

U.S.-CHINA ECONOMIC AND SECURITY REVIEW
COMMISSION

OCTOBER 30, 2006

The Honorable Ted Stevens,
President Pro Tempore of the U.S. Senate, Washington, DC
The Honorable J. Dennis Hastert,
Speaker of the U.S. House of Representatives, Washington, DC

DEAR SENATOR STEVENS AND SPEAKER HASTERT:

On behalf of the U.S.-China Economic and Security Review Commission, we are pleased to transmit the Commission's fourth Annual Report to the Congress, pursuant to Public Law 106-398 (October 30, 2000), as amended by Public Law No. 109-108 (November 22, 2005). This report responds to the mandate for the Commission "to monitor, investigate, and report to Congress on the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China." In this report, the Commission reached a broad and bipartisan consensus; it approved the Report unanimously, with all 12 members voting to approve and submit it.

In accordance with our mandate, this report includes detailed treatment of our investigations of the areas identified by Congress for our examination and recommendation. These areas are:

- **PROLIFERATION PRACTICES**—The role of the People's Republic of China in the proliferation of weapons of mass destruction and other weapons (including dual-use technologies), including actions the United States might take to encourage the People's Republic of China to cease such practices
- **ECONOMIC TRANSFERS**—The qualitative and quantitative nature of the transfer of United States production activities to the People's Republic of China, including the relocation of high technology, manufacturing, and research and development facilities, the impact of such transfers on United States national security, the adequacy of United States export control laws, and the effect of such transfers on United States economic security and employment
- **ENERGY**—The effect of the large and growing economy of the People's Republic of China on world energy supplies and the role the United States can play (including joint research and development efforts and technological assistance), in influencing the energy policy of the People's Republic of China
- **UNITED STATES CAPITAL MARKETS**—The extent of access to and use of United States capital markets by the People's Republic of China, including whether or not existing disclosure and transparency rules are adequate to identify People's Republic of China companies engaged in harmful activities
- **REGIONAL ECONOMIC AND SECURITY IMPACTS**—The triangular economic and security relationship among the United States, Taipei and the People's Republic of China (including the military modernization and force deployments of the People's Re-

public of China aimed at Taipei), the national budget of the People's Republic of China, and the fiscal strength of the People's Republic of China in relation to internal instability in the People's Republic of China and the likelihood of the externalization of problems arising from such internal instability

- **UNITED STATES - CHINA BILATERAL PROGRAMS**—Science and technology programs, the degree of non-compliance by the People's Republic of China with agreements between the United States and the People's Republic of China on prison labor imports and intellectual property rights, and United States enforcement policies with respect to such agreements
- **WORLD TRADE ORGANIZATION COMPLIANCE**—The compliance of the People's Republic of China with its accession agreement to the World Trade Organization (WTO)
- **FREEDOM OF EXPRESSION**—The implications of restrictions on speech and access to information in the People's Republic of China for its relations with the United States in the areas of economic and security policy

The Commission conducted its work through a comprehensive set of eight hearings, taking testimony from over 120 witnesses from the Congress, the executive branch, industry, academia, policy groups, and other experts. It conducted seven of these hearings in Washington, DC and conducted one field hearing in Dearborn, Michigan. For each of its hearings, the Commission produced a transcript (posted on its website—www.uscc.gov) and a letter of transmittal to the Congress containing findings and recommendations. The Commission also received a number of briefings by officials of executive branch agencies, intelligence community agencies, and the armed services, including a full-day briefing by the Commander of the U.S. Strategic Command and his staff at USSTRATCOM Headquarters at Offutt Air Force Base, Nebraska.

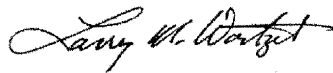
Commissioners also conducted official visits to China, Hong Kong, and Taiwan. In these visits, the Commission delegations met with the official U.S. government representatives, host government officials, representatives of the U.S. and foreign business communities, representatives of American news media, and local experts.

The Commission also relied substantially on the work of its excellent professional staff, and supported outside research in accordance with our mandate.

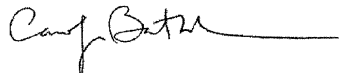
The Report includes 44 recommendations for Congressional action. Our ten most important recommendations appear on page 14 at the conclusion of the Executive Summary.

We offer this fourth Annual Report to the Congress in the hope that it will be useful as an updated baseline for assessing progress and challenges in U.S.-China relations.

Yours truly,



Larry M. Wortzel
Chairman



Carolyn Bartholomew
Vice Chairman