

Opening statement of Chairman, Carolyn Bartholomew

Good morning. Thank you for joining us. My name is Carolyn Bartholomew. I am the Chairman of the U.S.-China Economic and Security Review Commission.

Today we are releasing the Commission's report to Congress. This is the Commission's fifth major report since it was established in 2000. It is the work of our 12 member, bipartisan Commission, which was created to advise Congress on policy toward China. I am happy to say that this report was adopted unanimously by all 12 of our Commissioners.

The Commission held seven hearings this year including a field hearing in North Carolina and conducted independent research projects relevant to the report and to our mandate from Congress to "monitor, investigate and report . . . on the national security implications of the bilateral trade and economic relationship" between the two countries. The Commission traveled to China and met with Chinese government and party officials, business leaders, and some of China's top scholars. We also met with American diplomats and business people in China. Commissioners also traveled to Hong Kong, Taiwan, and India. Our findings from these trips are contained in the report.

In addition, the Commissioners attended intelligence briefings in Washington and at the Wright Patterson Air Force Base in Ohio, which is home to the National Air and

Space Intelligence Center. This report includes some information from those briefings but most of our conclusions from them will be contained in a separate, classified report.

The Commission's conclusions in this report are a mixture of good news and bad. China has taken a constructive role in reaching agreement among six nations to dismantle North Korea's nuclear weapons production capacity. China has agreed to send a combat engineering battalion to Sudan to help with the U.N.'s peacekeeping and reconstruction activities there, and is showing signs of interest in strengthening its export control system to limit proliferation. China's economic policies have helped lift 200 million of its people out of poverty, and its leaders also have begun to acknowledge the widespread environmental degradation of China's air and water.

But, this past year revealed some disturbing trends in China. Rather than continue down the path towards a more market-based economy, China reversed course. In its 11th Five Year Plan, Beijing listed a dozen industries that it retains under central government control and ownership. These industries include information technology, telecommunications, shipping, civil aviation, and steel. This is problematic for several reasons. For one, these industries are more likely to receive the kinds of subsidies, such as export-dependent tax cuts and low interest rate loans, that will continue to make them unfair global competitors. For another, by walling off a large sector of the economy from public ownership, China isn't fulfilling

the expectations of the members of the World Trade Organization who voted to admit China in 2001. China's actions certainly violate the spirit and principles of the WTO. Free and fair trade depends on a market approach to international commerce, rather than a contest among governments and their closely owned and subsidized industries.

While speaking of subsidies and violations of free market principles, it is worth noting here that China is continuing to manipulate the value of its currency in order to gain an unfair export advantage. Meanwhile, China has not fulfilled its many promises to protect the intellectual property of foreign business software and entertainment companies from rampant piracy, just to cite two industries important to the U.S. economy. Nor has China reduced the many subsidies provided to exporting industries in China. As of this year, both of these issues are subjects of formal complaints before the World Trade Organization, a development that the Commission has advocated in the past.

The Commission has examined China's energy and environmental policies over the past year as well. China's lack of energy efficiency and poor enforcement of environmental regulations, are creating devastating environmental effects that threaten China, the United States, and other nations. China's strategy for acquiring energy resources—a reliance on acquiring oil at the wellhead rather than through the international markets, for example—also concerns the Commissioners. As a result,

China continues to invest in countries whose governments perpetuate human rights abuse, such as Sudan, Iran and Burma. China's energy use patterns have also added substantially to the air pollution over the Western United States.

Among the Commission recommendations are increased efforts by the United States and China to develop joint efforts to monitor and prevent pollution through advanced technologies.

The Commission also examined China's media and information controls and their impact in China and the United States. Such controls have actually grown more rigid as the Communist Party seeks to maintain its monopoly on power through the use of sophisticated technologies to monitor and censor the Internet. By demanding stiff penalties for dissent on the Internet as well as rewards for journalists who play by the rules, Beijing has created one of the most effective information control regimes in the world. China's iron-fisted control of the news media in China has directly affected people outside China's borders as well. By suppressing information about dangerous products and the outbreak of diseases, China is endangering the welfare of others.

China's control and manipulation of information makes it difficult or impossible for officials responsible for food and product safety outside China to intervene to protect the health and safety of consumers. In violation of international laws, the Chinese government also jams or blocks access to

international broadcasts and Internet messages and content. Unfortunately, some U.S. technology companies have cooperated with and contributed to the Chinese government's censorship and propaganda systems by supplying hardware and software. They seem to have taken to heart Lennon's remark that, "living is easy with eyes closed." Of course, that would be John Lennon, not Vladimir.

The Commission is also concerned about the increasing ability of China's military to destroy satellites and to undertake cyber attacks against a broad array of U.S. computer networks, both government and civilian.

Now I would like to introduce my colleague on the Commission, Dan Blumenthal, who has served ably during this past year as the vice chairman.

Opening statement of Vice Chairman Daniel Blumenthal

Thank you all for coming.

I'd like to acknowledge the strong leadership of our Chairman this year. I'd also like to emphasize that our report, with its conclusions and recommendations, was adopted unanimously by the Commissioners. This is unusual in Washington, as you all know. But I think our unanimity is a testament to the seriousness with which we view our relationship with China. Both the United States and China need to learn to cooperate on a range of issues.

Our work at the Commission is intended to aid that effort through constructive criticism and policy suggestions.

I'd like to first say something about the U.S. commitments contained in the 1979 Taiwan Relations Act. The United States remains committed, as it should be, to peaceful relations between Taiwan and the People's Republic of China. It is important that the two sides resolve differences peacefully.

As the chairman has noted, the Commission, in addition to visiting China and Taiwan, visited India to gauge the implications of the evolving relationship between China and India. We found that the border dispute between India and China remains unresolved and a potential destabilizing factor in the region. India is concerned about Chinese encirclement. On the other hand, we found that India and China both have a relationship with the regimes in Iran and Burma that we find troubling.

The Commission also found that the pace of military modernization in China has exceeded official U.S. estimates. China's defense industry is producing new generations of weapon systems with impressive speed and quality, in part because China has developed the capacity to integrate commercial technologies into military systems. In addition, industrial espionage has given Chinese companies an added source of new technologies.

The Commission found that the PLA is increasing its emphasis on asymmetric or disruptive warfare techniques,

such as cyber and anti-satellite warfare. We note the increase in the number of computer hacking attacks targeting government offices in the United States and Europe. Also, the Chinese missile test that destroyed a satellite this year and laser attacks by China on U.S. satellites in 2006. Both of these technological efforts seem directed squarely at U.S. military capabilities, which rely on satellites and computers far more than do those of other nations.

On a more positive note, China's adherence to its nonproliferation agreements has improved. Yet the Commission is still concerned with China's willingness to invest in and sell weapons to Iran and Sudan, both countries with abysmal human rights records.

For those of you who wish to pursue these issues further, I urge you to read our report. It will also be posted very soon on the Commission's website at USCC.gov. And with that, we will be happy to take your questions. Please identify yourselves as you ask your questions.

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