U.S.-China Economic and Security Review Commission

Hearing on Assessing China's Efforts to Become an Innovation Society—
A Progress Report
Opening Statement of Commissioner Dennis Shea
May 10, 2012
Washington, DC

Good morning, and welcome to the fifth hearing of the U.S.-China Economic and Security Review Commission's 2012 Annual Report cycle. My name is Dennis Shea and I am a co-chair of today's hearing. We will be examining China's efforts to foster innovation through a variety of policies, some of which are likely to have a profound effect on the economy of the United States.

China has made no secret of its ambition to shift its economy from one dependent on manufacturing products invented elsewhere to a more integrated economy that can invent, develop, and produce works whose intellectual property originated within China. The 15-year "medium and long term plan," adopted in 2006, describes 402 technologies in which China seeks to gain expertise. The plan also calls for China to limit its dependence on foreign technology to just 30 percent by 2020.

The 12th Five-Year plan, adopted last year, identifies seven "strategic emerging industries" in which Chinese corporations are expected to become global champions. They include clean energy technology; next-generation information technology; biotechnology; high-end equipment manufacturing; alternative energy; new materials; and clean energy vehicles. The goal is to triple the contribution that these industries make to Chinese GDP from 5 percent to 15 percent by 2020.

To do this, the Chinese government intends to increase spending on research and development from 1.75 percent of GDP in 2010 to 2.2 percent in 2015. By contrast, the United States spent 2.9 percent of its GDP on research and development in 2009, slightly higher than the developed country average of 2.4 percent, according to the Organization for Economic Cooperation and Development. Total expenditures by the Chinese central and local government and private sector are expected to total $2.16 trillion over five years, according to the 12th Five Year Plan.

China hopes to accomplish its goals through some traditional government policies, such as expanding education in science and technology and increasing basic research through government support. Those methods are consistent with international norms and China's aspirations to become a technological power are understandable.

But China's intention to follow shortcuts is not acceptable when it conflicts with long accepted international rules. Issues such as forced technology transfers, the promotion of exclusionary domestic technology standards, and extensive cyber espionage directed at key U.S. industries and technologies continue to complicate the U.S.-China relationship.

Today, we shall also hear about China's self-imposed barriers to becoming an innovation society. Despite years of promises and many volumes of laws and regulations issued to protect intellectual property from piracy, China has not followed through with anything approaching adequate enforcement. Until China provides protection for business software from rampant piracy, it cannot expect its own software industry to thrive.

Experts on the first and second panels will testify this morning. We will adjourn for a lunch break at 12:00 noon, after which the hearing will resume in this room at 12:50 for the remaining two panels.

Before I turn the floor over to my co-chair for this hearing, Commissioner Carte Goodwin, I would like to thank Senator Ben Nelson and his staff for securing this hearing room for us today.

###