



Hearing on “U.S.-China Relations in 2020: Enduring Problems and Emerging Challenges”

Wednesday, September 9, 2020

Opening Statement of Chairman Robin Cleveland

Good morning, and welcome to the last hearing of the U.S.-China Economic and Security Review Commission’s 2020 Annual Report cycle. This hearing comes as we approach the end of a cataclysmic year for China’s impact on public health, democratic processes, international security, and the global economy. The world is now poised to enter a global recession owing to the Chinese Communist Party’s mismanagement of the novel coronavirus outbreak.

Our hearing today will open by considering how Chinese leaders assess their own position in the world at the end of 2020. Our second panel will then take stock of China’s current capabilities and challenges realizing its goals. We’ll conclude by examining China’s regional engagement in the South China Sea and with Taiwan, India, and Iran.

The Commission began its research year by investigating the risks posed to the United States by greater financial integration with China, not least from China’s rapid debt buildup and the lack of transparency and the structural fragility of its financial sector. With debt eclipsing 260 percent of GDP at the end of the second quarter last year, China’s room to maneuver in issuing new stimulus is narrow. Chinese leaders have so far shied away from loose monetary policy that created China’s current debt problems, instead employing a large fiscal stimulus package to revive growth. This alternative has nonetheless embraced China’s old development model, reaffirming the primacy of heavily subsidized national champions, a dominant state sector, and state-led investment. Of note, the World Bank reported by June, fixed asset investment growth by state-owned enterprises rebounded year on year 10% growth in sharp contrast to a 7 % year on year decline in private sector investment.

The CCP has rightly called attention to the fact that it was the only major economy in recovery at the end of the second quarter. Asynchronous lockdowns may have given China a brief edge in the recovery timeline but the CCP is reliant on exports to restore growth. In 2008, when China’s leaders were last confronted with a global economic crisis, they opened up the spigots on credit, funding construction of ghost towns and white elephant projects across the country. This construction boom provided a burst of inefficient growth, but ultimately led to excess capacity in cement, steel, and glass China dumped on global markets. There is real risk that today the government is using fiscal rather than monetary stimulus to repeat past mistakes. State-led stimulus spurring China’s factories to produce goods with no buyers could lead to another bout of surplus inventories, dumping and driving down global prices.

In addition to risks related to debt and over-capacity, the virus has focused weaknesses related to the CCPs promises of poverty reduction. The “economic miracle” that lifted millions out of poverty has left millions more behind. By the end of 2019, much of rural China, some 40 percent of the country’s population, relied

on remittances from an estimated 290 million migrants working in factories, construction, and other low paying jobs, many in China's wealthy coastal cities. An internal passport system dating from 1958 prevents these workers from accessing public services in the cities they have helped build, creating two classes of citizens in Chinese society. This urban-rural divide is only deepening in China's current economic recovery. Foot traffic at Beijing and Shanghai's high-end shopping malls has returned to pre-pandemic levels, but unemployment among migrant workers was estimated as high as 50 million by a Chinese researcher in March. Reopened factories are hiring fewer positions and paying lower wages, and jobless migrants are far less likely to receive unemployment benefits than white collar urban workers. As the CCP approaches its 100-year anniversary next July, its promise to achieve a "moderately prosperous society" is clearly only met for some.

The real question for all of our witnesses today is does any of this matter to the CCP? I look forward to hearing today's expert witnesses, and thank them for joining us to share their expertise. In addition, I would like to thank the Senate Finance Committee for securing this room for our use today. I will now turn the floor over to my colleague and co-chair for this hearing, Vice Chairman Carolyn Bartholomew.