

**Opening Statement of Dr. Robin Cleveland, Chairman  
U.S.-China Economic and Security Review Commission  
November 14, 2018**

Good morning and welcome to the release of the U.S.-China Economic and Security Review Commission's 2018 Annual Report to Congress. Each year, our Report is informed by public hearings, roundtables, briefings, open source research, and annual fact-finding trips which included Japan and Taiwan this year. The 2018 Report and recommendations were unanimously approved by the 11 Commissioners who are drawn from both parties and bring a diverse range of experience and views. Today I will touch on some of the key economic findings and themes and my colleague, Vice Chairman Carolyn Bartholomew, will speak to the foreign affairs and security findings. We will then we can move to questions from the audience.

Americans today are feeling more wary of China's economic and security position regionally and in our home market. Under President Xi we have seen centralization of party control over economic, security, and foreign affairs unprecedented since the Mao era. In sum, we can no longer expect reasonable market outcomes. Increasingly authoritarian at home and assertive abroad, Xi and the Chinese Communist Party's (CCP) challenges to U.S. leadership and global norms compel a rigorous assessment, to understand as best we can, China's real strengths and weaknesses.

A consensus has emerged that the U.S. must pursue a more robust approach to protect its economic and security interests in view of Xi Jinping and China's hostility to economic and political liberalization. As we recalibrate our policy options and tools, I want to highlight areas of growing economic concern that the Commission unanimously concurs require special policy attention.

In the unrelenting pursuit of an economic growth strategy designed to protect the CCP's power, China's government systemically provides unfair advantage to Chinese companies, particularly state-owned enterprises. The aggressive use of subsidies and sweeping policy and regulatory protections promote companies and sectors the CCP deems critical to growth including telecommunications, semiconductors, and artificial intelligence. The U.S. and our partners have repeatedly, but largely unsuccessfully, challenged China's approach in the World Trade Organization (WTO). Over 17 years, China has not met many of the promises made during its accession to the WTO; moreover, many marginal, incremental reforms have now stalled or been reversed. China's trade-distorting policies have compromised American exports and intellectual property while pumping up overcapacity and dumping products in the global market.

Amid rising trade tensions, falling real estate prices, softening consumer demand, pollution's drag on the economy,<sup>1</sup> a 25% loss of foreign currency reserves, a drop in the RMB value, persistent income inequality, and the first current account deficit in 20 years, the CCP has doubled down on its approach to growth. President Xi has directed an increase in investment spending and debt, cutting bank reserve ratio requirements, protecting otherwise non-viable state-owned enterprises and curbing outbound foreign investment and capital flight. This approach, combined with local investor demand for higher yields, has increased government, corporate, and household debt, contributed to a rise in non-performing loans and led to a proliferation of risky wealth management assets well outside government regulation. Estimates from public and private sources show China's aggregated debt in 2017 topped \$38 trillion, an investment environment which the IMF characterized as "contributing to moral hazard and

excessive risk taking”<sup>2</sup> and a Chinese think tank reported as “extremely likely to lead to financial panic.”<sup>3</sup>

The risks to American investors, commercial enterprises and economic interests are real. Pensions of our American family investors are in jeopardy because Chinese companies which have raised over \$1 trillion in capital on our stock exchanges do not comply with U.S. audit and disclosure laws.<sup>4</sup> Companies are at risk because of forced technology transfers, intentionally opaque enforcement of rules and regulations and discriminatory trade practices.<sup>5</sup> Our country is at risk because the CCP’s protection of its power and state interests poses a threat to economic stability and our deeply interconnected, global financial system.<sup>6</sup>

The Annual Report examines multiple U.S. options to address the economic challenges posed by China’s trade-distorting policies and practices. In one of our top recommendations, we consider these multi-layered risks the U.S. faces, and encourage Congressional consideration of unused authorities available to USTR. In view of the emerging concerns that Chinese policy and practice cannot be disciplined by the current narrow interpretation and application of WTO rules, we have proposed Congress determine if USTR, in coordination with U.S. allies and partners, should coordinate a “non-violation nullification or impairment” case against China, a broad approach which would challenge China’s failure to allow benefits expected under the agreement to materialize .<sup>7</sup>

Also addressed in the Report are two specialized economic sections. The first focuses on China’s agricultural sector. We report on China’s violations of its WTO commitments, policy barriers which compromise U.S. innovation and food safety, as well as unfair practices, including espionage, which restrict market access for U.S. farmers. China is our second largest market for agricultural products, and there is potential to increase this trade substantially, benefiting both Chinese consumers and American farmers. Our Report outlines how to encourage changes in the CCP’s policy and practices to improve opportunity and access.<sup>8</sup>

The second specialized section analyzes China’s high-tech development and the next generation of connectivity. Expected to unlock up to \$11 trillion in global benefits, fifth-generation wireless technology (5G) and the Internet of Things present both significant risks related to supply chain vulnerabilities, data privacy, and national security alongside vast opportunities in multiple sectors including transportation, health care, military, consumer and retail and construction services. Once again, we see the CCP using a state directed and funded approach, theft and manipulation of standards to impede foreign market access and favor Chinese companies. We have proposed OMB, NTIA and the FCC step up assessment and action to address this emerging threat.<sup>9</sup>

Finally, I would like to draw your attention to the Commission’s analysis of the Belt and Road Initiative, President Xi’s signature foreign policy. China’s objectives for the initiative are clear. They seek to fuel domestic development and increase control in China’s frontier provinces, expand markets while exporting technical standards, build hard and digital infrastructure, bolster energy security, expand China’s military reach, and advance geopolitical influence. The Commission this year recommends Congress create a fund to provide additional bilateral assistance for countries that are a target of or vulnerable to Chinese economic or diplomatic pressure, especially in the Indo-Pacific region.<sup>10</sup>

For several decades, U.S. policy toward China has been guided by the twin goals of market liberalization and political reform. The 2018 Annual Report recognizes the CCP under President Xi’s leadership has chosen a predatory economic path inconsistent with U.S. economic

interests and that political reform is dead. I will now turn to Vice Chairman Bartholomew to address the Report's conclusions regarding foreign affairs and security issues.

Thank you.

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<sup>1</sup> A 2015 study by the RAND Corporation found that every year between 2000 and 2010, air pollution led to the loss of 6.5 percent of China's GDP annually, or a combined total of \$675 billion. Keith Crane and Zhimin Mao, "Costs of Selected Policies to Address Air Pollution in China," *RAND Corporation*, 2015, iii; China's National Bureau of Statistics via CEIC database.

<sup>2</sup> U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress*, November 2018, 52.

<sup>3</sup> U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress*, November 2018, 53.

<sup>4</sup> U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress*, November 2018, 41.

<sup>5</sup> U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress*, November 2018, 43.

<sup>6</sup> U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress*, November 2018, 52.

<sup>7</sup> U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress*, November 2018, 102.

<sup>8</sup> U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress*, November 2018, 126.

<sup>9</sup> U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress*, November 2018, 442.

<sup>10</sup> U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress*, November 2018, 260.