



U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

Hearing on “U.S.-China Trade Impacts on the U.S. Defense Industrial Base”

**Opening Statement of
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Commissioner and Hearing Cochair**

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The capacity of American industry to innovate, surge production, and meet the needs of the American military has been a critical factor in national security. Indeed, in fighting and winning World War I and World War II, the strong American industrial base facilitated allied victories.

Today, many Americans are concerned that the shift of American production capabilities overseas will leave the United States unable to respond to future security challenges. If we fail to pay attention to our defense industrial base, should another major conflict require a surge in the production of new weapons or the support of our armed forces with intelligence and materiel, the United States may not be able to do so.

In some cases, critical industries are shifting to China, the principal focus of this commission. In other cases, American leaders are concerned that excessive dependence on other countries, for defense production could leave the United States unable to surge in capacity should an ally fall, or refuse to cooperate with the U.S. because of serious disagreements over policy.

We seek to explore some of these issues today with this hearing. As we approach these matters, I want to suggest a few basic principles that I think will help our work. First, innovation is critical to industrial capacity and America’s ability to respond to new situations. It would be a mistake to bind industry and entrepreneurial activity with excessive legislation and government regulation. Excessive central planning and a “national industrial policy” can harm our national security.

Also, if a technology, material or industrial process is widely available in the global market place, it does not need to be protected as part of a defense industrial base. National security should not be an excuse for protectionism. We should focus on critical technologies, industries and skills where the United States lead is absolutely unique and has a military application.

Policies should encourage investment in research and development to support a robust defense industrial base. But the United States does not need the capacity to do everything. There should be cooperation and sharing with close allies. There are some allies that so closely share American values and interests that they can be relied on as good partners.

The United States and its allies must protect critical, unique defense-related technologies from potential adversaries. Our security policies should impose research, development and manufacturing costs on potential adversaries and competitors. We should not allow potential adversaries to steal technology, or to insist it be transferred to them as some incentive for investment in another area. If a cooperating partner or ally transfers militarily critical technologies, weapons or industrial capacity to a potential adversary, that partner should be eliminated from future cooperation in that area. This policy should apply not only to companies but also to nations.

America's closest allies should be considered to be reliable partners for all defense materials. If they prove to be pursuing policies that harm American interests, then we should be prepared to address the matter and if necessary re-evaluate our geostrategic, military and economic partnerships.

There are few nations that might seriously challenge the United States from a security or economic standpoint in the future. China is certainly one of them. I would say Iran bears watching. So do India and Russia. In the late 1970s and 1980s the United States enjoyed a good strategic partnership with China. The two nations cooperated closely in the security sphere to frustrate Soviet military expansion and to frustrate the expansion of the Socialist Republic of Vietnam into Cambodia and potentially into Thailand. The use of the Chinese military to suppress democracy at home as well as the fall of the Soviet Union changed the basis for that cooperation.

Over the past 15 years the Chinese defense budget has grown at a double-digit rate annually. China has added military capacity that is specifically designed to be used against Taiwan and American military forces. At the same time, China and the U.S. have parallel or complementary national interests in a number of areas, including trade, banking, combating illegal drugs, and in maintaining stability on the Korean peninsula. Therefore, it is prudent that we ensure that the capacity of the United States to respond to potential challenges is strong, even while we cooperate in other areas with China.

With that, I'd like to move on to our next panel. It is a great honor for me to introduce Dr. William Schneider. There is no one more qualified to speak on the U.S. Defense Industrial Base. Dr. Schneider is presently the Chairman of the Defense Science Board. From 1982 to 1986, he served as Under Secretary of State for Security Assistance, Science and Technology. He has also served as Chairman of the President's General Advisory Committee on Arms Control and Disarmament. He is a valued consultant to the Departments of State, Defense, and Energy and I look forward to his comments today.