

## **Remarks to the U.S.-China Economic and Security Review Commission**

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Senator Jim Webb

I would like to thank Commissioners Wessel and Slane for their invitation to present remarks to the U.S.-China Economic and Security Review Commission. I applaud the decision of the Commission to hold a hearing regarding China's role in the origins of and response to the global recession.

I will initially make general remarks concerning China's response to the global economic crisis. Then I would like to briefly address how China's policy-making will present challenges to U.S. policymakers, from both a domestic and a security perspective. I will conclude by raising issues for follow-up by Congress and the U.S.-China Economic and Security Review Commission.

China has been no exception in feeling the global economic downturn. China sells 48 percent of its exports to the United States, Japan, and Europe. Over the period 2005 to 2007, 32 percent of China's growth in gross domestic product (GDP) was a result of net exports. With the downturn in the United States and elsewhere, China's exports have dropped significantly.

As this commission is aware, hundreds of thousands of migrant workers left the Guangdong Province in 2008 because of lost jobs. To put this in context, Guangdong has been at the center of China's economic expansion, averaging growth of over 13 percent of GDP since the late 1970s, several points ahead of national growth. The vice governor of the province, however, reports that the financial crisis has caused "the most difficult year after the 1998 Asian financial crisis." The Wall Street Journal estimates that 20 million migrant workers have lost their jobs in China.

The decisions made by China's leadership to address a politically and socially explosive situation may have far-reaching consequences. As Dani Rodrik at the Kennedy School noted in his assessment of global economic prospects, "China is a country of enormous tensions and cleavages beneath the surface, and these will find more occasion to erupt into open conflict in difficult economic times."

China has taken steps to stimulate its economy. Although there are some questions as to the effectiveness of China's stimulus spending, particularly as to increasing domestic consumption, it is important to emphasize the significance of a global response to the economic downturn.

At the same, China's policies may threaten the ability of the United States to return to economic growth. China, for example, has adopted new export subsidies, despite having the world's largest trade surplus.

For the time being, China is continuing to buy U.S. Treasury and other government debt instruments. As is well-known, China has spent nearly one-seventh of its economic output purchasing foreign debt, most of which is ours. As of September 2008, China

surpassed Japan as the largest foreign holder of U.S. Treasuries. The dangers of continuing to live off borrowed money have been apparent for some time, but have taken on greater significance in the current crisis. China's need to keep more money at home to respond to the economic crisis may affect our ability to continue borrowing.

Exchange rate policy presents a particular concern. A depreciation in the Renminbi would help China recapture some lost export opportunities, making their goods more attractive in dollars. Such a development, though, would exacerbate an already unprecedented trade imbalance with the United States. To date, it appears that concerns about financial outflows have kept China from making further downward adjustments to currency value.

Even as we in the United States view our evolving and important economic relationship with China through this new lens of a global downturn, we would be wise to keep in mind that strategically, there remain many serious points of contention between our two nations. China is unlikely to allow the current economic situation to adversely affect its ability to influence an area which is critical to global trade. There is evidence that China is taking steps to expand its naval power and reach, and I would ask the Commission to carefully review all of the aspects of national power that China is bringing to bear along these vital maritime corridors – from trade, to joint military exercises, to infrastructure projects in key nations, to outright military occupation of strategic islands – as it makes its recommendations.

I believe it is important, in this context, to discuss policy-making in the United States and identify the need for a new path to revitalize our economy in a way that puts our workers first. For some time now, the reigning corporate ideology in this country has been long on short-term profits and short on the obligations corporations have to the country which has nurtured their growth. We are witnessing the cost of this ideology every day.

That we live in a globalizing world in which we should be fully engaged is without doubt, but we also live in a nation state with fixed borders and workers in need of good jobs. An answer to the recklessness of short-term profit seeking is recognition of the need for a convergence of U.S. national and corporate interests. As I have stated before, there has been a tremendous transfer of our productive wealth away from the United States, a trend that imperils our economic well-being. It is long past time to reverse this dangerous trend.

In closing, any efforts that the U.S.-China Economic and Security Review Commission can make to further these goals, by collecting relevant information and data, would be helpful to Congress.

I intend to stay engaged on these important issues. Thank you for the opportunity to submit these remarks.