



U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

***Hearing on the Extent of the Government's Control of China's Economy, and Implications for
the United States***

Opening Statement of

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Co-chair

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Good morning and welcome. My name is Jeffrey Fiedler. I am one of the co-chairs of this two-day hearing.

The Commission's interest in state-owned enterprises arises from several concerns. As you have heard, China's intent to retain ownership of a very large portion of its economy contradicts the spirit of the World Trade Organization and calls into question its stated goal of moving toward a more market-oriented economic system.

But the central government's plans do more than just signal a lack of faith in free markets. They also betray a cynical approach to international trade in which the object is to gain advantage over competitors by means fair or foul. As we already know, subsidies play a large role in China's economy. Low interest rate loans from state-owned banks, loan forgiveness, free land, tax rebates, discounted energy, lax labor and environmental enforcement policies have all created a massive export machine and attracted transnational corporations to move their jobs to China. The creation of "national champions" among favored industries will only encourage more subsidies.

China's mercantilism is having a profound effect on workers in the United States. As we will hear from representatives of two industries-- aviation and steel--jobs have already been lost and the loss will likely accelerate.

We will also hear from a panel on China's foreign investments abroad. China is sitting on the largest pool of foreign exchange ever assembled by a single government-- \$1.2 trillion. This is a sum large enough to purchase nearly nine percent of the stocks in the S&P 500. We know of China's plans to move out of its investments in dollar-denominated bonds into equities only through press reports about the formation of its as-yet-un-named government investment arm. That and its announcement last week that it will purchase a \$3 billion stake in Blackstone Group.

Finally, please take note that tomorrow's hearing will begin at 10 am in a different room—Room 385 Russell where will hear from representatives and experts from the U.S. steel and aviation industries.