



## **Opening Statement of Kim Glas, Vice Chair**

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

**November 15, 2022**

Thank you, Chairman Wong, and good morning. Thank you all for joining us.

Our report this year builds on the significant foundation of this Commission's previous work by extending our analysis of the risks in U.S. economic ties to China and the unacceptable dependencies this risk has created. Specifically, the report and recommendations highlight the areas of two critical areas: trade and supply chains.

The Commission's top recommendation this year is significant. Over 21 years ago, PNTR was approved by Congress to permanently normalize trade relations with China with terms and conditions in exchange for market access and accession into the WTO. At the time of congressional debate on this topic, there was acknowledgement that the conditions to which China agreed, if it complied with them, would address the systemic trade distortions experienced by U.S. companies and workers and level the playing field. The terms and conditions outlined in the bilateral commitments China made in connection with its accession to the WTO included, among many others, commitments to limit subsidies, prevent dumping, protect intellectual property, open market access across most sectors, to limit the role of state-owned enterprise, and to let state owned companies make commercial decisions without state-directed industrial policies. Yet decades later the United States has experienced the substantial impacts of excessive subsidies and overcapacity, IP theft and coerced tech transfer, and market access restrictions that have harmed the U.S. economy, workers, and our supply chains, creating significant vulnerabilities to the United States' economic and national security.

The Commission's top recommendation is for Congress to direct the Administration to immediately undertake a review of China's compliance with these commitments, and, if this analysis concludes that China has failed to comply with the provisions agreed to for the establishment of permanent normal trade relations and its accession to the WTO, Congress should consider legislation to immediately suspend China's PNTR treatment and to further assess new conditions for renewal of normal trade relations with China.

Our annual report further provides a menu of policy options to mitigate the impact of China's trade practices, focusing on areas in which the United States can lead in the global arena. We also highlight opportunities to work with like-minded allies and partners to rebuild a trade system that protects the interests of workers and innovators and prevents the transfer of sensitive and dual-use technologies into the wrong hands.

China's integration within the global trade system, without meeting its obligations that integration was conditioned upon, not only challenges U.S. commercial interests, but also leaves us highly dependent on China for products and components essential for national well-being. Russia's attempts to use energy as a weapon have underlined the threat to the United States and other countries of excessive dependence on potentially hostile foreign powers for critical manufactured products and materials. Our vulnerability to China's forced disruption supply chains and our exposure to potentially unsafe components from China, such as in our pharmaceutical supply chains, remain areas of urgent and in some cases unquantified risk. We have seen how China's dominance in everything from rare earths processing to PPE production has made the United States extremely vulnerable and dependent on critical technologies for our defense and health security. The Commission's report this year advances the already active Congressional and Executive discussion on improving the resilience of U.S. supply chains by focusing on specific risks presented by U.S. economic integration with China. The report and our recommendations outline the need for further coordination and an acceleration of these activities to bolster our core capabilities and reduce vulnerabilities that put the United States at continued risk.

Importantly, our analysis includes not only an assessment of present challenges across sectors and stages of the supply chain, but an evaluation of China's strategy. Xi Jinping has been unequivocal in promoting an economic vision that aims to diminish China's dependence on exports and critical imports, while encouraging the world's companies to remain reliant on supply chains routed through China. The difficulties Russia is presently encountering further highlight to Xi the importance of achieving his goal of technological "self-reliance" and reducing China's dependence on the dollar-dominated international financial system – goals that signal Xi Jinping is preparing China to resist future international rebuke and sanctions.

Outside of trade and supply chains, other sections of this year's report detail the continued global challenges emanating from the CCP's control of China's economy. In 2022, the Chinese government continued to pursue its coercive economic policies while providing an economic lifeline to Russia amid coordinated sanctions and export controls. In examining China's energy plans and practices, the Commission found that China's climate rhetoric does not match reality: in spite of ambitious climate pledges, the country remains heavily dependent upon fossil fuels and continues to build extensive coal-fired power plant capacity.

Last but not least, the Commission followed closely the deterioration of rule of law and civil liberties in Hong Kong as the CCP violates its international treaty commitments to uphold Hong Kong's once significant autonomy. The orchestrated election of Beijing's selected chief executive and continued crackdowns on media, journalists, and peaceful political opposition mean Hong Kong is becoming more a Mainland hub to access foreign capital and markets and less an international financial center and global market once built upon the rule of law, trustworthy media, and a vibrant civil society.

Of course, many of the areas we study closely in this report reveal the increasingly negative outcomes of Xi Jinping's unchecked power within the CCP. Our recommendations are designed to present an array of options to Congress for capitalizing on U.S. strengths to protect U.S. interests and values, to cooperate with our allies and partners, and to blunt China's coercion of its neighbors and pressure it to stop its repression of the Chinese people.