

ADDITIONAL VIEWS OF COMMISSIONERS WILLIAM REINSCH AND ROBIN CLEVELAND

We support this year's report despite our opposition to several of its recommendations because we think it adequately captures many of the dilemmas and difficulties that currently beset our relationship with China. At the very time our own country is faced with a vast range of difficulties and appears divided on the correct solutions, we must also deal with a rising China that appears to have ignored or forgotten then-U.S. Trade Representative Robert Zoellick's call for China to be a "responsible stakeholder."

On the economic front, the report details the growing number of problems the U.S.—and other developed economies—has with China such as its indigenous innovation policy, its continued failure to adequately protect intellectual property, subsidies, barriers to market access, discriminatory regulations, and its undervalued currency.

It is clear that China has made a sharp turn in its economic policy over the past five years in the direction of more state control and less free market competition. This comes as a huge disappointment to the American business community which supported Chinese WTO accession as a means to integrating it into the Western market trading system. Ten years later evidence is piling up to suggest that China wants to enter the system solely on its own terms, even when they are incompatible with WTO rules or modern business practices. Many of these practices will be litigated in the WTO, where we will likely win, but the damage will by that time be done.

On the military front, the Commission has rightly focused much of its attention in this report on China's activities in the South China Sea and on its relations with North Korea and Iran. While its policies with respect to the last two are not helpful, they are also not new, and the Commission has commented on them in the past. In the South China Sea, China's vigorous assertion of its exaggerated claims has been a destabilizing force in the region that threatens to grow worse. Ironically, this has helped enhance an appreciation among the other littoral states for a strong U.S. presence there, to which we believe the Administration has responded skillfully.

China's military buildup, which we have commented on in past reports, continues, and a number of the Commission's recommendations have correctly focused on the adequacy of U.S. preparation for an enhanced Chinese presence and capability.

It is on the economic side where we believe the Commission's recommendations go astray. As we said last year in our additional views,

"The United States, recovering too slowly from the worst recession in 80 years, seems tempted to act out of fear, blaming China for our economic problems just as 20 years ago we blamed the Japanese. While blame is tempting—and often well-placed—it is *our* destiny we control, not theirs. Faulting them for doing things in their own interest is emotionally satisfying but ultimately an empty gesture. Our politicians 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.”

This means that the right answers lie in policies we should pursue to make ourselves more competitive rather than policies to hold the Chinese back. Many of those policies lie outside the Commission’s mandate, not to mention its competence. However, our inability to provide the right answers does not mean that we should suggest the wrong ones instead.

One such wrong answer is the Commission’s recommendation on tracking Chinese investment in the United States. We already have a process for blocking investments that raise national security issues. Recently updated by the Congress, it appears to be working smoothly. No doubt, there will be proposed Chinese investments that will be blocked, but there are also investments that will bring jobs and economic growth to our country, and we should welcome those as a constructive means of returning some of the dollars that China has accumulated. The recommendation is only for reporting, but it encourages a climate of paranoia about Chinese activities here that does not serve us well economically and does not dignify us as a people.

Likewise, the Commission’s recommendations for a GAO study of U.S. firms’ operations in China and a report on possible procurement of Chinese goods and services through federally subsidized contracts will contribute to the same climate while providing little useful information.

These recommendations are not in and of themselves fatal flaws in our report, but they reflect a disturbing trend in our country towards economic nationalism that focuses on finding people to blame for our problems rather than on what we must do to solve them. While this report is hardly the worst example of this trend, the Commission has missed an opportunity to rise above it and emphasize constructive rather than confrontational solutions.

In the long run, a constructive approach will be required. China is in the process of assuming a global role commensurate with its size, potential, and aspirations. As it does so, it is in our interest, as well as China’s and everyone else’s, that it take on the obligations of leadership, which require 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 on that understanding. The Commission’s job is to continue to make that point.

ADDITIONAL VIEWS OF COMMISSIONERS ROBIN CLEVELAND AND WILLIAM A. REINSCH

The Commission's report provides a frank assessment of China's economic and political policies designed to protect the Communist Party's agenda of stability, growth and self-preservation. U.S. and European policy makers and investors have expressed well founded concern about China's increasing efforts to protect and promote domestic industries by relying on market barriers, pressure to transfer technology, and capital control policies. Notwithstanding these concerns, US foreign direct investment continues to grow year on year as China continues to be viewed as a key market opportunity.

As noted in the report, US economic growth and export strength relies on the production of advanced technology and equipment including aircraft, medical and scientific equipment and energy related machinery. Since 2004, China has captured a larger share of the advanced technology market as evidenced by the fact that US imports of Chinese advanced technology exceeded \$10 billion, while American exports fell slightly under \$2 billion. While troubling, not all of this trade imbalance can be explained by China's aggressive mix of corporate subsidies, tax incentives, protectionism and industrial policy as the report might lead any reader to conclude.

In briefings and conversations with American corporate leaders, opportunity in China is viewed both in terms of "pull" and "push". The pull is obvious; the Chinese attract direct investment with various commercial incentives and the prospect of market opportunities. What the report fails to discuss are the reasons US companies feel pushed to move productive capacity to China. For example, in two sections in the report, GE is singled out for its decision to establish a joint venture in integrated modular avionics with the Aviation Industry Corporation of China. While several other companies are involved in similar aviation related joint ventures, the report irresponsibly relies on anonymous sources from press accounts to make a case that there are unique risks of diversion of GE's civilian technology for Chinese military purposes, notwithstanding the fact that the US government approved the transaction. As is the case with much of the report, the Commission's emphasis on China's aggressive acquisitive strategy and pursuit of security interests has the effect of presenting US companies in the unfair light of appearing to facilitate Chinese goals. The report fails to discuss key elements of business decisions GE and other companies have offered as reasons they are pushed to move production and jobs overseas.

In both hearings and meetings, witnesses have cited increasing and excessive US regulation and onerous tax burdens as among the principal business-based reasons for moving abroad. While the Commission views its primary responsibility as serving the Congress by evaluating China's security and economic policies and their impact on the United States, that focus, unfortunately, only provides a partial accounting of the reasons for our significant trade imbalances and weakening manufacturing base. Criticizing US companies for making business based decisions to prosper and drawing attention to China's aggressive and often unfair policies and practices alone will not reverse the dangerous trends in US-

China economic ties. To assure Members of Congress have a full and balanced set of options, the Commission's report should include witness' policy views and recommendations addressing the domestic factors which push US companies to move production and jobs to China.

**ADDITIONAL VIEWS OF COMMISSIONERS
CAROLYN BARTHOLOMEW AND
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In previous reports, the Commission has examined some of China's influence operation tools, including its mass media outlets, lobbyists, think tanks, and academic institutions. This year, chapter 4 looks at how China is using intelligence organizations in quasi-official (track two) policy and academic exchanges.

We believe that the Commission's research reveals that the Chinese government, through the intelligence component of the People's Liberation Army (PLA), targets retired U.S. senior-ranking flag officers as a means to convey propaganda messages and conduct perception management. This dissent expresses our disappointment that the Commission did not include in this report a vigorous explanation of this effort by the PLA and its China Association for International Friendly Contact (CAIFC).

One venue for this targeting is track two exchanges. Track two exchanges can serve useful purposes, facilitating dialogue between scholars and former government officials, increasing communication and understanding. They can also serve other, less laudable goals. Chinese participants in track two activities are vetted by, approved by, and controlled by, the Chinese Communist Party; these participants include the former chief of intelligence for the PLA, the former commander of the Nanjing Military Region (which is opposite Taiwan), and the former commander of the PLA Navy's East Sea Fleet (whose operational area includes the waters around Taiwan).

Some of the U.S. participants in these exchanges have business interests in China, which they expand through close contact with Chinese officials and former officials. Track two exchanges are useful venues to cultivate those contacts. The retired U.S. senior-rank officers also have continuing relationships with high-ranking U.S. officials with whom they previously served and with whom some communicate about their track two findings.

Inquiries made to a Commissioner by House and Senate offices and witness testimony led Commission staff to examine one particular track two exchange, the Sanya initiative. The research raises some serious questions.

The Sanya initiative was started by Admiral William Owens (USN-ret) and the China Association for International Friendly Contact. CAIFC is a front organization for the International Liaison Department of the People's Liberation Army's General Political Department, which is responsible both for intelligence collection and conducting People's Republic of China propaganda and perception management campaigns, particularly focused on foreign military forces. Admiral Owens is the former vice chairman of the Joint Chiefs of Staff. He started consulting for Huawei, the Chinese telecommunications company, in September 2009, and founded Amerilink Telecom, a start-up helping Huawei to gain access to the U.S. market. Some Members of Congress and Commissioners have voiced concern about possible Huawei ties to the Chinese military and state security apparatus and the national security implications of its participation in the U.S. market. (For example, Huawei's

chairwoman, Sun Yafang, worked for the Ministry of State Security's Communications Department before joining the company.)

The Commission's research documented participants in Sanya initiative exchanges, Chinese foreign policy propaganda messages, and follow-up meetings that some of the former U.S. military participants held with currently serving officials. It also reviewed articles published by these U.S. participants and tracked how the articles reflected Chinese government messaging. It is possible, of course, that the U.S. participants were only espousing views that they already held. We need to ensure, though, that they are not using their former positions in violation of the public trust and the positions they once held to the detriment of U.S. national security all for the benefit of their own financial interests.

We are disappointed that the Commission, while in possession of the facts, chose not to include this information in the 2011 Report. We believe that the issue warrants a deeper and more thorough investigation by the U.S. Congress.