



Statement of Vice Chairman Roger W. Robinson, Jr.  
Release of 2005 Annual Report to Congress of the  
U.S.-China Economic and Security Review Commission  
**Press Conference to Announce USCC 2005 Annual Report**

November 9, 2005

**Good morning,**

- The Commission is presenting to Congress today the results of its year-long effort to determine the current status of the U.S.-China relationship, to identify the most significant challenges and threats to U.S. interests posed by that relationship, and to recommend to the Congress how the Commission believes the United States should respond to those challenges and threats in order to ensure that our key national interests are protected and advanced.
- In assembling this report, the Commission has sought to conceive of ways in which the United States can work with China to engineer win-win arrangements that will enable us to avoid animosity, miscalculation, and conflict. The Commission recognizes that it will be harmful to let situations evolve whereby only the United States OR China can realize a satisfactory outcome, because that could well be a recipe for conflict.
- One central theme flows directly from the Commission's Congressional mandate and is treated throughout the Commission's report: economic strength cannot be separated from our national security. The impact of China on our nation's economy – through such venues as trade, U.S. investments in China, China's acquisitions in the U.S., and currency valuation – inescapably affects our national security.

- For this reason, the Commission analyzes in depth the national security implications of the overall bilateral relationship. The Commission has also examined the security implications for the United States of Chinese actions, including its offensive military modernization program, its buildup of forces, particularly missiles, arrayed against Taiwan, and its provocative actions directed at Japan and other nations in the East China Sea region. There have been some observers who have alleged that the Commission directs an inordinate amount of its attention and energy toward the bilateral economic relationship and its implications for the U.S. This report confirms beyond question that such concerns are misplaced or misguided.
- The contents of this report – both its findings and its recommendations – are not a rehash of the Commission’s 2004 Report. Although, appropriately, there are cases where the Commission recalls an observation or recommendation it made in its 2004 Report, the most significant findings and recommendations of this report are new.
- The Chairman has noted several of the key features of the report. Let me note a few several others that I believe are significant:
  - Inadequate Chinese corporate governance, disclosure, and accountability; poor regulatory supervision; rampant insider trading; frequent government intervention; and corruption continue to hinder the development of China’s domestic capital markets. A related lack of confidence in China’s domestic stock markets in Shanghai and Shenzhen has led to falling share values, which in June 2005 hit eight-year lows.
  - China’s fundraising in global capital markets has clear national security implications for the United States. For example, the U. S. Treasury Department has identified two Chinese banks against which there are allegations of money laundering activities that could be financing North Korea’s nuclear weapons programs. Because of the inadequate disclosure governance and accountability of Chinese banks and enterprises, U.S. and

other investors can rarely be sure whether their investments are free of Chinese proliferation and other military-related activities, environmental despoilage, or human and workers' rights abuses to name a few.

- China is in the midst of an extensive offensive military modernization program aimed at strengthening its force projection capabilities to confront U.S. and allied forces in the region. A major goal is to be able to deter, delay, or complicate a timely U.S. and allied intervention in the event of an armed conflict over Taiwan so China can overwhelm Taiwan and force a quick capitulation by its government. In response, the Commission recommends that Congress work to increase our military capabilities in the Western Pacific, but also take steps to increase our mutual understanding of each other – at the political level and within our nations' militaries.
  
- Although numerous U.S. sanctions have been imposed to punish Chinese enterprises for their proliferation-related offenses, they appear to be largely ineffectual, and Chinese firms continue to be involved in proliferation. In the view of most Commissioners a significant reason for this is that sanctions regimes do not extend penalties to parent companies that often have business connections in the United States, while the proliferating subsidiaries do not. We recommend that Congress address this glaring deficiency.
  
- The United States needs to reach out more creatively and involve its allies – such as Japan and the European Union – in addressing mutual trade- and security-related concerns with China. We recommend to Congress that this include cooperative work to move China toward a more meaningful upward revaluation of the Chinese currency, to secure improved Chinese IPR compliance, and to ensure that China deserves designation as a market status economy before that status is granted.

- It is very important for China to move away from its neo-mercantilist approach to obtaining energy supplies, and to purchase its supplies on the open international market. It also should engage with the International Energy Agency to help build oil stocks and to devise sound plans to release those stocks on a coordinated basis in the event of supply disruptions or speculation-driven price spikes.
  
- This report is being submitted on the basis of a very strong bipartisan vote of the Commissioners – 6 of those appointed by Congressional leaders of one party, and 5 of those appointed by Congressional leaders of the other party. In fact, partisan considerations were not an issue. This Commission has managed to attain that often-commented-on but rarely achieved Washington objective of laying partisan considerations aside and focusing squarely on the national interest.

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