



U.S.-CHINA ECONOMIC AND SECURITY  
REVIEW COMMISSION

Statement of Vice Chairman Carolyn Bartholomew  
Release of 2006 Annual Report to Congress of the  
U.S.-China Economic and Security Review Commission

November 16, 2006

Thank you all for joining us today.

I would like to start by acknowledging the leadership of our Chairman this year, Larry Wortzel, and the commitment of our fellow Commissioners. In addition to what our Chairman has told you about our report, I note that it was approved unanimously by the twelve Commissioners. This unanimity is a testament to the spirit of cooperation among the six Democrats and six Republicans on the Commission and to Larry's work. It is also due to the serious nature of the challenges raised by China and the need to create an American consensus for addressing those challenges.

In just a few weeks, on December 11, China will reach the fifth anniversary of its admission to the World Trade Organization. This milestone also marks the deadline for China to phase in the last of its commitments to 149 other members of the WTO. In addition, this year marks almost three decades during which China has achieved a remarkable economic transformation--from a country nearly destroyed by a pointless cultural revolution to an emerging modern economic powerhouse.

But China's internal work is not yet done. While China's economic reformation has brought its population considerable material benefits, the nation has serious and growing economic disparities between rich and poor. It has also lagged in creating full opportunities for its citizens to reach their full potential by continuing to violate basic human rights, workers rights, basic political freedoms, freedom of religion, and freedom of the press.

And, as our report documents, in important ways, China is failing to meet its full potential as a responsible player on the global stage. One of these responsibilities is to abide by the rules -- both the letter and the spirit of agreements into which it enters.

On the trade front, China has failed to fulfill many of the obligations on internal market-oriented reforms it made when it joined the WTO. Rampant piracy of intellectual property, for example, continues across the country. Entire towns can depend on the revenue generated by counterfeiting. The Chinese government has failed to control such violations and typically prefers administrative fines rather than the more effective avenue of criminal prosecutions. Yet, during the Commission's trip to China last June, amid the excuses from Chinese authorities about their inability to control counterfeiting, a stark contradiction presented itself: Chinese authorities had somehow managed to prevent any counterfeiting of the 2008 Beijing Olympics logos.

There are other areas where China's promises to adhere to market principles have fallen far short. China still insists on gaining an export advantage over its trading partners by manipulating the value of its currency, a clear violation of the principles of free-market economics, not to mention the most basic rules of the International Monetary Fund. In addition, China employs a wide variety of subsidies to encourage foreign and domestic investment in export-driven manufacturing. As we are reminded every time the new trade statistics are released -- and, on a daily basis in America's working families and communities across this nation -- China is running record trade surpluses with the United States and with much of the rest of the world.

Some of China's policies and strategies threaten serious harm to our remaining manufacturing base and may, as a result, threaten our defense industrial base. China has, for example, adopted an industrial policy that encourages the nation's auto producers to partner with Western auto makers in order to obtain advanced Western technology. China, already the world's fourth largest vehicle producer, envisions an export-lead car industry and is headed toward a huge overcapacity within 10 years. The U.S. auto industry, already facing devastating employment and production cutbacks, is certain to be weakened further.

In addition, the critical skills so valuable to sophisticated car production--such as computer assisted design, tool and die making, and engine technology making use of alternative fuels--are withering, challenging some of America's defense capabilities that depend on the same skill sets and manufacturers.

Chairman Wortzel has spoken this morning of China's reluctance to assume a responsible leadership role. China's growing thirst for oil and natural gas, combined with its interest in counter-balancing U.S. power, has been leading it to unsavory partnerships with international outliers such as Iran, Burma, and Sudan. The international community is working to address the challenges posed by these and other rogue nations -- genocide and repression and the proliferation of ballistic missile technology and weapons of mass destruction. But the Chinese government has, at the least, stood in the way, and in some cases has actively contributed to the underlying problems. If the Chinese government wants to be taken seriously as a responsible partner in global affairs, it must learn to balance its narrow self-interests with the greater interests of the world community.

This year, our report started constructing a framework for defining expectations of how responsible stakeholders behave. We also focused on benchmarks for gauging how the Chinese government is doing in meeting those expectations, on trade and economic issues, military and security issues, and China's increasing presence in the global community. I wish that I could stand here today and say that things are going well and that the Chinese government is meeting the test. Unfortunately, on critical issue after critical issue, it is not. We have, therefore, once again made a series of recommendations to Congress for actions to strengthen U.S. policies in order to address the concerns.

For those of you who wish to pursue some of these issues further, I invite you to read our report. And with that, we will be happy to take your questions. If you would please, identify yourselves as you ask your questions.