



U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

Hearing on “U.S.-China Trade Impacts on the U.S. Defense Industrial Base”

**Opening Statement of
Michael Wessel
Commissioner and Hearing Cochair**

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Good afternoon and welcome back to the U.S.-China Economic and Security Review Commission’s hearing on the U.S.-China trade impacts on the U.S. defense industrial base. U.S.-China trade and investment has different impacts on a variety of industries that serve as the basis of the U.S. defense sector. It is for that reason that we will take a look at these specific industries in two panels this afternoon.

First we will examine the aerospace, manufacturing technology, and specialty metals industries. Much of the U.S.’s military might relies on aerospace technology and the industry is characterized by high-skill, high-wage jobs. In 2004, the aerospace industry contributed to 25 percent of all new manufacturing jobs. Additionally, aerospace is one sector where the U.S. enjoys a positive trade balance with China. That said, China has made acquisition of aerospace technologies a high priority. Beijing is strongly committed to developing this area and investing heavily in U.S. aerospace firms. China is looking to acquire foreign technology to assist its commercial and military aerospace pursuits. Mr. Pierre Chao, Director of Defense Industrial Initiatives at the Center for Strategic and International Studies is here today to discuss globalization in the defense industrial base and the U.S.-China trade and investment relationship in the aerospace sector.

Next, we have Dr. Paul Freedenberg, Vice President for Government Relations at the Association for Manufacturing Technology. Congress closely watches the manufacturing technology industry. The strength of our manufacturing sector has been an issue for national debate for quite some time and was a key issue in last year’s Presidential. With this in mind, Dr. Freedenberg’s testimony is one I know Congress will pay particular attention to.

Closing out our first afternoon panel will be Dr. Jack Shilling, Executive Vice President of Corporate Development and Chief Technical Officer for Allegheny Technologies, Inc. of Pittsburgh, PA to discuss the specialty metals and specialty steel industry. Dr. Shilling has testified before the Senate and House Steel Caucus that specialty metals, including specialty steel, “are essential elements of virtually every U.S. military platform.” As

China's demand for these materials rises and it appears prepared to secure supply through global acquisitions, competition for this metal will increase. What will be the availability and price consequences for U.S. defense needs?

In our last panel today, we will look at the semiconductor, information technology, and shipbuilding industries. The Defense Science Board Task Force on High Performance Microchips completed a study earlier this year on the security of the Defense Department's supply of advanced integrated circuits. Last year the Defense Department contracted with IBM to ensure a trusted foundry. This highlighted the importance of integrated circuits to our nation and the risk offshore microchip manufacture and design has on national defense. We are pleased to have Dr. William Howard, Chairman of the DSB Task Force on High Performance Microchips here today to discuss his findings and recommendations on this issue.

Next we have Dr. Jim Lewis, Senior Fellow and Director of the Technology and Public Policy Program at the Center for Strategic and International Studies. Dr. Lewis will discuss information technology in today's current network centric defense structure which is a key issue in the Department of Defense's military transformation plans. Highly advanced information technology is critical to defense communications, yet the IT industry is not motivated by defense sector needs. Rather, IT innovation is moved by commercial factors. How has globalization of the commercial IT industry affected the IT industry's response to defense needs? This is a key issue we'll discuss.

Finally, today, we have with us Ms. Amy Praeger, Director of Legislative Programs for the American Shipbuilding Association. The shipbuilding sector is an important one. We have already seen consolidation of the U.S. shipbuilding industry. And have seen Japanese shipbuilding dominate in this sector. Now, China is expanding in this area to meet its own needs, and others. Last month news reports indicated that the British Royal Navy's new supply fleet could be built in China. The rise of China as a shipbuilding power potentially has enormous implications for force projection and when we consider it's naval interests in the Taiwan Straits.

So with that, let me thank you all for being here today and let's begin with Mr. Chao.