



U.S.-CHINA ECONOMIC AND SECURITY
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**U.S. – CHINA COMMISSION CITES CHINESE INDUSTRIAL POLICY, ROLE IN GLOBAL
FINANCIAL CRISIS, ESPIONAGE, CYBER ATTACKS, AND INFORMATION CONTROLS AS
CLOUDING U.S.-CHINA RELATIONSHIP**

Year-Long Study Offers 42 Recommendations to Congress

WASHINGTON, DC (November 19, 2009) – Despite evidence that global economic imbalances helped fuel the financial crisis, China persists in maintaining a wide variety of industrial policies to support an export and investment-led growth model. China continues to accumulate record sums of foreign currency reserves as a result of large trade surpluses. These surpluses result, in part, from China’s extensive web of subsidies to favored industries, which include tax rebates, low interest loans from state-owned banks, discounts on land, electricity and fuel, and a currency that is pegged to the U.S. dollar at an artificially low rate. These are among the conclusions in the seventh Annual Report to Congress of the U.S.-China Economic and Security Review Commission. “By providing these benefits, along with a cheap labor force without the ability to bargain collectively or join independent unions, the Chinese government has created a low-cost haven for foreign and domestic manufacturers,” said Carolyn Bartholomew, chairman of the Commission, at the release of the group’s 2009 Report to Congress on Thursday.

The bipartisan Commission, established by Congress to analyze the economic and national security relationship of the two nations, made 42 recommendations to Congress for further action. The 367-page report was unanimously approved by the 12 Commissioners. The Commission held eight hearings, travelled to China, commissioned staff and original research, and consulted with the U.S. intelligence community.

The Report details stepped up efforts by China to penetrate U.S. computer networks, particularly those of the U.S. government and contractors, and to obtain information by increasingly sophisticated espionage methods. “Although attribution is a problem in cyber attacks, the scale and coordination of the attacks strongly indicates Chinese state involvement,” said vice chairman Larry Wortzel. “In addition to harming U.S. interests, Chinese human and cyber espionage activities provide China with a method for leaping forward in economic, technological, and military development.”

The Commission also describes China’s efforts at naval modernization. “The Chinese navy has vastly increased its arsenal of advanced weapons, particularly antiship and land attack cruise missiles, and advanced naval mines,” said Wortzel. “Of particular importance is China’s attempt to develop antiship ballistic missiles, specifically planned with U.S. aircraft carriers in mind.”

The Commission held a hearing in Rochester, New York, to assess the effect of China’s industrial policy on the upstate New York region. The Report examines China’s efforts to develop an optoelectronics industry, in part by enticing the U.S industry to move production and research and development activities there.

The Report to Congress is available on the Commission’s Web Site, www.uscc.gov. Copies may be obtained by calling the Commission at 202-624-1407.