

# 2006 Annual Report Recommendations

## Chapter 1 — The U.S.-China Trade and Economic Relationship

### Currency manipulation

- The Commission recommends that Congress urge the Administration to take to the World Trade Organization (WTO) and the International Monetary Fund (IMF) a complaint about China's manipulation of its currency. This manipulation contravenes both the letter and the spirit of WTO rules and the IMF charter.
- The Commission recommends that Congress pass legislation to modify the requirements of the Treasury Department's biannual report on countries that practice currency manipulation, by making it clear that countries that artificially peg their currency in order to gain an export advantage should be identified as violating the principles of international trade. The Commission also recommends that Congress eliminate the requirement that a country must be running a global trade surplus to be designated a currency manipulator.<sup>1</sup>
- The Commission recommends that Congress enact legislation to define currency manipulation and loan forgiveness as illegal export subsidies subject to countervailing duty penalties levied against an offending country's exports.
- The Commission recommends that Congress pass legislation to allow the U.S. Department of Commerce to impose countervailing duties against non-market economy subsidies. (Although current U.S. practice does not allow such duties to be imposed against non-market economies, such actions are permitted by the WTO.)

### Accounting integrity

- The Commission recommends that Congress direct the Treasury and Commerce Departments to examine how the collection of data regarding foreign investment in the United States can be improved, placing particular emphasis on the feasibility of tracking how foreign central banks invest their reserves in dollar denominated assets.
- The Commission recommends that Congress encourage the executive branch to protest any Chinese restrictions on the free flow of financial information.
- The Commission recommends that Congress urge the executive branch to open negotiations with China to secure approval for foreign credit reporting agencies to provide uncensored ratings of all Chinese securities, and to obtain Chinese central government agreement that Chinese regulators will drop licensing and regulatory requirements that dictate criteria for the hiring of ratings analysts.

### Dispute resolution

- 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, selecting the best of many potential cases in order to

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<sup>1</sup> China currently is running a large global current account surplus. The International Monetary Fund estimates China's global current account surplus will be \$184 billion in 2006, having surged from \$68.7 billion in 2004 and \$160.8 billion in 2005. In the 1990's, however, China ran far smaller surpluses and even deficit in 1993. This recommended change would allow the Treasury Department to designate China as a currency manipulator even during a year when China's current account is in balance or in deficit.

establish a strong precedent, and that Congress urge the U.S. Trade Representative to enlist other nations to join in the case.

- The Commission recommends that Congress monitor the recent steps taken to strengthen and enlarge the international trade law enforcement office within the Office of the U.S. Trade Representative and, if the Representative needs additional resources to investigate and prosecute dispute settlement cases before the WTO, that Congress provide those resources.
- The Commission recommends that Congress direct the Administration to increase the number of intellectual property attachés in China from the Office of the U.S. Trade Representative, the U.S. Patent and Trademark Office, and the Departments of State, Commerce, Justice, and Homeland Security, and provide sufficient funding to the parent agencies to support these additional attachés.

#### Fair trade

- The Commission recommends that Congress urge the U.S. Trade Representative to strengthen its annual review of China's compliance with WTO rules by adding conclusions and recommendations to its report. (Congress instituted the requirement that the Representative prepare this report when it granted China permanent normal trade relations as part of China's admission to the WTO.)

#### Criminal penalties for intellectual property rights violations

- The Commission recommends that the U.S.-China Interparliamentary Exchange raise with the National People's Congress the need to lower the threshold for criminal prosecutions of Chinese intellectual property rights violation cases.

## **Chapter 2 — China's Global and Regional Activities and other Geostrategic Developments**

#### China's regional activities

- The Commission recommends that Congress urge the Administration to seek direct dialogue and cooperation with China with regard to securing 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. Congress should instruct the Administration to report semiannually on China's actions in Sudan and any progress that has been made through dialogue with China.
- The Commission recommends that Congress encourage the Administration to intensify engagement with Latin American nations in light of expanding Chinese interests in the region.
- The Commission recommends that Congress encourage the Administration to seek observer status for the United States in the Shanghai Cooperation Organization and that Congress also encourage the Administration to monitor closely Iran's participation in this organization.
- The Commission recommends 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,

counterproliferation, counterterror, and economic organizations as appropriate. Congress should instruct the Administration to report annually on its actions to ensure that Taiwan is not isolated in the world community.

- The Commission recommends that Members of Congress, when visiting mainland China, also visit Hong Kong, and that Congress encourage senior Administration officials, including the Secretary of State, to make visits to Hong Kong part of their travel to China.
- The Commission recommends that Congress extend the reporting requirements in Section 301 of the United States Hong Kong Policy Act of 1992, P.L. 107–115, 22 U.S.C. 5731, for five more years.

*China's proliferation and involvement in North Korea's and Iran's nuclearization activities*

- The Commission recommends that Congress urge the Administration to seek high-level dialogue with China intended to obtain strengthened and expanded nonproliferation commitments and activities from China and, in particular, (1) to obtain China's agreement to participate in the Proliferation Security Initiative and the Illicit Activities Initiative; and (2) to strengthen its export controls and their enforcement. Toward this end, the Commission recommends that Congress—
  - direct the Administration to provide increased export control technical assistance to China, and
  - appropriate funds to support that increased assistance.
- The Commission recommends 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 all shipping containers being moved to or from North Korea when they pass through Chinese ports, in fulfillment of the obligations under U.N. Security Council Resolution 1718 to prevent the sale or transfer of missiles, and nuclear and other weapons-related materials and technologies, to and from North Korea.
- The Commission recommends 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. The Commission recommends that Congress expand current sanctions regimes to extend penalties to the Chinese parent company of a subsidiary that engages in proliferation activities, regardless of the parent company's knowledge of or involvement in the problematic transaction. Access to U.S. markets (including capital markets), technology transfers, and U.S. government grants and loans should be restricted from proliferating companies and their Chinese parent companies and related subsidiaries irrespective of the related firms' knowledge of the transfers in question.
- The Commission recommends 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. The Congress should further instruct the Administration to report semiannually about specific actions the Chinese government has taken in this regard.
- The Commission recommends that Congress instruct the Administration to engage in a strategic dialogue with China and report to Congress the specific actions that China is taking concerning (1) its past and current proliferation activities to Iran; (2) its public

stance in support of Iran's nuclear energy program; and (3) the impact of Iran's secondary proliferating transfers, and to encourage Middle Eastern and European states to seek to persuade China's government to act more responsibly and diligently to curb Chinese proliferation to Iran.

#### China's energy needs and strategies

- The Commission recommends that Congress support the Administration's current policy dialogues and technical exchanges with China pertaining to energy, and urge the Administration to seek additional opportunities for the United States to assist China to increase energy efficiency, reduce pollution from energy consumption, and facilitate the use of alternative fuels.
- The Commission recommends that Congress obtain detailed information on the nature, specific sources, and extent of China's air pollution, and its detrimental effects both in China and in the rest of the world, with specific attention to the effects in the United States.

### **Chapter 3 — China's Military Power and its Effects on American Interests and Regional Security**

#### China's military modernization

- The Commission recommends 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. Such a dialogue should include strategic warning and verification measures.
- The Commission recommends 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.
- The Commission recommends that Congress require the Department of Defense to include in its annual report to Congress on China's military power an assessment of U.S. weapons systems, force structure, basing, doctrine, and tactics in order to maintain a favorable balance of military power in the region and to ensure U.S. forces will prevail as rapidly and effectively as possible in the event of a conflict with the Chinese military over Taiwan or other interests in the Asia-Pacific region.

#### U.S. export controls

- The Commission recommends that Congress enact a new Export Administration Act to clarify U.S. export control policy and the U.S. approach to multilateral export control regimes. The new legislation should take into account new and emerging national security threats, unique U.S. technological advances, and global trade developments since the expired Export Administration Act was enacted in 1979. It also should establish strengthened penalties against violators.
- The Commission further recommends that Congress encourage the Administration, as it reviews U.S. export controls aimed at China, to engage in substantive discussions with U.S. companies and business groups with the objective of avoiding the imposition of unnecessary export burdens that do not appreciably enhance U.S. security interests.

- The Commission recommends that Congress urge the Administration to engage in more vigorous diplomatic activity at high levels in order to obtain multilateral cooperation necessary for effective global export controls.
- The Commission recommends that Congress provide adequate funding to support an increase in the number of initial and periodic follow-up end-use/end-user verification visits for exports licensed to China and Hong Kong. This should include increasing the number of qualified, Mandarin-speaking export control officers stationed in China and Hong Kong.
- The Commission recommends that Congress encourage the Administration to discuss with key allies the establishment of a multilateral arrangement to ensure post-shipment verification of the status of certain sensitive technologies exported to China.

#### *The military balance across the Taiwan Strait*

- The Commission recommends that Congress urge the Administration to encourage Taiwan's Legislative Yuan to approve the purchase of the remaining components of the arms package offered by the United States in April 2001, or alternative systems that will enhance Taiwan's defense capability, and that additional arms requests from Taiwan be considered by the U.S. government on their merits.

#### *Protection of government computers from espionage*

- The Commission recommends that Congress examine the federal procurement process to ensure that all agencies consider security measures when purchasing computers.

### **Chapter 4 — A Case Study of the Automotive Industry that Illustrates Challenges to U.S. Manufacturing and the U.S. Defense Industrial Base**

- The Commission recommends that Congress support the Administration's WTO dispute resolution case against China's proposed imposition of a 25 percent tariff on imported auto parts.
- The Commission recommends that Congress fully fund programs such as the Commerce Department's Manufacturing Extension Partnership Program (a nationwide network of expertise and advice to aid small and medium-sized American manufacturers) that provide counsel on such matters as worker training, process technology, information technology, and supply chain integration to help U.S. manufacturers compete globally.<sup>2</sup>
- The Commission recommends that Congress require the U.S. Department of Defense to trace the supply chains of all components of critical weapons systems.

### **Chapter 5 — China's Internal Problems, Beijing's Response, and Implications for the United States**

- The Commission recommends that Congress encourage U.S. companies to work with their Chinese suppliers to improve China's environmental, labor, and safety standards, which would address some of the causes of unrest facing the Chinese government.

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<sup>2</sup> Although the Manufacturing Extension Partnership Program is not explicitly discussed in the text of this report, it was an issue reviewed during the Commission's July 17 hearing in Dearborn, Michigan. U.S.-China Economic and Security Review Commission, *Hearing on China's Impact on the U.S. Auto and Auto Parts Industry*, testimony of Laurie Moncrieff, July 17, 2006.

- The Commission recommends that Congress encourage American nongovernmental organizations and the State Department to promote new and existing efforts to support independent Chinese nongovernmental organizations, especially those working on rule of law, healthcare, workers' rights, and environmental issues.
- The Commission recommends that Congress instruct the Administration to promote new and existing cooperative efforts with China that improve China's responses to transnational problems, including infectious diseases and the environment.

## **Chapter 6 — China's Media and Information Controls**

- The Commission recommends that Congress urge the Administration to demand that China stop jamming Voice of America and Radio Free Asia broadcasts, and to instruct its officials to raise the issue of media and Internet freedom in meetings with their Chinese counterparts and to remind those counterparts that jailing journalists for publishing information China finds distasteful only draws negative attention from the international community.
- The Commission recommends 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. A compilation of this information should be made publicly available semi-annually.
- The Commission recommends that Congress expand support for both the Broadcasting Board of Governors' program for circumventing Chinese Internet censorship and the U.S. State Department's Global Internet Freedom Task Force.