

## **ADDITIONAL VIEWS OF COMMISSIONER PATRICK A. MULLOY**

The Commission in this Report has attempted to elucidate the nature of the industrial policies and mercantilist trade practices that China has followed for 30 years to grow its economy at nearly a 10 percent annual rate. That unprecedented economic growth underpins the dramatic increase of China's military power and global political and financial influence that the Report also discusses.

It is important that our political leaders and citizens understand that these developments, with their enormous geopolitical implications, are not simply the outgrowth of free market forces and free trade. China's impressive economic growth stems from sophisticated economic policies adopted by that nation to restore its great power status. To help understand the context of what is happening, it is useful to review a little Chinese history.

China was for thousands of years the dominant power and civilization in Asia. The Chinese considered their Emperor the supreme political authority and themselves the geopolitical center of the world. China's Qing Dynasty (1644–1911) at its high point around 1760, was cultured and wealthy, held sway over a vast territory, and received tributes from neighboring states.

When the Western powers, whose strength was being fueled by industrialization and scientific advances, arrived in Asia in the 17th and 18th centuries, they sought to trade with the prosperous Chinese Empire. The Chinese viewed the new arrivals as barbarians, who offered little that China needed, and opened only the city of Canton as a port and then only on a part-time basis. In time the British found they could trade opium grown in India to the Chinese for the tea and porcelains the British wanted. In time the Chinese imperial authorities, disturbed by the harmful economic and social consequences of opium addiction, tried to shut off the opium imports. The British launched the first Opium War (1839–1843) in the name of free trade, and the Chinese were shocked to discover their opponent's superior military technologies and capabilities. Over the next 30 years, after a series of other conflicts between China and Western powers, the great Chinese Empire was reduced to a semi-colony. Only the so-called "Open Door" policy championed by the U.S. government saved China from total dismemberment and formal colonization. The Chinese Empire and its once proud people were totally humiliated, and by 1911 the last Emperor fell and China experienced a period of civil wars, famine, and foreign invasion. The Chinese struggled to find a way to restore their lost great power status and standard of living.

The Communist Party, led by Mao Tse Tung, eventually triumphed over the Nationalists after a long civil war. On October 1, 1949, Mao announced the founding of the People's Republic of China (PRC) and proclaimed that "China has stood up." In short order he drove foreign influences, including foreign missionaries, out of China. The trauma suffered by China during its "century of humiliation" still drives China's policies. China's President Hu Jintao in an October 1, 2009, speech marking the founding of the PRC stated:

*Sixty years ago today, the Chinese people after more than 100 years of bloody struggle, finally scored the great victory of the Chinese revolution. Sixty years ago, Chairman Mao solemnly proclaimed to the world the establishment of the People's Republic of China, and stated that the Chinese people had stood up. The Chinese nation, with some 5,000 years of civilization and history, thus entered a new historic era of development and progress.*

From 1949 to his death in 1976, Mao and his government attempted, without success, to restore China's great power status and rebuild its economy through a domestic-based, centrally planned economy. In the struggle for power after Mao's death, Deng Xiaoping emerged as China's new ruler. He promptly advocated in 1978 the development of a new economic program which could help build what the Chinese call their "comprehensive national power." That new economic strategy was built on the concept of enticing foreigners to help China grow its economy by attracting their capital, technology, know-how, and markets. Since 1978 China has grown increasingly sophisticated in its use of investment incentives such as subsidies, an underpriced currency, and import barriers. The goal is to induce foreign companies, including U.S.-based multinationals, to increase their profits by transferring production facilities, advanced technologies, and increasingly even research and development to China, where goods could be made and sold in China and also exported to America and other markets.

Since 1979, when America established official diplomatic relations with the PRC and granted it annual most-favored-nation (MFN) trading status, our country has run approximately \$2 trillion worth of trade deficits with China. Since 2001 alone, when China joined the WTO and thereby locked permanent MFN (with its low tariffs) into place, outsourcing by U.S. and other foreign companies of production to China has increased dramatically, and our China trade deficits have totaled approximately \$1.5 trillion since then. Sixty per cent of China's exports are produced by foreign-invested companies.

I would have no objection to China's growth if it was not being achieved at the expense of our own country's productive capacities and the future standard of living of our citizens and with the assistance of mercantilist trade practices that violate China's WTO and IMF treaty obligations. The shift of wealth and power from America to China that is described in this Report is not good for our nation.

After experiencing a century of decline, China developed a strategy to grow its comprehensive national power. Now our nation needs to develop a coordinated, comprehensive national policy and strategy to maintain our own manufacturing and technological base. That strategy should include modernizing our infrastructure, improving our educational system, reforming our health care system, and investing to develop new technologies. Even doing that will not be enough. We must also develop trade policies that will balance our trade account and tax policies that will incentivize American-based producers to keep good-paying jobs in this country.

### **ADDITIONAL VIEWS OF COMMISSIONERS WILLIAM A. REINSCH AND ROBIN CLEVELAND**

We join our colleagues in endorsing this report. Commissioner Reinsch has in past years been critical of a number of the recommendations in previous reports, but this year's edition largely abandons suggestions that would disrupt our bilateral relationship if implemented.

The Commission continues its 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 policymakers. In addition, now that its research contracting process has been established, the Commission has begun to fund more innovative research that will contribute significantly to our understanding of China. In the future, this is where the Commission's value added will lie. The hearings, while enlightening, risk becoming repetitive. There are only so many times one can review Chinese exchange rate policy, for example, and still learn something new. As the global economy recovers and visible irritants in the relationship are hopefully resolved, it makes more sense for the Commission to focus on research that examines some of the complex, underlying trends in China that may not make headlines today but that will challenge the relationship tomorrow.

This year's report, as usual, is critical of China on many points. Some are well-taken, but they are too often made out of fear rather than out of confidence. While blame is tempting in global policy debates—and often well placed—it is our destiny we control, not China's. Faulting Beijing for doing things in their own interest may be politically expedient but ultimately an empty gesture. Our leaders serve our people best when they act in our interests and when they persuade the Chinese to work with us in pursuit of common interests.

One such area of growing importance is climate change, a global commons issue where our interests are aligned. There, in many ways, the Chinese have quietly made progress, which is admittedly easier for them since they do not have an independent legislative process with which to contend. However, they still have not taken the lead in the developing world by stepping up with clear public commitments on reducing their emissions. The report does not review this important issue nor discuss the progress made. We hope China's policies on climate change and environmental degradation will be a matter for consideration in hearings early next year.

An additional area of growing concern is the disturbing trend away from the evolution toward a market system. When Jiang Zemin and Zhu Rongji led the government, there was an uneven but nonetheless consistent march in the direction of a market economy. Hu Jintao and Wen Jiabao, on the other hand, have halted that trend and in some areas reversed it. Instead of concentrating on meeting its WTO obligations, welcoming foreign investment, and encouraging private sector activity, the current government has turned to selecting national champions, increasing subsidies and

selective tax benefits, creating new standards barriers, and discouraging joint ventures. These actions will make China's economic relations with the rest of the world more acrimonious, as already can be seen in the growing number of unfair trade complaints being filed against China by many countries.

In the short term, this is a problem for the United States and the other victims of their practices; in the long run, it will be a problem for China as it will magnify distortions in its economy and create unsustainable bubbles. The United States has the unenviable challenge of trying to persuade China to change policies that appear to be quite successful for it in the short run by arguing that they make things worse for everybody in the long run.

As Commissioner Reinsch reflected in previous Reports, for China to become a responsible stakeholder does not simply mean that it must agree with us on all important issues. Each subsequent Report has reflected greater understanding of this point and the reality that we do best with China when we can explain to its leaders why a particular action is good for it rather than why that action is good for us. America's challenge is patience and perspective. Progress will inevitably be two steps forward and one step backward, and, most recently, the reverse. The Commission could perform a real service to Congress by making that point from time to time and recommending to Congress a degree of patience at the same time as we urge China to move more rapidly.

China, in turn, if it wishes to assume a global role commensurate with its size, potential, and aspirations, must understand and be prepared to assume the obligations of leadership, which often requires a degree of self-abnegation. China's leaders have demonstrated that they have a clear understanding of what is in their immediate interest. Their challenge will be to demonstrate they also understand what is in the larger interest of the global system of which they are a part, that the health of that system is inextricably tied with their own, and that they are prepared to act responsibly on that understanding.