

Statement of Roger W. Robinson, Jr. Chairman,

U.S.- China Economic and Security Review Commission

Before the House Committee on Armed Services U.S. House of Representatives

June 16, 2004

Mr. Chairman and distinguished members of the Committee --

On behalf of the U.S.-China Economic and Security Review Commission, it is my pleasure to brief you on the Commission's 2004 Report to Congress, a report that I am especially proud to note received the unanimous approval of our bipartisan Commission. The Commission has compiled a report that presents an assessment of the challenges and downside risks the United States faces in its relations with China. In addition to our analysis, we provide nearly 40 recommendations to Congress for addressing these challenges and risks.

Congress gave us the overarching mission of evaluating on an annual basis "the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China." In answering this question, our research has led us to conclude that: *"a number of the current trends in U.S.-China relations have negative implications for our long-term economic and national security interests, and therefore that U.S. policies in these areas are in need of urgent attention and course corrections."*

Let me highlight just a few of our key findings:

U.S.-China Trade and Investment

The U.S.-China economic relationship is heavily imbalanced and undermining our long-term economic health. The U.S. trade deficit with China reached \$124 billion in 2003, with Chinese imports into the United States outpacing U.S. exports to China by more than five to one. While the sheer size of this deficit alone should be of concern, it is the various underlying causes that demonstrate the problem. China has artificially suppressed the value of its currency by as much as 40 percent and continues to heavily subsidize its manufacturing sector – in the form of tax incentives, preferential access to credit and capital from state-owned financial institutions, subsidized utilities, and other measures. Lastly, China's adherence to the market access commitments it made as part of its World Trade Organization (WTO) agreement has been, at best, mixed, with many U.S. producers continuing to face steep hurdles. Our report makes specific policy recommendations to Congress concerning how to redress the imbalances in our trade relationship.

Regional and Cross-Strait Developments

China is in the midst of a diplomatic offensive in Asia to reassure its neighbors of its long-term peaceful intentions. These efforts are buying time and space for China to pursue its economic development and offensive military buildup. But it is the recent developments in China's relations with Hong Kong and Taiwan that are of particular concern.

In Hong Kong, China has shown a troubling aversion to the development of democracy, and to its commitment to preserve Hong Kong's autonomy under the "one country, two systems" formula.

With regard to Taiwan, China continues to build up its offensive military capabilities targeted at the island – including a missile force of over 500 – and to make clear its intention to use force to forestall what it views as Taiwan's movements toward independence. At the same time, it is undertaking a campaign to politically and economically isolate Taiwan in the region.

Military and Technology Advancements

The pace of China's development as a platform for high-technology manufacturing and R&D – fueled by foreign investment and technical cooperation – has exceeded many outside observers' expectations. The extent to which these advances allow China to challenge U.S. competitiveness in technology development is a vital matter for U.S. economic security. The extent to which China uses its enhanced technology capabilities to accelerate its military modernization programs is of direct national security concern to the United States.

Within the context of these broad areas of focus, I'd like to draw your attention to two specific areas of our examination that are of particular significance to the work of the Committee:

First, arguably the most important test of the U.S.-China relationship will unfold in the coming months on the Korean Peninsula. It will involve China's willingness or unwillingness to use its extensive economic and political leverage to persuade Pyongyang to dismantle irreversibly its nuclear weapons and ballistic missile programs in the near-term. Time is decidedly not on our side in this crisis. We believe China must step up to this crucial task, and quickly.

Second, we have examined China's military modernization programs in-depth and are greatly concerned about their pace of development. We held a hearing in February on this topic, and commissioned an outside study regarding China's acquisitions of foreign military technology. Both highlighted the qualitative advancements China's military has made through infusions of foreign military technology and weapons systems, primarily from Russia. Our report concludes that: “*China's quantitative and qualitative military advancements have resulted in a dramatic shift in the cross-Strait military balance toward China, with serious implications for Taiwan, for the United States, and for cross-Strait relations.*”

To respond to China's military advancements, we have recommended the following:

- Congress should urge the President, the Secretary of State, and the Secretary of Defense to press strongly their European counterparts to maintain the EU arms embargo on China. The Commission believes that a lifting of the EU arms embargo will accelerate China's military modernization and may lead Russia to authorize the export of even more sophisticated systems to China.
- Congress should direct the Department of Defense to provide a comprehensive annual report to the appropriate committees on the nature and scope of foreign military sales to China, particularly from Russia and Israel.
- Congress should direct the administration to restrict foreign defense contractors who sell sensitive military-use technology or weapons systems to China from participating in U.S. defense-related cooperative research, development, and production programs. We suggest that this restriction could be targeted to cover only those technology areas involved in the transfer to China. I know the Committee has included a similar provision in the Defense Authorization bill.
- With regard to cross-Strait tensions, we call for Congress to enhance its vital role in the implementation of the Taiwan Relations Act, by, among other things, undertaking with the administration a fresh assessment of our one China policy. By this, we are not suggesting a wholesale reversal of course on this important policy that has helped avoid military conflict in the Strait for the past 25-years. We see changing realities on the ground that call for the U.S. to look at, among other things, whether changes may be needed in the way the U.S. government coordinates its defense assistance to Taiwan, how U.S. policy can better support Taiwan economically, and appropriate ways for the United States to facilitate cross-Strait dialogue.

We hope the work of our Commission will prove helpful to the Committee and can serve as a resource for your ongoing deliberations on U.S.-China matters. Thank you again for the opportunity to appear before you. I look forward to your questions.