



U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

Hearing on “China’s High Technology Development”

**Opening Statement of
C. Richard D’Amato
Commission Chairman**

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Stanford, CA**

Good morning and welcome to the US-China Economic and Security Review Commission’s hearing on “China’s High Technology Development.” Today’s hearing in California’s Silicon Valley continues our series of sessions around the country to take the pulse of how China’s economic rise presents both opportunities and challenges to particular sectors and regions of the U.S. economy. We are grateful to Stanford University, particularly the Hoover Institution and Stanford Law School, for all of their logistical help in bringing the Commission to Northern California and to our former commission colleague, Ambassador Robert Ellsworth, for his inspiration and guidance for this event.

Our last hearing outside of Washington, DC was also on the West Coast. This past January we were in Seattle to assess the impact of U.S.-China trade on Pacific Northwest industries, including aerospace, software, agriculture, and shipping. The Pacific Northwest region is one highly reliant on trade with Asia, and we had expected to hear testimony on the significant benefits that this region was receiving from its trade with China. However, the Commission heard witness after witness testify to both the immediate and long-term competitive challenges to regional industries from China, ranging from the advanced fields of technology and software to timber and horticulture.

This hearing will assess how far China has come as a center for technology manufacturing and, perhaps more importantly, as a center for research and development and technology innovation. We will also be examining the role China plays in the global supply chain for technology goods and the contributions that U.S. and other foreign investment has made, and continues to make, to China’s scientific and technology advancement development. These questions are essential to understanding China’s long-term challenges to U.S. economic interests and go to the heart of our congressional mandate to annually investigate the depth and breadth of U.S. technology and R&D transfers to China and the associated implications for U.S. economic and national security. Following today’s discussion, we will present Congress with key findings and policy recommendations on this issue.

A central question is to what extent and in what ways have the transfers of manufacturing capacity, R&D, and investment into China impacted the American

economy? Is it possible to measure such impacts? Finally, what policy prescriptions should we recommend to Congress to deal with imbalances or shortfalls in R&D, education and other aspects of the U.S. economy central to our national health?

The nature of globalization has made these questions much broader than the issue of direct technology transfers. For example, what is the critical level of knowledge or technology that enables the U.S. to have an advantage in certain technology sectors? Once knowledge or technology at that level is shared, is there a risk the U.S. will lose its lead in that sector? This question becomes key, when one considers, what industries are necessary to maintain national security. Once identified, what is the critical level of employment to maintain the industries in the United States? What research and development positions need to remain in the U.S. in order to ensure that science and engineering college graduates are able to enter the field?

The February 2001 Report of The United States Commission on National Security/21st Century identified the declining condition of precollege education in the United States as a critical national security problem. The National Science Foundation has echoed this concern in its reports as well. It is now 2005, what has been done to address this issue? We, here today, have the critical task to understand the scope of this concern and recommend to Congress actions that can be taken now to move the long-term trends into a positive direction.

The scope of our inquiry goes beyond the private sector to include government-to-government contacts. In 2002, this Commission recommended the establishment of a comprehensive inventory of official government-to-government science and technology (S&T) programs with China and a biennial report to Congress on the work being conducted under such programs. Congress adopted this recommendation and the latest report to be produced as a result was issued last week by the State Department. We look forward to hearing, tomorrow, from a representative of the Department about their conclusions as well as their assessment of all the avenues through which China gains access to U.S. technology.

We are honored to have former Secretary of Defense William Perry lead off our event today. Dr. Perry has a unique understanding of the geopolitical and security implications of China's economic and scientific trajectory. Moreover, we note that in a recent New York Times editorial, Dr. Perry cited concerns about the impact of declining funding for defense-based technology research and development. He stated that "If the Pentagon does not make the required investments today, America will not have dominant military technology tomorrow" and that "tech based activities have yielded advances in scientific and engineering knowledge that have given United States forces the technological superiority that is responsible in large measure for their current dominance in conventional military power."

Following Dr. Perry, we will hear testimony from U.S. corporate and investment leaders in the Silicon Valley region. James Morgan, Chairman of Applied Materials, George Scalise, President of the Semiconductor Industry Association, and Alan Wong, Senior Council for NVIDIA Corporation are here to give their assessments of China's advancement as a technology leader. We are privileged to have their on-the-ground perspective of the U.S. corporate relationship with China. We also have with us Gary

Rieschel of Mobius Venture Capital and Carl Everett of Accel Partners here to discuss both China as destination a of venture capital and the rise of US micromultinational start-ups.

In our second panel today, we will hear testimony from four scholars who have examined China's high-tech development strategies in depth. We are pleased to have Drs. Richard Suttmeier, Michael Pillsbury, Denis Simon, and Ms. Kate Walsh.

This afternoon, we will hear from Stanford's Henry Rowen, Ernest Preeg of the Manufacturers Alliance, Eamonn Fingleton, and Berkeley's John Zysman. These four panelists will discuss the US-China high-tech relationship and larger implications of globalization on US high-tech sectors.

Our last panel of the day will specifically examine challenges to US high-tech leadership. We are pleased to have Bill Archey of the American Electronics Association, John Ciacchella of AT Kearney, and Rhett Dawson of the Information Technology Industry Council.

Tomorrow we'll hear from John Gage of Sun Microsystems as well as representatives from the State Department and National Science Foundation. We will then move to an important discussion of how China's continuing weak protections for intellectual property impact the U.S. entertainment industry in particular and may act as both a driver and inhibitor of its technology development. We'll have with us John Malcolm of the Motion Picture Association of America, Darcy Antonellis of Warner Bros., Pat Choate of the Manufacturing Policy Project and Ted Fishman, author of *China Inc.*

We look forward to a highly informative event.