U.S.-China Economic and Security Review Commission

Hearing on "China and the Future of Globalization"

Opening Statement of

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Commission Chairman

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I am pleased to open our two-day hearing in New York City at the Council on Foreign Relations on a topic of great scope and importance.

It is particularly fitting that we examine the nature and implications of global economic integration – what has come to be known as "globalization" – at this important institution for American foreign policy, and in this city at the center of America's global economy. After all, the Commission was established to look at how our economic and strategic goals intersect in the context of China. We are indebted to Ambassador Haass and the Council for their hospitality and assistance in convening this event. I would also like to recognize the exceptional efforts of my colleague, Commissioner Patrick Mulloy, in helping to develop the agenda for this hearing.

In its 2004 Report to Congress, the Commission set the framework for our hearing by drawing a link between the development of U.S.-China economic relations and the development of globalization writ large. The Commission stated in the report:

> *[T]he U.S.-China economic relationship is of such large dimensions that the future trends of globalization will be influenced to a substantial degree by how the United States manages its economic relations with China. It is reasonable to believe that U.S.-China economic relations will help shape the rules of the road for broader global trade relations. If current failings are remedied and the relationship is developed so as to provide broad-based benefits for both sides, globalization will likely be affected in a positive manner on a worldwide scale. If not, the opposite will likely be true.*

This Commission has been detailing for the Congress on an ongoing basis the increasing breadth of U.S.-China economic relations. The level of trade and financial flows between the two countries has reached massive proportions. Two-way trade exceeded $230 billion in 2004, including a U.S. trade deficit of $162 billion. Yet China remains a developing, non-market economy. It is a truly unprecedented economic relationship between two economies at vastly different ends of the development spectrum. The Commission believes that understanding and addressing the costs and benefits of this relationship are vital to long-term U.S. economic health and to broader global trade relations.

Globalization is dealt with in formal economics under theories of trade, investment, and comparative advantage. We intend to explore the theoretical underpinnings of globalization with our distinguished panelists and assess how they comport with today's economic realities. A key question is whether traditional theories need to be modified or recast in the face of a dramatically changing world. For example, do traditional theories of comparative advantage still hold true where the factors of production – both labor and capital – are highly mobile?

Moreover, we will examine how the U.S. economy is faring in a global environment. Surely there will be specific winners and losers from globalization in the American economy, but we hope to understand what structural changes have taken place that will alter U.S. economic fundamentals in the future. For example, to what extent are U.S. retailers driving decision-making as opposed to U.S. manufacturers? What are the implications for the arrangements hammered out between labor and management in this country over decades of negotiations?

We will further examine the causes and consequences of the U.S. trade deficit, one of the most controversial and significant outgrowths of globalization for the U.S. economy. Some economists contend that the deficit is driven by global economic trends, while others view it primarily as the result of U.S. consumption and savings trends. It is vital to understand the true dynamics at work in order to fashion an appropriate national policy response.

Lastly, the Commission believes it is essential to understand the role that U.S. tax policies play in influencing U.S. firms' global business strategies. U.S. rules for taxing or exempting from tax the income of U.S. firms' foreign subsidiaries have been criticized by many tax analysts and practitioners for providing undue incentives for U.S. firms to relocate abroad. We need to understand whether the current U.S. tax regime strikes the right balance between maintaining the competitiveness of U.S. firms doing business abroad and removing unnecessary incentives for U.S. firms to move capital and production offshore.

In the context of this hearing, it is fair to ask if globalization, per se, is being used as a convenient marquee to justify corporate or governmental behavior that is in fact intended as simply self-serving, or to circumvent labor, environmental, or other standards erected in the most developed economies. If globalization is to be used as a "one size fits all" justification for such behavior, then it is being stripped as a concept of any lasting content.

We fully recognize that even a two-day hearing can only begin to scratch the surface of these far-reaching questions. But these are questions that must be examined and understood with the goal of reaching a national consensus on how best to meet the challenges and opportunities of globalization.