

**Statement of
Carolyn Bartholomew
Commissioner, U.S.-China Economic and Security Review Commission**

**Before the House Committee on Armed Services
U.S. House of Representatives
June 16, 2004**

Mr. Chairman, Ranking Member Skelton and Members of the Committee –

Thank you for the opportunity to testify on behalf of the U.S.-China Economic and Security Review Commission. Thank you, also, for your leadership and your work in this important Committee at a time of great challenges for our nation.

I am pleased to join Commission Chairman Roger Robinson in presenting the Commission's Annual Report. As Chairman Robinson mentioned, our report this year is a unanimous and bipartisan one, no small feat given the political climate and the broad range of backgrounds, interests, and constituencies the Commissioners represent. I credit my Chairman for this achievement and commend him for his leadership.

As you are aware, Congress is our main client. I hope that you and your staff will consider us a resource in your deliberations relating to U.S.-China relations.

Listening to the memorial service for President Reagan on Friday, I was struck by the words of Baroness Thatcher, who said, "I cannot imagine how any diplomat, or any dramatist, could improve on his words to Mikhail Gorbachev at the Geneva summit: 'Let me tell you why it is we distrust you.'" This sentiment describes today the Commission's Annual Report, which provides ample documentation of why we continue to distrust the government of the People's Republic of China. The Chinese government's pattern of promises made and promises broken on trade issues, the proliferation of weapons of mass destruction technology, and on human rights and basic freedoms, continues. This pattern has serious consequences for the United States.

Among the Commission's findings:

On Economic Security:

* China is not adhering sufficiently to its WTO trade commitments; market access is still a problem for U.S. goods and services; and rampant piracy of intellectual property rights continues.

* The U.S.-China trade relationship continues to be heavily imbalanced, with a skyrocketing trade deficit of \$124 BILLION in 2003. China continues to be heavily dependent on the U.S. market, with 35% of its exports coming to the U.S. At the same time, only 4% of U.S. goods exports go to China. The deficit has grown at over 20% per year since 1990 and continues to grow at that rate in 2004.

* All of these factors, and others, including China's poor labor practices, are contributing to the erosion of the U.S. manufacturing base and the loss of jobs.

On National Security:

- * Despite claims that China is helping to halt the proliferation of weapons of mass destruction and related technology, numerous examples of such proliferation from China continue. Serious allegations have been made that North Korea is using Chinese facilities as trans-shipment points for North Korean WMD exports to third countries.
- * Despite claims that the Chinese government is helping with the North Korea crisis, and indeed, some credit is due for their assistance in getting North Korea's participation in the Six-Party Talks, serious questions exist about why China is not exerting its considerable leverage on North Korea.
- * China is channeling its economic strength into rising political influence and military power in Asia, at a time when Asian countries perceive that the U.S. is focused on challenges elsewhere in the world. Just today, the Wall Street Journal reports on the growing concern of countries in the region about China's growing influence.
- * China is also ratcheting up its military modernization programs aimed at Taiwan, and frictions are growing between China and both Taiwan and Hong Kong. One of the Commission's most far-reaching recommendations is to call for a fresh assessment of U.S.-cross-Strait Policy, its successes, failures and continued viability.

This year, the Commission also focused on a new set of issues with broad implications for the United States:

On Energy Security:

- * China has moved past Japan to rank second behind the United States in global energy consumption. It is the world's second largest oil consumer and its third largest oil importer.
- * China's rising energy demand has put added pressure on global petroleum supplies and prices. The recent escalation in gasoline prices here at home has been attributed, in part, to the impact of China's growing pressure on world oil.
- * Energy needs have driven China closer to the Middle East and Africa, as well as neighbors in Central Asia, Russia, and the Pacific.
- * China seeks to lock in secure energy supplies, especially new sources of gas and oil not subject to potential disruption in a time of conflict. It also seeks to control the resources at the well-head or the source, bypassing world market mechanisms.
- * China has sought energy cooperation with countries of concern to the United States, including Iran and Sudan, which are inaccessible by U.S. firms. Some analysts have voiced suspicions that China may have offered weapons of mass destruction-related transfers as a component of some energy deals.

The Commission report discusses in greater depth a number of other troubling aspects of the current U.S.-China relationship and their consequences.

Baroness Thatcher closed the comment cited earlier by saying of President Reagan's words, "Those words are candid and tough and they cannot have been easy to hear. But they are also a clear invitation to a new beginning and a new relationship that would be rooted in trust." We believe in the importance of a sound and strong U.S.-China

relationship which benefits both nations and is rooted in trust. To get to that point, however, we believe that a number of changes should be made to current U.S.-China policy and have developed almost 40 recommendations for your consideration, which are contained in the report.

Thank you, again, for the opportunity to testify. I look forward to your questions.