

Opening Remarks of Chairman William A. Reinsch on the 2011 Annual Report

November 16, 2011

Good morning and thank you for joining us today. My name is Bill Reinsch. I am the chairman of the U.S. China Economic and Security Review Commission. I am joined by Dan Slane, the vice chairman.

This year marks a milestone in the relations between the United States and the People's Republic of China. It has been ten years since China officially joined the World Trade Organization. By doing so, China agreed in December 2001 to a schedule of trade liberalization. In return, the United States agreed to provide Most Favored Nation status to China, just as it does for all members of the WTO.

China committed itself to undergo 10 years of annual progress reports from the World Trade Organization and to respond to questions from member states. That requirement ends this year. This transition period was based on the expectation that China would implement its WTO commitments, but the U.S. and other member states wanted a process that would permit Chinese progress to be examined closely and which would provide an opportunity for dialogue if commitments were not being honored. Our Commission was created by Congress in 2001 to monitor China's efforts and to assess China's impact on American security interests.

While China has made progress in many areas, such as lowering tariffs and eliminating some import barriers, the Commission finds that more work remains to be done. Our report addresses those areas in detail, but let me note a few that are particularly important to the United States. China has yet to create a system that effectively protects intellectual property; something that is required of all WTO members. But U.S. business software companies still report that China is the world's largest source of pirated software. About 8 of 10 computers in China still run counterfeit operating system software.

Even more disturbing, China has stepped backward from its original promise to lower trade barriers and to treat foreign products and services fairly. In 2009, China began adopting a series of policies to ban foreign goods and services from government procurement contracts. These policies, known as "indigenous innovation," are intended to discriminate against foreign goods and services and to substitute domestic goods, apparently as a device to force the transfer of technology to Chinese firms. These policies, along with China's failure to provide adequate IP protection, strike at the heart of America's greatest economic strength – its ability to innovate.

In addition, the Chinese government in the past several years has returned to relying on a system of state ownership and control of major sectors of its economy. The government directs a vast array of subsidies to favored industries and seeks to nurture particular technologies behind protective barriers. This is contrary to the spirit, and in many cases the letter, of China's WTO commitments.

This year also marked several milestones for China's decades-long military modernization efforts, fueled in part by a defense budget that has averaged 12 percent growth over the past decade. China has recently achieved several military "firsts": it flight tested its first stealth

fighter, conducted a sea trial of its first aircraft carrier, and made progress towards deploying the world's first anti-ship ballistic missile.

While all nations have the right to develop the means to defend themselves, the Commission continues to be concerned with the opacity of China's military development and intentions, which invites misunderstanding. And, in particular, our report notes China's development of its cyber capabilities, focusing on the growing evidence that Beijing sponsors or condones computer network intrusions against foreign commercial and government targets. When combined with the military's excessive focus on other disruptive military capabilities, such as counterspace operations, it presents an image of Chinese intentions that diverges significantly from Beijing's official policy of peaceful development.

As a result of China's growing economic and military strength, Beijing increasingly acts with greater assertiveness on the international stage. In the South China Sea, for example, Beijing insists on treating a multilateral maritime dispute as a series of individual bilateral issues, much to the consternation of the other claimants. Furthermore, newly acquired maritime security capabilities provide China with a means for backing up its excessive territorial claims in the region. Over the past year, China repeatedly asserted its interests by harassing Indian, Philippine and Vietnamese fishing and oil exploration vessels in the South China Sea. The willingness to place Chinese national interests ahead of regional and global stability is also demonstrated in Beijing's relations with both North Korea and Iran.

China's rapidly growing economic and military strength entitles it to play a significantly larger role in the international system. Former U.S. Trade Representative Robert Zoellick anticipated that when he called on China to be a "responsible stakeholder" nearly ten years ago. Since he said that, however, we have learned it is unrealistic to assume China will simply fit neatly and cleanly into a Western economic and political system that alternately exploited and rejected it for the past hundred and fifty years, and which the Chinese Communist Party has spent most of its life repudiating.

The Commission's overarching concern is that the process of Chinese integration into that system, which took on such promise in its WTO accession, increasingly seems to be lagging as China's policies focus on short term gains rather than long term systemic benefits. The United States supports such integration and has sought to facilitate it by persuading the Chinese that such a course is good for them as well as for everybody else. The Commission's report, as it does each year, enumerates the areas where those efforts have fallen short, which it is our duty to report. That effort should not, however, be construed as lack of support for the overall goal. Before I open it up to questions from the audience, I'd like to thank Senator Ben Nelson and the Rules Committee for the use of this room for our press conference today. Now we will take questions from the audience. Please identify yourself and your organization before you ask your question. Speak up so that others may hear you. Our moderator here will call on you in turn. I may in some cases call on other Commissioners here to help with the answers.