

2005 Annual Report Recommendations

Chapter 1 – The U.S.-China Trade and Economic Relationship

Addressing China's Currency Manipulation

- China's recent exchange rate policy reforms have to date resulted in only a 2.1 percent appreciation of the renminbi (RMB) against the U.S. dollar, leaving the RMB highly undervalued. In the absence of immediate steps to allow the RMB to appreciate by at least 25 percent against the U.S. dollar or a transparent trade-weighted basket of international currencies, the Commission recommends that Congress pursue a four-track policy to move China to take appropriate action to revalue the RMB:
 - Congress should press the Administration to file a WTO dispute regarding China's exchange rate practices. These practices continue to violate a number of its WTO and IMF membership obligations, including the WTO prohibition on export subsidies and the IMF proscription of currency manipulation. Congress should press the Administration to respond to China's violation of its international obligations by working with U.S. trading partners to bring to bear on China the mechanisms of all relevant international institutions.
 - Congress should consider imposing an immediate, across-the-board tariff on Chinese imports at the level determined necessary to gain prompt action by China to strengthen significantly the value of the RMB. The United States can justify such an action under WTO Article XXI, which allows members to take necessary actions to protect their national security. China's undervalued currency has contributed to a loss of U.S. manufacturing, which is a national security concern for the United States.
 - Congress should reduce the ability of the Treasury Department to use technical definitions to avoid classifying China as a currency manipulator by amending the 1988 Omnibus Trade Act to (i) include a clear definition of currency manipulation, and (ii) eliminate the requirement that a country must be running a material global trade surplus in order for the Secretary of the Treasury to determine that the country is manipulating its currency to gain a trade advantage.
 - The Commission recommends that Congress should urge the Treasury Department to maintain a high level of pressure on China to take more significant actions expeditiously to revalue its currency and, if such actions are not forthcoming by the time Treasury issues its next exchange rate report, to designate China as a currency manipulator and initiate bilateral and IMF negotiations.

Challenging China's IPR Violations

- The Commission recommends that Congress support USTR in taking immediate action under U.S. law and in international venues pertaining to China's violation of IPR obligations, particularly China's failure to meet the requisite standards of effective enforcement, including criminal enforcement, explicitly imposed by the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement.

Enhancing U.S. Trade Remedies

- The Commission recommends that Congress enact legislation to make countervailing duties applicable to non-market economies.

- The Commission recommends that Congress facilitate the use of the Section 421 China-specific safeguard negotiated as part of China's WTO accession. Congress should consider authorizing compensation to petitioners in the Section 421 safeguard process for legal fees incurred in cases where the ITC finds that market disruption has occurred but the President has denied relief. Congress should also consider eliminating presidential discretion in the application of relief through Section 421 petitions or limiting discretion to the consideration of non-economic national security factors.
- The Commission recommends that Congress repeal the new shipper bonding privilege that has allowed many importers of Chinese goods to avoid payment of anti-dumping duties. Importers of goods subject to anti-dumping or countervailing duties should be required to deposit in cash the amount of any estimated applicable duty.
- The Commission recommends that Congress maintain the Continued Dumping and Subsidies Offset Act of 2000 (CDSOA), notwithstanding the WTO determination that it is inconsistent with the WTO Agreement. Congress should press the Administration to seek explicit recognition of the existing right of WTO Members to distribute monies collected from antidumping and countervailing duties during the Doha Round negotiations and the review of the WTO's dispute resolution mechanism.

Countering China's Government Subsidies and Discriminatory Trade Practices

- The Commission recommends that Congress direct the Government Accountability Office (GAO) to investigate China's system of government subsidies for manufacturing, including tax incentives, preferential access to credit and capital from financial institutions owned or influenced by the state, subsidized utilities, and investment conditions requiring technology transfers. The investigation should focus in particular on the extent to which state-owned or state-invested banks in China provide loans to state-owned, state-invested, and other domestic industries on a noncommercial, preferential basis. The results of this investigation should be provided in a report to Congress that assesses whether any of these practices may be actionable subsidies under the WTO and lays out specific steps the U.S. government can take to address these practices.
- The Commission recommends that Congress urge USTR to investigate the strength of potential cases against Chinese subsidies categorized as actionable, and to file WTO disputes concerning any subsidies that meet WTO definitions for prohibited subsidies.¹ For example, scrutiny is warranted regarding China's provision of extensive subsidies for the expansion of its domestic paper products industry, which, combined with the elimination of tariffs on raw logs and high-grade paper machines and the maintenance or increase of tariffs on imports of finished wood products, supports the expansion of China's wood and paper products manufacturing industry at the expense of its trading partners' industries.

Retaining China's Non-Market Economy Status

- The Commission recommends that Congress require that the Department of Commerce obtain Congressional approval before implementing any determination that China has achieved market economy status as a country or for one or more sectors. Congress should ensure that China continues to be treated as a non-market economy in the application of antidumping and countervailing duties through 2016, as is explicitly

¹ As defined by the Agreement on Subsidies and Countervailing Measures, prohibited subsidies are benefits contingent upon export performance or import substitution. A WTO dispute regarding prohibited subsidies meets with an accelerated process. Actionable subsidies are those that harm the interest or industry of a trading partner.

permitted by China's WTO accession agreement, unless China clearly meets the statutory criteria for market economy status.

Evaluating WTO Decisions and Conducting Future Trade Negotiations

- Many areas of China's WTO accession agreement impose dramatically unequal tariffs on comparable categories of Chinese and U.S. goods. China has developed at a pace far faster than was envisioned when its WTO accession was approved and these unequal tariff rates now heavily disadvantage U.S. exporters, accelerate import competition in the U.S. market, and are no longer supportable. The Commission recommends that Congress direct USTR to examine the potential for rectifying this situation as part of the Doha Round negotiations.

Bolstering U.S. Competitiveness

- The Commission recommends that Congress direct the Commerce Department to investigate ways to diminish the transfer of technology to China that is vital to U.S. national security and economic competitiveness by way of production transfers required to facilitate sales (offsets), particularly in the aerospace field. The investigation should identify the extent to which such transfers are required by Chinese government rules or regulations for commercial sales and therefore are potentially WTO inconsistent. Further, the Commission recommends that Congress encourage the Administration to enter into negotiations with the European Union aimed at reaching an agreement to take a united approach in countering efforts by China to explicitly or implicitly require production offsets as a condition of its aircraft purchases.
- The Commission recommends that Congress convene a summit of industry and labor representatives from the U.S. textile and apparel industries and senior Executive Branch officials to assess the potential impact and develop appropriate policy responses to the crisis affecting these industries. Among the issues to be examined should be how termination of the China textile safeguard under U.S. trade law at the end of 2008 will accelerate current trends, long-term implications of post-2008 Chinese sourcing trends, and the implications for the United States of shifts in textile and apparel production.
- The Commission recommends that Congress develop a long-term national competitiveness strategy with the goal of maintaining and enhancing the U.S. standard of living, economic and technological vitality, and strength in industries critical to national security and economic security. The strategy should include the education and training of a workforce capable of responding to the rapid changes of a globalized economy. It should create policy, tax, and economic environments that encourage domestic production leading to the retention and expansion of higher value-added jobs in the United States. Finally, it should recognize specific industries that are vital to national or economic security, and ensure that a sufficient U.S. industry remains intact in those sectors.
- The Commission recommends that Congress revise U.S. international tax policy to remove incentives for U.S. firms to shift production out of the country.

Mandating Corporate Reporting

- The Commission recommends that Congress establish and fund a federally mandated corporate reporting system to gather sufficient data to provide a comprehensive understanding of the trade and investment relationship with China. Under such a system:
 - U.S. firms should be required to report to the Commerce Department their investments in China, the shift of production capacity and jobs resulting from these

investments, both from within the United States to overseas and from one overseas location to another, and their contracting relationships with Chinese firms.

- The Commerce Department should maintain an authoritative account of U.S. firms' R&D investments in China and a comprehensive assessment of their activities including any technology transfers, offsets, or R&D cooperation agreed to as part of the investment.

Supporting Dislocated Workers

- The Commission recommends that Congress fund information sessions and a public awareness campaign to inform laid-off workers about existing and newly established programs such as Trade Adjustment Assistance (TAA). Further, many workers adversely affected by trade are still excluded from receiving TAA assistance. Eligibility for TAA should be expanded to cover the broad array of workers adversely affected by trade with China, including those in the service sector and others who have not traditionally been covered. Funding should be increased to ensure that all eligible workers are able to participate fully.

Coordinating with the European Union and Japan on China Trade and Security Matters

- The Commission recommends that Congress work with the Administration to undertake more active efforts to coordinate with the EU, Japan, and other interested nations as appropriate to address mutual trade- and security-related concerns with China. Among these areas should be the following:
 - European governments and Japan share U.S. concerns about continuing large-scale IPR violations in China. Brussels, Tokyo, and Washington should coordinate their strategies on improving Chinese IPR compliance, particularly through joint action in the WTO.
 - U.S., EU, and Japanese officials should work together within the International Monetary Fund (IMF), the WTO, and other appropriate fora to move China toward a more meaningful upward revaluation of the Chinese RMB that is more reflective of current economic realities.
 - U.S., EU, and Japanese officials should work to enhance the effectiveness of the TRM within the WTO and consider undertaking an annual joint assessment of China's compliance record, in conjunction with China's other major trade partners if possible, that could serve as an alternative mechanism for measuring and improving China's compliance shortfalls.
 - U.S. and EU officials should engage with each other to evaluate China's progress toward meeting U.S. and EU criteria for market economy status with the goal of arriving at a consistent analysis that ensures that China will have taken concrete and irreversible steps to earn market economy status before the benefits of such status are conferred.
 - U.S., EU, and Japanese officials should develop coordinated responses to shared security concerns. Among the issues that should be considered is the EU's arms embargo on China, a major concern of both Japan and the United States.²

² For more on the EU arms embargo, see Chapter 3, Section 1 and Chapter 4, Section 1.

Chinese Activity in Global Capital Markets

- The Commission recommends that Congress encourage the Administration to use Executive Order 13382 to freeze the assets of Chinese firms involved in WMD or missile-related proliferation, or Chinese companies or financial institutions that may be assisting or lending to such proliferators. Congress also should encourage the Administration to expand the provisions of Executive Order 13382 so the U.S. property of a parent company can be frozen if the parent knows or has reason to know about the proliferation activities undertaken by its subsidiaries, or so the U.S. property of financial institutions can be frozen if they know or have reason to know of the involvement of their lending customers in proliferation activities.
- The Commission recommends that Congress urge the Securities and Exchange Commission to work directly with its regulatory counterparts in other nations as well as through the International Organization of Securities Commissions to press for the harmonization and independent and robust enforcement of securities laws, especially as they relate to corporate governance and reporting, transparency, and disclosure requirements.
- The Commission reiterates the recommendation in its 2004 Annual Report that Congress reinstate the provision of the 2003 Intelligence Authorization Act (P.L. 107-306, Sec 827) directing the Director of Central Intelligence to prepare an annual report identifying Chinese or other foreign companies engaged in proliferation of weapons of mass destruction or their delivery systems that have raised, or attempted to raise, funds in U.S. capital markets.
- The Commission recommends that Congress instruct the Securities and Exchange Commission to notify the National Security Council (NSC) when any Chinese firm seeks to list on a U.S. capital market, and urge the NSC upon receipt of such a notification to consider carefully all relevant intelligence and determine if the firm is involved in WMD or ballistic missile proliferation, support for terrorism, or other security-related abuses and, if so, to utilize the appropriate provisions of Executive Order 13382.

Chapter 2 – China’s Technology Development and Implications for the U.S. Defense Industrial Base

Developing a National Strategy for Technology Competitiveness

- As recommended in the Commission’s 2004 Report to Congress, the U.S. government must develop a coordinated, comprehensive national technology competitiveness strategy designed to meet China’s challenge to U.S. scientific and technological leadership. America’s economic competitiveness, standard of living, and national security depend on such leadership. The Commission therefore recommends that Congress charge the Administration to develop and publish such a strategy in the same way it is presently required to develop and publish a national security strategy that deals with our military and political challenges around the world. Such a strategy should:
 - Identify future technology base goals;
 - Recommend policies for directing funds toward maintaining the U.S. technology base;
 - Initiate a national educational program similar to the programs developed in the post-Sputnik era to enhance the level of math and science education at the K-through-12, undergraduate, and graduate levels in the United States;

- Recommend appropriate tax and investment policies to encourage high-technology-related research, development, and manufacturing activities in the United States.
- In establishing a national technology competitiveness strategy, it is critical to incorporate input from the U.S. technology industry to better align private-sector goals with national interests. To this end, the Commission recommends that the Congress create a task force regarding development and implementation of the national strategy. It should include representatives from the Office of Science and Technology Policy, the National Science Foundation, and appropriate cabinet departments such as the Department of Commerce to consult on a regular basis with select private sector leaders in key science and technology industries, representatives of the industries' skilled workers, and investment leaders, particularly venture capitalists. The intent in initiating such a task force is to create a permanent structured dialogue between the federal government and the private sector on technology base issues that have a direct effect on U.S. economic and national security. The task force should be required to report its findings and recommendations to Congress on an annual basis.
- The Commission recommends that Congress direct the Department of Commerce and the Office of the U.S. Trade Representative (USTR) to conduct a comprehensive study and report to Congress on China's development of unique domestic technology standards and whether non-performance-based standards are creating an unjustified market barrier to U.S. goods. If the study finds that China's standard setting process is acting as a market access restriction, Congress should direct USTR to identify standards under development and to intervene with Chinese officials early in the standard development process, and to consider filing a WTO case to address restrictive standards that are already in effect.
- Because of the importance of promoting interaction and exchange as a way of enhancing U.S. values and interests in the world and also of promoting U.S. economic interests, and because of the difficulties experienced in traveling to the United States by many business travelers who wish to expand trade relationships, the Commission recommends that Congress direct the President to review our nation's policies regarding student visas and business travel, ensuring that appropriate emphasis is placed on protecting the U.S. technological and economic base and U.S. security interests.

Maintaining the U.S. Defense Industrial Base

- In order to maintain a strong U.S. technological base in the key defense industries, the Commission recommends that Congress urge the President to conduct a study and recommend appropriate incentives -- such as tax policy, energy policy, etc. -- for domestic investment in research and development and in production in crucial defense-related industries.
- With China pursuing a coordinated strategy to attract investment in the semiconductor industry and in light of the extreme importance and urgency of ensuring a secure domestic supply of high-performance microchips for U.S. defense needs, the Commission recommends that Congress direct DoD to prepare an assessment of its future microchip needs and establish a carefully designed acquisition program based on that assessment that will secure a sufficient number of other "trusted and assured sources" of integrated circuits in addition to IBM (that participates in DoD's "Trusted Foundry Program").
- The Commission recommends that DoD prepare an assessment of (1) China's anticipated naval buildup over the next decade and its stated plans to source 100 percent of the necessary systems and components required for this buildup, and (2), in order to

usefully compare China's planned naval capability to U.S. naval capability, the ships, and the ship components and systems, that will be needed to meet U.S. military requirements over the next 20 years and the projected sourcing plan for all required ships, components, and systems extending to all levels of manufacturers and suppliers – specifically noting anticipated sourcing dependence on China. This exercise should provide a prognosis of the long-term viability of U.S. domestic manufacturers of ships, components, and systems needed to meet the requirements, and the critical industrial skill base those manufacturers will need – and should highlight anticipated problem areas.

Tracking China's Technology Development and Defense-Related Acquisitions

- The Commission recommends that Congress increase intelligence community resources for collection and analysis focused on China's technology development. It is crucial that U.S. policy makers have access to current, accurate, and complete information on China's technological development.
- The Commission recommends that Congress direct the Administration to begin preparing and submitting the quadrennial reviews required by law (P. L. 102-558) of any strategies by foreign countries and companies to acquire critical defense technologies. No such report has been prepared or delivered since the first report was issued in 1994.
- The Bureau of Economic Analysis currently compiles international trade data for each ATP product. The Commission recommends that Congress direct the Department of Commerce to present more detailed ATP trade data in a user-friendly format in its monthly publication, *U.S. Trade in International Goods and Services*. The data should be presented in a table that quantifies U.S. trade in each of the ATP products with the United States' top ten ATP trading partners, of which China is one. This table should present, for each of the ten countries: (1) the value of U.S. imports of each ATP product from the country; (2) the value of U.S. exports of each ATP product to the country; (3) the country's trade balance with the U.S. for each ATP product; and (4) the percentage of total U.S. imports of each ATP product accounted for by imports from that country. These data will facilitate analysis of the import dependency of the United States on specific ATP products and, more precisely, on specific ATP products from specific countries.

Proposed Amendments to the Exon-Florio Provision

- The current CFIUS process does not allow for Congressional oversight. The Commission recommends that the Exon-Florio provision be amended to require CFIUS to provide Congress notice of each proposed transaction CFIUS is requested to approve. In addition, CFIUS should be required to report to Congress on the disposition of each case it considered.
- Since economic security is an integral part of "national security," the Exon-Florio provision should be amended to specifically require CFIUS to consider economic security as well as national security in making decisions.
- This Commission recommends that Congress urge the President to transfer the chairmanship of CFIUS from the Treasury Department to another of its member agencies.
- Congress should amend the Exon-Florio Provision to require post-transaction reviews of CFIUS filings that have received full investigations, and that the results of these reviews be provided to Congress.

Chapter 3 – China’s Military Power and America’s Interests

- The Commission believes that there is an urgent need for Congress to encourage increasing U.S. military capabilities in the Western Pacific in response to growing Chinese capabilities and deployments in the area.
- The Commission recommends that Congress reaffirm that any solution to the Taiwan problem must have the voluntary assent of the people of Taiwan.
- The Commission recommends that Congress and the Administration review the issue of defense coordination with Taiwan. The Commission believes that the arms sales package should remain on offer, and it further believes that Congress should take steps to facilitate strong working relationships through such measures as authorizing the exchange of general and flag officers, conducting interactive combat data exchange with Taiwan defense forces, providing increased opportunities for Taiwan officers to be trained in the United States, and establishing institutional relationships with the Legislative Yuan to improve the oversight of defense matters.
- The Commission recommends that Congress enact legislation instructing the President and the appropriate officials of his cabinet to seek initiation of discussions with China with the objective of developing and implementing new confidence building measures (CBMs) that facilitate resolution of tensions that may develop between the two nations and to minimize misunderstanding between the nations’ civilian and military leaders at the strategic, operational, and tactical levels. These CBMs could include communications mechanisms, opportunities for opposite number leaders to meet and establish relationships with each other, regular information-sharing devices, and hot lines between DoD and the PRC’s Ministry of Defense.
- The Commission recommends that Congress mandate a thorough investigation by appropriate agencies of cyber attacks originating from China against U.S. networks. To the extent that China is determined to be responsible for, complicit in, or negligent for its failure to adequately dissuade Chinese citizens from conducting such cyber attacks, and that this action constitutes an unfriendly act against the United States, Congress should require the President to notify it of the measures that he will take under existing law, or that he recommends Congress enact, to prevent or dissuade future attacks against U.S. networks.

Chapter 4 – China’s Global and Regional Activities and Geostrategic Developments

Addressing China’s Regional Activities

- The Commission recommends that Congress work with the Administration to assess China’s objectives and tactics in regions around the globe and identify the extent to which Chinese interests run, or could run, contrary to U.S. interests. Specific areas and issues about which the Commission is concerned include China’s efforts to:
 - Secure energy resources in the Western Hemisphere, which may lead the United States to depend more heavily on Middle East oil

- Improve its relations with, and obtain access to the oil and minerals of, problematic countries such as Iran, Sudan and Zimbabwe that frustrate U.S. and other nations' efforts to curb the objectionable behavior of such countries
- Push U.S. counterterrorism forces in Central Asia out of the region
- Improve its rapport with India at the expense of the strengthening relationship between the United States and India.

To facilitate this effort, Congress should urge the Administration to increase intelligence capabilities focused on China and its global activities to increase U.S. knowledge about China's objectives and tactics.

- The Commission recommends that Congress encourage the President and the Secretaries of State and Defense to continue to press their European counterparts to maintain the EU embargo on weapons sales to China. U.S. officials must emphasize in the starkest terms that removal of the embargo is not merited by significant improvements in China's human rights actions. They also must stress that flows of weapons to China that might result from lifting the embargo could increase the risk of conflict between China and the United States and also increase the likely cost to the United States of any such conflict in time, money, materiel, and casualties – and that, consequently, the United States will view lifting the embargo with grave concern.
- The Congress should urge the Administration to reach out to and work with regional alliances, institutions, and organizations to preserve other sources of power and influence that can help to maintain political and power equilibrium in the world's various regions that may be adversely affected and distorted by a rising China.
- The Commission recommends that Congress examine whether China is eroding Hong Kong's autonomy in violation of its commitments under the Sino-British Joint Declaration of 1984, the Hong Kong Basic Law, and the principle of 'one country, two systems.' If it concludes this is occurring, Congress should determine whether to recommend to the President that he invoke the provisions of the U.S.-Hong Kong Policy Act, i.e. "whenever the President determines that Hong Kong is not sufficiently autonomous to justify treatment under a particular law of the United States ... the President may issue an Executive Order suspending the certification of section 201(a) regarding continued separate application of U.S. laws with respect to Hong Kong." The Commission believes it is important that the authorities in Beijing be aware that the question of Hong Kong's status is a matter of special concern to the Congress.

Addressing China's Proliferation Practices and Record

- Current sanctions against Chinese companies that proliferate equipment and technology related to WMD and their delivery systems should be broadened and harmonized for increased effectiveness. The Commission recommends that Congress expand current sanctions regimes to extend penalties to the parent company of a subsidiary that engages in proliferation activities, regardless of the parent company's knowledge of or involvement in the problematic transaction. Access to U.S. markets (including capital markets), technology transfers, and U.S. government grants and loans should be restricted from proliferating companies and their parent companies and related subsidiaries irrespective of the related firms' knowledge of the transfers in question.
- In cases where diplomatic efforts are unsuccessful in spurring the government of a country such as China to take effective actions to halt proliferating activity, the United States should use its economic leverage to ensure action. In connection with the recommendation above that Congress broaden and harmonize proliferation sanctions, and consonant with recommendations contained in its 2002 and 2004 Annual Reports,

the Commission recommends that Congress amend all current statutes pertaining to proliferation to—

- Coordinate and increase the array of sanctions the President is authorized to invoke against foreign governments that directly proliferate WMD, their delivery systems, and associated technologies to include increased import and export limitations; restrictions on access to U.S. capital markets; restrictions on U.S. direct investment; U.S. opposition to loans from international financial institutions; prohibition of loans from U.S. banks; reduction or elimination of foreign assistance; prohibition of arms sales and military financing; elimination of U.S. government credit or credit guarantees; prohibition of U.S. government procurement from any company based in the offending country; and restrictions on science and technology cooperation with or transfers to the offending country. The new authority should require the President to report to Congress the rationale for and proposed duration of the sanctions within 72 hours of imposing them and, in any case where the President waives imposition of such a sanction, the authority should require the President to notify Congress of the justification for that waiver.
- Authorize the President to impose the same sanctions listed above, where applicable, against a country or the government of a country in cases where companies in the country are persistently engaged in proliferation of WMD, their delivery systems, and associated technologies and where the government does not take effective steps to curtail those activities.
- The Commission recommends that the Congress urge the Administration to work closely with other countries to address Chinese proliferation issues.

Improving Port Security

- The Commission recommends that Congress direct the Department of Homeland Security to give greater priority to threats posed by waterborne shipping. As part of this effort, specific attention must be paid to the need for enhancing inspection of container seals and ensuring that appropriate paperwork accompanies these containers. Import and export containers must be refused entry without proper documentation. Proper attention must be given to ensuring that bonded agents and other personnel are able to appropriately and adequately inspect containers. Technological approaches to inspecting containers and ships must supplement, not replace, human inspections.
- Congress should press the Administration to give greater priority to its Megaports Initiative and highlight the need for China to reach agreement on this program. Refusal to cooperate on the Megaports Initiative should trigger enhanced inspection procedures on products coming from ports that have been determined to be of concern to U.S. security officials.

Pressing China to Curtail North Korea's Nuclear Weapons Programs

- China should be commended for its diplomatic activity in bringing North Korea back to the Six-Party Talks and for circulating the set of principles to which all parties agreed on September 19, 2005. The Commission recommends that Congress call on the Administration to press China to use its substantial leverage with North Korea to secure its adherence to the agreed principles.
- If North Korea fails to abide by the agreed principles it signed in September 2005, the Commission recommends that Congress direct the Administration to devise and pursue alternative methods to address this problem outside the Six-Party Talks. In such a case, Congress also should encourage the Administration to propose a United Nations Security

Council resolution that at a minimum condemns North Korea's February 10, 2005 statement and calls on it to dismantle its nuclear weapons programs and nuclear weapons. China's response to, and vote on, such a resolution will reveal its sincerity in pressuring North Korea to resolve this matter.

Addressing China's Energy Policies

- The Commission recommends that Congress:
 - Mandate the establishment of a "U.S.-China Energy Working Group" in which both nations are represented by senior government officials, supported by an advisory group composed of representatives of relevant industry, environmental, academic, research and non-governmental organizations and members of Congress. The Group should have the responsibility to (1) identify areas where both nations can most profitably work together for mutual benefit on energy issues and challenges; (2) identify and rank areas and issues with respect to which there is a significant possibility that U.S.-China energy-related conflicts will develop; (3) offer recommendations to both governments for resolving energy-related problems and disagreements; (4) offer recommendations to both governments for promoting development and use of conservation and efficiency mechanisms, alternative fuels, and other means of securing energy self-sufficiency and reducing the need for imported energy sources, especially oil; and (5) oversee and make recommendations to both governments concerning joint research and development activities in energy-related fields;
 - Encourage the initiation of new cooperative efforts with China to (1) increase the efficiency of its energy use, including energy use intensity reduction, clean coal technologies, coal-to-liquids technologies, and combustion efficiency improvements; (2) shift some current reliance on oil to coal (using advanced clean coal technology) and natural gas; and (3) explore and pursue the economic, technical, and logistical feasibility of using renewable energy sources in lieu of some portion of the projected increase in oil use. At the same time, China should be strongly encouraged to (1) abandon its policy of acquiring oil at the wellhead or field in a mercantilist fashion; (2) procure oil and gas according to international practices (i.e. purchasing it on the open international marketplace); and (3) cease providing assistance, arms, and proliferation-related technologies to problematic states in possible return for access to their energy resources; and
 - Urge the Administration to use all available bilateral and multilateral diplomatic means to persuade China to change its approach to energy security with respect to oil resources by (1) purchasing oil for import in the open international oil market; (2) coordinating its activities with the IEA; and (3) engaging in the IEA's efforts to build oil stocks and release them on a coordinated basis in the event of supply disruptions or speculation-driven price spikes.
- The Commission urges Congress to instruct the U.S. intelligence community to increase its intelligence collection with respect to Chinese activities in Africa, Central Asia, and, especially, the Western Hemisphere, in order to advise both appropriate Executive Branch and Legislative Branch officials of energy-related actions and trends that warrant careful attention and response.

Chapter 5 – China’s Media and Information Control

- The Commission recommends that Congress increase funding for the BBG’s Internet anti-censorship activities targeted at China. The BBG should be encouraged to refine its efforts to prevent illegitimate use of its services in order to avoid incidentally blocking inoffensive websites.
- The Commission recommends that Congress prohibit disclosure by U.S. companies to the Chinese government, in the absence of formal legal action by the Chinese government, of information about Chinese users or authors of online content. Congress should require that where a U.S. company is compelled to act, it shall inform the U.S. government. A compilation of this information should be made publicly available semi-annually.
- The Commission recommends that Congress create an entity within the Executive Branch to develop a comprehensive strategy to combat state-sponsored blocking of the Internet and persecution or harassment of users. The strategy should include the development and deployment of anti-censorship technologies. The strategy must adhere to certain universally recognized limitations that may appropriately be imposed, but should minimize incidental blocking of inoffensive websites.
- The Commission recommends that Congress urge the Executive Branch to respond to the Chinese government’s efforts to block VOA and RFA broadcasts and websites by vigorously and frequently raising to high-level officials of China’s government the United States’ displeasure with this practice of censorship and requesting that the government cease this practice. Additionally, Congress should recommend that the Executive Branch monitor the broadcasts in the United States of electronic media controlled by the Chinese government, such as China Central Television (CCTV), and develop and implement a plan to issue corrections of factual errors contained in those broadcasts and disseminate them to news media and influential persons and organizations within Chinese-speaking communities in the United States, as well as examine other actions that may be appropriate to directly counter these practices.