



FOR IMMEDIATE RELEASE

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*The U.S.-China Economic and Security Review Commission was created by Congress to report on the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China. For more information, visit [www.uscc.gov](http://www.uscc.gov) or call 202-624-1407.*

## **2013 REPORT TO CONGRESS RELEASED**

Washington, D.C. - The U.S.-China Economic and Security Review Commission released [its 2013 Report to Congress](#) today.

This year's report covers Chinese bilateral economic and trade issues, security developments in the U.S.-China relationship, and China's diplomatic efforts in the Asia-Pacific region and beyond. The report examines the nature of China's foreign direct investment in the U.S. and abroad, China's financial system and investor protections, and issues in agriculture trade and food safety between the U.S. and China. The report's analysis of security issues impacting the relationship between China, the U.S. and its allies in the region includes key developments over the last year, China's growing cyber capabilities and activities, and China's maritime disputes in the South and East China Seas. This year the report also examines China's relationships with countries in the Middle East and North Africa, cross-Strait relations, and relevant economic and security issues in China's Special Autonomous Regions of Macau and Hong Kong.

At the release event, Commission Chairman, William Reinsch, and Vice Chairman, Dennis Shea, made the following statements:

### **OPENING STATEMENT OF HON. WILLIAM A. REINSCH CHAIRMAN, U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION**

Good morning. Thank you for coming so early in the day. My name is Bill Reinsch and I have been the Chairman during this year's hearing and report cycle. I will provide an overview of the economic sections of the Commission's 2013 Annual Report to Congress, and Vice Chairman Dennis Shea will outline the national security issues examined in this year's report. We are also joined here today by other Commissioners who may wish to comment or respond to your questions. After this event, we will be going downstairs to testify at a hearing of the House Armed Services Committee, where the public and press are also welcome.

The most significant development over the past year in the bilateral relationship has been the change in China's leadership. Xi Jinping took over as President and Party General Secretary and

Li Keqiang as Premier. China's leadership change has raised expectations that the government will implement the economic reforms that Beijing has long acknowledged are necessary. Many of those changes have been also been recommend by the Commission. There are some indications that change for the better is already happening. The Third Plenum that just concluded promised that market forces will be allowed to exert a greater influence on the economy. The new leadership apparently takes seriously the goal of moderating the nation's growing inequality. One step in the right direction is the apparent proposed extension of land rights to China's farmers, who currently face the possibility of arbitrary seizure of their collectively-owned land by local governments. On the other hand, the state-owned sector seems to have largely escaped efforts at reform. China's large state-owned companies, concentrated in the fields of energy, telecommunications, finance, transportation, construction, and metals, enjoy a formidable global advantage due to their extensive government subsidies.

China's economic growth has slowed to a pace of 7.66 percent so far this year. China's new leadership has pledged to at least maintain that rate by shifting China's industrial policy away from its dependence on exports and massive, debt-financed infrastructure projects to an economy more dependent on domestic consumption. Last Friday, the government in Beijing made additional promises to open its services sector to foreign competition in such areas as education, health care, financial services, and culture. This would be a welcome change that would greatly benefit Chinese citizens and American exporters.

Now comes the hard part for China's leadership – actually implementing these changes. Reforming the economy by empowering consumers is one necessary step in a process that will require many more. Some of those changes were topics of the Commission's hearings. For example, China's state-owned enterprises must be weaned from their long dependence on the state-owned financial system. China's banks must be allowed to compete for depositors by offering market rate interest payments and reasonable credit terms to entrepreneurs and consumers. China's government should also open its restricted financial services industry to foreign investors. At the same time, China needs to meet Western standards of auditing in order to list Chinese companies on U.S. stock exchanges. To meet its goals for reform, China must open its capital account and stop its practice of manipulating its currency against the dollar to gain an export advantage over American manufacturers.

China remains a difficult place for U.S. companies to do business. A recent survey of the Chinese affiliates of U.S. companies cited competition with Chinese government-owned companies, onerous licensing procedures, lax intellectual property protections, discriminatory laws and standards, and restrictions on foreign investment.

The Commission this year has noted China's hunger for U.S. agriculture products, making farm goods one of the few areas in which the United States maintains a positive balance of trade with China. Unfortunately, China still discriminates against American beef, pork, and poultry and concentrates its U.S. purchases on bulk commodities, such as animal feeds. In addition, China has not cooperated fully in granting food safety inspectors from the U.S. Food and Drug Administration the visas necessary to enter China, and U.S. food inspectors do not have ready access to Chinese food processing facilities, despite years of negotiations.

The Commission also examined China's interest in investing in the United States. While such

investment is small relative to America's other major trading partners, China's acquisition of U.S. companies is growing. With \$3.66 trillion in foreign currency reserves—the largest in the world—China has the potential to become a major investor in U.S. companies and real estate. This past year, China made its largest purchase to date of an American company, Smithfield Foods, for \$7.1 billion.

From its inception in 2001, the Commission has focused attention on China's promises to the citizens of Hong Kong to protect and foster the establishment of a representative democracy in the choice of a chief executive and a legislative council. The prospects for the promised universal suffrage in these elections appear to be declining. Political interference from Beijing, attacks on press freedom, and police surveillance of protest activities are on the rise. China's second Special Administrative Region, Macau, was also the subject of a Commission hearing focusing on lax regulation of the gambling industry there and the growing incidence of international money laundering within the Macau casinos.

The Commission submitted 41 recommendations to Congress this year. I'll highlight a few on the economic side. We spent a good deal of time looking at the bilateral trade in agricultural goods and concluded that Congress should require the FDA to increase physical inspections of Chinese food imports at the border and to inspect for pathogens and chemical, pesticide and drug residues and to conduct more frequent and thorough on-site inspections at Chinese food processing facilities. We would also like to see the USDA and the USTR review China's agricultural subsidies, discriminatory taxes on imports, and state trading and procurement policies.

We also recommend that Congress direct the Commerce Department to inventory Chinese foreign direct investment in the United States and to include details about the ownership structure of the acquiring company. We also recommend that Congress consider amending the CFIUS process to include coverage of greenfield investments in the United States. Current law only covers CFIUS consideration of mergers and acquisitions.

Our hearings this year also explored the possibility that U.S. remedies for anticompetitive actions of state-owned or state-invested foreign companies may be inadequate. Some of our current antitrust laws presuppose that all foreign state-owned companies operating in the United States are doing so on a commercial basis. As we know, however, government-owned companies may operate with entirely different priorities: sacrificing revenues in order to gain market share or to achieve absolute dominance. The Commission has recommended that Congress consider whether current law is adequate in dealing with state-owned companies operating within the United States.

Thank you for your interest in the Commission's work. When the vice chairman has concluded, we will be happy to take your questions.

**OPENING STATEMENT OF HON. DENNIS SHEA  
VICE CHAIRMAN, U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION**

Good morning, everyone, and thank you for coming today.

I want to talk about some key security and foreign policy developments that the Commission identified in its 2013 Annual Report. The Commission's deliberations on these issues were informed by hearings held throughout the year as well as our fact-finding trip to China, Taiwan, and Japan this past July. In addition to the Annual Report, I welcome you to explore our 2013 hearing transcripts, policy briefs, and supplemental research on the Commission's website, [USCC.gov](http://USCC.gov).

The 2013 Report catalogues China's steadily growing military capabilities, particularly its naval forces. China is known to be building at least seven classes of ships. These include two nuclear submarines, a conventional submarine, and two destroyers. Statements by China's new military leaders and trends in China's defense spending, research and development, and shipbuilding suggest China will continue its naval modernization for the foreseeable future and may field the largest fleet of modern submarines and surface combatants in the Western Pacific by 2020. Other major developments in 2013 include the fielding of a bomber capable of targeting U.S. facilities as far as Guam; the first public indications that China may be developing an antisatellite capability to target satellites in an altitude range that includes GPS and many U.S. military and intelligence satellites; and the Chinese military's expanding operations beyond China's immediate periphery.

In light of these developments, the Commission supports the United States' commitment to rebalancing its foreign policy to Asia. However, we fear implementation of the ambitious diplomatic, economic, and security efforts of the rebalance could be jeopardized due to declining resources. As such, the Commission's top recommendation this year is that Congress fund the U.S. Navy's shipbuilding and operational efforts to increase its presence in the Asia Pacific to at least 60 ships and rebalance homeports to 60 percent in the region by 2020. The intent is to provide the United States with the capacity to maintain readiness and presence in the Western Pacific and surge naval assets in the event of a conflict.

In 2013, the Commission continued its close examination of China's cyber capabilities. Strong evidence has emerged that the Chinese government is directing and executing a large-scale cyber espionage campaign against the United States, including the U.S. government and private companies. However, the public exposure of Chinese cyber espionage in 2013 has apparently not changed China's attitude about the use of cyber espionage to steal intellectual property and proprietary information. Mitigating the problem will require a long-term and multifaceted approach. The Commission recommends a number of measures, including the following: Congress adopt legislation clarifying the actions U.S. companies are permitted to take regarding tracking intellectual property stolen through cyber intrusions; amend the Economic Espionage Act to permit a private right of action when trade secrets are stolen; and urge the Administration to expedite progress in its implementation of Section 806 of the National Defense Authorization Act for Fiscal Year 2011, which was intended to enhance the Department of Defense's ability to address supply chain risks. In addition, in order to further mitigate the risk of Chinese cyber espionage, the Commission recommends Congress urge the Administration to prepare an inventory of existing federal use of cloud computing platforms and services and determine where the data storage and computing services are geographically located. Such inventory should be prepared annually.

Last year, the Commission noted with concern China's efforts to consolidate its expansive South China Sea claims, particularly its successful attempt to secure effective control over Scarborough Reef from the Philippines. This year, China sought to employ the same strategy to alter the status quo in its simmering territorial dispute with Japan in the East China Sea. As Beijing has escalated rhetoric surrounding the dispute, China's military and maritime law enforcement forces have sharply increased their air and maritime activity near the contested Senkaku Islands. The risks of miscalculation and confrontation at sea are real and have implications for the United States, a treaty ally of Japan. In addition to strengthening our own capabilities in the Asia Pacific, the United States should build the capacity of our partners and allies to improve maritime domain awareness in the East and South China Seas – a view you'll see reflected in our recommendations.

Turning to Taiwan, China and Taiwan in 2013 enjoyed relatively positive relations, characterized by growing economic ties and relatively amicable political relations. Despite these generally positive trends, China's cross-Strait policy remains focused on pursuing a balance of economic, political, and military power that heavily favors China with the goal of eventual unification of Taiwan. China's armed forces are more prepared than in the past to conduct several different military campaigns against Taiwan, including a partial naval blockade and a limited air and missile campaign.

The U.S.-Taiwan relationship continues to be a key component of peace and security in the Asia Pacific. But while Taiwan remains our close partner, the Commission notes the role of Taiwan in the U.S. rebalance to Asia is not entirely clear. To support the strengthening of the U.S.-Taiwan relationship, the Commission recommends Congress urge Cabinet-level officials to visit Taiwan in order to promote commercial, technological, and people-to-people exchanges. We further recommend Congress direct the Administration to permit official travel to Taiwan for senior Defense and State Department officials. With regard to deepening economic relations, the Commission recommends Congress encourage the Administration to continue discussion between the United States and Taiwan concerning a bilateral investment agreement.

This year, the Commission also examined China's relations with the Middle East and North Africa. Chinese engagement with the broader Middle East has grown significantly in recent years, mostly due to China's dependence on energy imports from the region. As its economic interests there grow, Beijing is pursuing more activist foreign policies in the region. The most prominent example is Beijing's effort to block any UN Security Council action to punish the Syrian government for its violence and human rights abuses. China also continues to provide economic and political support to Iran in the face of U.S. sanctions and international efforts to curb Tehran's destabilizing activities. In both cases we observe a China that is willing and able to influence and shape global affairs, even if at the expense of U.S. interests.

My fellow Commissioners and I look forward to working with Congress throughout the coming year to address the issues we have identified and monitor new developments as they arise. Thank you.

