



U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

Statement of Chairman Larry M. Wortzel
Release of 2006 Annual Report to Congress of the
U.S.-China Economic and Security Review Commission

November 16, 2006

Good morning. I'd like to welcome you to the release of the 2006 report to Congress from the U.S.-China Economic and Security Review Commission. My name is Larry Wortzel. I am the chairman of the commission for this reporting cycle.

This report is the product of our 12-member, bipartisan commission. The Commission held eight hearings this year and conducted and funded independent research projects to gather information relevant to the report. The Commission also traveled to China to meet with Chinese government and communist party officials, Chinese business leaders, American diplomats and American business people working in China. We also met with many of China's top scholars. In gathering information for the report, Commission members also attended briefings at the U.S. Strategic Command in Omaha, Nebraska, consulted across the intelligence community, and within the Department of Defense.

The theme of this report is to examine how China approaches its responsibilities as a growing economic and military power. Because of its rapidly expanding economy and its export machinery, China has amassed the largest trove of foreign currency the world has ever seen. A trillion dollars worth of foreign currency reserves has accumulated in China's banks. Meanwhile, its growing naval forces are demonstrating surprising new capabilities to project force far into the Pacific and Southeast Asia.

The Commission believes that while China is a global actor, its sense of responsibility has not kept up with its expanding power. The Commission hopes that China will use its position on the United Nations Security Council and its growing political influence in Asia, Africa, and elsewhere to address many serious problems, among them the threats of terrorism, weapons proliferation, and ethnic conflict. But this has not yet happened. We are also concerned about how China is approaching its resource requirements.

China has demonstrated that it understands many of its obligations to the 149 other members of the World Trade Organization. China has made considerable progress in writing the internal legislation and regulations to comply with the agreements it made nearly five years ago to join the WTO.

But China is falling short on its implementation of those new laws and regulations and is failing to adequately enforce laws already on its books. One glaring example: China's obligation under the WTO to combat the illegal piracy of intellectual property. China has fallen woefully short of complying with international rules that protect intellectual property.

Our Commission has some concerns about the growth of the People's Liberation Army and the implications of that build-up for U.S. security. China's overall military strategy, funding priorities, and capabilities are not transparent or self-evident. In particular, China's intent toward Taiwan appears threatening as the PLA assumes an increasingly aggressive posture.

In addition, the Commission is concerned about the condition of the defense supply chain. Department of Defense logisticians cannot be sure that their supply of parts and components is secure from potential interruption. The Commission will continue to examine this important issue.

Our report contains 44 recommendations. However, the Commission has chosen to highlight its top ten recommendations. The Commission recommends:

- That Congress urge the U.S. Trade Representative to press ahead aggressively with a WTO case against China for its manifest failures to enforce intellectual property rights.
- That Congress urge the Administration to seek direct dialogue and cooperation with China to secure a resolution to the conflict in the Darfur region of Sudan that will halt the genocide occurring there and provide security and basic human rights for the affected population.
- That in response to China's efforts to isolate Taiwan, Congress encourage the Administration to implement a long-term policy to facilitate Taiwan's participation in international organizations and activities for which statehood is not a prerequisite, such as the World Health Organization, the Community of Democracy, the Proliferation Security Initiative, and other multilateral public health, counter proliferation, counter terror, and economic organizations as appropriate
- That Congress urge the Administration to seek agreement with China to carry out inspections at sea of ships bound to or from North Korean ports and establish a U.S.-China joint operation to inspect for contraband shipping containers being moved to or from North Korea when they pass through Chinese ports.
- That current sanctions against Chinese companies that proliferate equipment and technology related to weapons of mass destruction and their delivery systems be broadened and harmonized for increased effectiveness.

- That Congress instruct the Administration to insist that China fulfill its obligations under U.N. Security Council Resolutions 1695 and 1718 and take more significant measures to denuclearize the Korean peninsula and counter North Korean proliferation activities.
- That Congress direct the Administration to engage in a strategic dialogue with China on the importance of space surveillance, the military use of space, and space weapons.
- That Congress instruct the Director of National Intelligence, working with the Department of Defense, to formulate and establish a more effective program for assessing the nature, extent, and strategic and tactical implications of China's military modernization and development.
- That Congress require the U.S. Defense Department to trace the supply chains of all components of critical weapons systems.
- 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.

Now I would like to introduce my colleague on the Commission, Carolyn Bartholomew, who is the vice chairman. In case any of you are wondering, I am a Republican, Carolyn is a Democrat.