welcome the chapter on China's internal problems, we have used it more to produce a litany of China's domestic failures than as an opportunity to study the impact of those failures on China's future and on the bilateral relationship. The result is that it amounts to one more among many lists of complaints rather than a chance to advance our understanding of what motivates and guides Chinese actions.

On the negative side, the report once again treats China as an economic and security threat in everything but name, implying a number of apocalyptic outcomes—to our manufacturing base, our economy generally, to Taiwan, to our role in the Pacific—if we don't get busy countering their actions. In doing so, the Commission once again demonstrates its gift for making the complex far too simple. Everything bad happening to America is not China's fault, and even if China takes actions the Commission favors, such as revaluing its currency, our problems will largely remain.

Nowhere is this analytical problem more obvious than in the case study of the automobile industry. While the Chinese are clearly using subsidies and other industrial policy tactics of doubtful WTO-legality to advance their industry, with significant exports some years away, it is hard to argue that they are the primary cause of the U.S. industry's current problems. I certainly agree that we should pursue our WTO rights in this sector, as we are doing, and that we should expand our efforts to persuade China to pursue more market-oriented policies, but even so, the fate of the U.S. auto industry ultimately hinges on what we do here in the United

States to enhance our industrial and technological competitiveness. The Commission's mandate does not permit us to delve too deeply into those broader issues, but we can certainly do a much better job of acknowledging their primacy rather than simply complaining that China is pursuing policies which hurt us, even if they are, for China, rational.

One related area where the Commission is on the right track is its effort to identify the impact of Chinese policies on our defense industrial base. While the argument is not thoroughly proved here—and while the solutions lie in our domestic policies—it is an important issue to pursue which will, I hope, be the subject of further work next year.

There are a number of areas where I specifically disagree with the Commission majority—the recommendation concerning corporate parent liability, the comments on the relationship between American Internet service providers and the Chinese government, the lack of a more forceful recommendation on military-military contact, some of the language on Taiwan, among others—but they are fewer than in past years, and I will not dwell on them here.

Finally, as in past years, the report suffers from hubris—in this case the idea that American policies and goals are inevitably superior and that nations which do not adopt them deserve condemnation. That attitude ignores our own shortcomings, where we do not always measure up to our own standards, and it also ignores the fact that behavior we do not like might nonetheless be rational from the other nation's perspective, particularly in light of its current stage of economic and political development. Our insistence that China pursue open market and free trade policies, for example, conveniently ignores the fact that it took the United States more than 150 years to decide those were the right policies, and even now we still fall short.

We do the relationship a disservice when we define progress in terms of what is good for us or some higher principle. While I support encouraging China to be a responsible stakeholder, we should understand first that being such does not always mean simply agreeing with the United States, and second that our most persuasive arguments with the Chinese have consistently been our explanations of why a particular action is good for them rather than why it is good for us or the system we defend. It is not clear from this report that the Commission has really absorbed that lesson.

China, as I have said in earlier reports, is a work in progress, and while its progress is from our point of view insufficient—a view I share—it nonetheless is moving forward, and we make further progress less likely if we fail to note that.