U.S.-China Economic and Security Review Commission

Hearing on China's Five-Year Plan, Indigenous Innovation and Technology Transfers, and Outsourcing

Opening Statement of Commissioner Patrick Mulloy
June 15, 2011
Washington, DC

Good morning and thank you for coming to today's hearing. In this hearing the Commission will examine "China's New Five Year Plan, Indigenous Innovation and Technology Transfers, and Outsourcing." It is the eighth and final hearing of this reporting cycle.

For those who are new to our hearings, the U.S.-China Economic and Security Review Commission is a bipartisan Congressionally-chartered Commission composed of 12 members, six of whom are selected by the Majority and Minority leaders of the Senate and six by the Speaker and the Minority Leader of the House. The Commission was established by Congress in 2000 to review the national security implications of trade and economic ties between the United States and the People's Republic of China. The Commission has a broad-ranging mandate that includes examining other aspects of the U.S.-China relationship, such as China's growing military and political power.

The Commission's charter specifically charges it, among other things, to analyze "the qualitative and quantitative nature of the transfer of United States production activities to the People's Republic of China, including the relocation of high technology, manufacturing, and research and development facilities, the impact of such transfers on United States national security, the adequacy of United States export control laws, and the effect of such transfers on United States economic security and employment."

Pursuant to that latter provision, today's hearing will examine key facets of China's industrial policies, their impact on industries and job creation in the United States, and the outsourcing of jobs to China. Since 1953, the Communist Party of China has used a series of five-year plans to guide China's economic and social development. In its newly-adopted 12th Five-Year Plan China makes clear that it hopes to move up the manufacturing value chain by making explicit mention of Strategic Emerging Industries, which the Chinese government would like to see dominated by Chinese firms. These industries are: New-generation information technology, high-end equipment manufacturing, advanced materials, alternative-fuel cars, energy conservation and environmental protection, alternative energy, and biotechnology. China's goal is to take the Strategic Emerging Industries from a current combined share of 3% of Chinese GDP to 8% by 2015 and 15% by 2020.

One of the tools the Chinese government will use to grow these Strategic Emerging Industries is indigenous innovation. This policy seeks to help China move up the value-added chain. Indigenous innovation policies have drawn criticism from the U.S. and European business communities and policy makers because China uses this policy to require foreign companies to transfer their higher technologies and know-how as a condition of doing business in China or getting government procurement contracts in China.

China is doing this despite the fact that in joining the WTO it agreed to eliminate forced technology transfers. China claims that it is not violating that commitment because the decisions being made by foreign companies to transfer technology for market access are purely business decisions.

These are very important issues, and we have excellent witnesses today to help up shed some light on them, and to consider possible solutions. I would like to remind the members of our audience that all of the written statements submitted for the record are available on our website, www.uscc.gov. A transcript of today's hearing also will be published on our website at a later date.

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