



Hearing on “The Chinese View of Strategic Competition with the United States”

Wednesday, June 24, 2020

Opening Statement of Commissioner Kenneth Lewis

Thank you, Commissioner Kamphausen, and good morning, everyone. Thank you to our witnesses for the time and effort they have put into their excellent testimonies—to help inform and educate all of us.

As Commissioner Kamphausen indicated, the U.S. strategic competition with China occurs across many domains, most notably economic, geopolitical, and military. Of these domains, however, it is China’s economic strength that serves as the foundation from which other sources of strength are generated.

When China acceded to the WTO in December 2001, the U.S. GDP stood at \$10.6 trillion and China’s GDP was \$1.6 trillion. At that point, the US merchandise trade deficit with China was \$83 billion, with \$102 billion in imports from China and \$19 billion in exports to China.

By 2019, nearly 20 years later, the U.S. GDP had doubled to \$21 trillion, an increase of about 100 percent. In that same period, China’s GDP jumped from \$1.6 trillion to \$14 trillion, a dramatic increase of nearly 800 percent. The U.S. merchandise trade deficit with China increased to \$345 billion, with \$452 billion in imports from China and only \$106 billion in exports to China.

The U.S.-China economic relationship presents a contradictory and conflicted history. On the one hand, with the growth in the Chinese economy following China’s WTO accession, the CCP has presided over the largest economic expansion in human history. U.S. consumers enjoyed lower prices on goods imported from China, and U.S. corporations enjoyed exceptional expansion and profits. New York Federal Reserve branch economists estimate U.S. manufactured goods prices fell by 7.6 percent between 2000 and 2006 alone.

These benefits, however, came at a price for both Chinese and U.S. citizens. Chinese citizens did not gain greater political freedoms or civil liberties, nor did China become a “responsible stakeholder” in the international system, as many in the United States had hoped. At the same time, rising imports from China displaced U.S. workers, delivering a hit to U.S. manufacturing

employment. This manufacturing shift left gaps in the U.S. economy and profoundly dislocated U.S. communities. It has also given rise to a military and geopolitical adversary.

China's economic clout has allowed Beijing to gain leverage abroad. China is now the second largest economy in the world by GDP. It is also the largest global manufacturer, merchandise trader, and holder of foreign exchange reserves. Contributing to this noteworthy economic growth were a series of industrial policies designed to guide resources and investment in state-directed industries. As its economy has moved up the global value chain, Beijing's industrial plans have increasingly targeted high-end technologies critical to both China's economy and its military, including semiconductors, energy storage technologies, and aerospace. Beijing's 14th Five Year Plan, expected next year, is likely to redouble these efforts.

As China becomes increasingly aggressive in wielding its economic power, U.S. policymakers have grown alarmed at the degree of U.S. dependence on Chinese manufacturing. The COVID-19 pandemic revealed one of the most striking examples of this dependence. In 2019, China accounted for over 70 percent of U.S. imports of protective medical textile materials, such as face masks. More broadly, the United States is heavily dependent on drugs and pharmaceutical inputs sourced from China. The U.S. generic drug industry is no longer capable, for example, of producing certain critical antibiotics such as penicillin. Instead, we rely on Chinese companies for the active pharmaceutical ingredients needed to produce this and other life-saving drugs.

Addressing U.S. supply chain dependencies on China may require hard choices about the extent and type of production the United States can afford to source from a country acting in increasingly competitive and even adversarial ways. Increasingly, looking to the future of U.S.-China relations calls us to reimagine the future U.S. economy.

Our first panel today will assess Beijing's approach to strategic competition with the United States in the economic, military, and diplomatic domains.

Before we begin, I want to let everyone know that today's testimonies and transcript will be posted on our website at uscc.gov. Please also mark your calendars for our final hearing of 2020 to take place on September 9, which will review U.S.-China relations in this eventful year.

Thank you, again, for joining us today. With that, we will proceed with our first panel.