

Introduction

China's embrace of economic modernization and the collapse of the Soviet Union created a new basis for U.S.-China relations and removed the old one; there are new shared interests and the old common enemy is no more. China also is asserting itself on the world stage—both economically and politically—and the United States increasingly finds China is a major force to be taken into account with respect to U.S. international activities and policies.

When Congress approved Permanent Normal Trade Relations (PNTR) with China in 2000, it not only sought to place bilateral trade relations on a solid footing and clear the way for China's entry into the World Trade Organization (WTO), but it also hoped China's WTO membership and exposure to the global trading system would move China toward democracy, and toward a free market economy.

The plan was that, by establishing a free market economy, participating responsibly in the international framework of economic and security agreements that unite the world community of the early 21st Century, and exhibiting comportment appropriate to the world's leading nations, China would assume a world leadership role appropriate to its size, power, and history. More narrowly, the Congress hoped China's WTO accession would open China's market to sales of U.S.-manufactured goods and services.

The debate on the PNTR legislation (signed into law as Public Law 106-286) made this clear. Representatives and Senators laid out their expectations of the effects of extending PNTR and supporting China's WTO membership. Prior to Congressional action on the legislation, the executive branch, also, stated its expectations. Indeed, in the years preceding that action, presidents of both parties played a major role in shaping Congress's and the public's expectations of what would transpire if China were accepted into the WTO.

That debate reflected a consistent American government vision for a future China, hoping it would choose to become a cooperating member of an open, rules-based international system—an active and responsible member of the community of leading nations.

To better define that concept, the Commissioners reviewed Congressional and executive branch expectations expressed prior to the vote to grant PNTR status in order to use them as a benchmark against which to gauge China's domestic and international economic, political, and security actions.

Among the goals espoused by Members of Congress and the executive branch were that China would—

- adhere to the rules of a “rules-based trading system;”
- open its markets to American exporters, investors, businesses, and farmers;
- become a member of the community of nations that promotes democratic government and human dignity;
- permit the spread of free thinking and ideas including via the Internet;
- reduce tensions across the Taiwan Strait;
- promote peace and stability in the world; and
- avoid a new arms race elsewhere in Asia.

One Member of Congress anticipated that the economic forces that would be released by free trade and commerce would overwhelm the forces in China seeking to maintain socialism, repression, and totalitarianism. He went on to express his hope that “political freedom will follow economic freedom,” a sentiment that summed up the aspirations of many of his colleagues.

There was agreement among many Members of Congress that China's compliance with the rules of the WTO—to which it agreed in order to accede—should be the new standard against which China's government's actions should be measured.

A number of Senators and Representatives expressed the view that it will be essential for Congress to watch China because China's activities in the world likely will be of great importance to the United States and will have a profound effect on U.S. values and interests. One reason this was of special concern was that by approving the PNTR legislation and China's accession to the WTO, Congress gave up the right to review China's trade status annually and, based on that review, affirmatively determine that status for the subsequent year.

Some Senators and Representatives feared this might result in Congress overlooking significant events or trends that should be considered and addressed by the U.S. government. To prevent this from occurring, they concluded they should establish mechanisms to maintain current knowledge about China's actions and call those of significance to Congress's attention. Toward this end, Congress established two commissions: the Congressional-Executive Commission on China and this Commission—initially designated the U.S.–China Security Review Commission (later re-titled the U.S.–China Economic and Security Review Commission).

The topics that Congress charged this Commission to monitor and report on to Congress reflect the longstanding American belief that a state's fundamental character is embodied in all its actions and activities, and that economic and security matters are but two faces of a single coin. They also offer a statement of the areas of Chinese activity that were of greatest concern:

- China's proliferation of weapons of mass destruction and other weapons (including dual use technologies), and actions the United States might take to encourage China to stop proliferating
- The transfer of U.S. high technology, manufacturing, and research and development activities to China, and the impact of such transfers on U.S. national security including its economic security and the standard of living of its citizens
- The adequacy of United States export control laws
- China's effect on world energy supplies and how the United States can influence China's energy policy
- China's access to and use of U.S. capital markets, and whether existing disclosure and transparency rules are adequate to identify Chinese companies engaged in activities injurious to U.S. interests
- The triangular economic relationship among the United States, Taiwan, and China
- China's military modernization and force deployments aimed at Taiwan
- China's national budget and fiscal strength in relation to its internal instability, and the likelihood that problems arising from such internal instability will be externalized
- China's compliance with agreements on prison labor imports and intellectual property rights and U.S. actions to enforce those agreements
- China's compliance with its accession agreement to the World Trade Organization

- The implications of China's restrictions on access to information and free speech by its citizens for its economic and security relations with the United States.

When he signed the legislation on October 10, 2000 authorizing PNTR status for China, President Bill Clinton noted that it was a major step toward China's entry into the WTO. He said he also believed this would hasten the process of opening markets for the United States, accelerate the information revolution in China, and strengthen the rule of law in China while building a "safer, more integrated world."¹

On December 27, 2001, as President George W. Bush signed a proclamation granting PNTR status to China, he said that "[t]his is the final step in normalizing U.S.-China trade relations and welcoming China into a global, rules-based trading system."

The comments of both presidents, other executive branch officials, and Members of Congress during the debate on whether to grant PNTR status to China offered some important ingredients for a coherent and comprehensive U.S. policy toward China, but even their aggregation did not compose such a policy. To date, a comprehensive policy unfortunately has not been developed and enunciated.

Robert Zoellick, former Deputy Secretary of State in the George W. Bush Administration, came closest to attempting that. He advocated a policy encouraging China to be a full member of the international system and to accept the role of what he termed "responsible stakeholder."² Zoellick identified U.S. business concerns about whether Chinese policies are adequate to stop "rampant piracy, counterfeiting, and currency manipulation" and whether China was pursuing "mercantilist ... policies [that] will try to direct controlled markets instead of opening competitive markets."

Referring to the worries the Bush Administration's Department of Defense had expressed in its *Annual Report to Congress on the Military Power of the People's Republic of China* about the lack of transparency in China's military growth and how it will use its increasing military power, Zoellick said these uncertainties have caused the United States and other nations to "hedge their relations with China." He encouraged China to "openly explain its defense spending, intentions, doctrine, and military exercises."

Former Deputy Secretary Zoellick's concept of "responsible stakeholder" provides a strong beginning point for a coherent and comprehensive policy toward China that has been missing in the United States for the past quarter century. The Commission believes the United States should have such a policy and that the Congress should play an important role in its development.

The Commission recognizes that China sees the concept of nationhood and sovereignty, the responsibilities of nations to each other, and the responsibilities of nations to their own citizens through a different prism than does the United States. That is neither surprising nor necessarily inappropriate. Nonetheless, there are certain immutable standards to which the world's leading nations subscribe or adhere in similar form. For example, when nations such as China choose to enter the global arena by voluntarily making international agreements, the universal concept of honoring one's commitments should and does apply.

From Congressional, executive branch, academic, and think-tank commentary, the Commission has distilled what it believes to be the elements of an American understanding of what it means to

¹ John Woolley and Gerhard Peters, *The American Presidency Project (Online)*. (University of California, Santa Barbara, CA). www.presidency.ucsb.edu/ws/?pid=1246.

² Robert B. Zoellick, Deputy Secretary of State, "Whither China: From Membership to Responsibility," Remarks to National Committee on U.S.-China Relations, New York, NY, September 21, 2005. www.ncusr.org/articlesandspeeches/Zoellick.htm

be a responsible member of international society. It believes these elements, including the following features, should be applied to China:

- Responsible nations abide by the rules—both the letter and the spirit of agreements into which they enter, whether bilateral or multilateral.
- In an economic sense, responsible nations abide by international trade agreements to which they are a party and promote free and fair trade, and they participate in international resource markets in ways that do not distort or destabilize those markets or deny other states access to natural resources, especially energy.
- From a geopolitical standpoint, responsible nations contribute to international security, good governance, transparency, and accountability; do not upset the international political system; and do not seek to disrupt the spread of representative governments.
- From a military and security standpoint, responsible nations do not disrupt or destabilize the military balances that underpin global and regional security.
- In addressing other global problems, responsible nations work to improve their environments and the health status of their people and advance their own domestic development in ways that support international norms on issues such as human political rights, press freedom, religious freedom, government transparency, controlling corruption, and labor rights.

The Commission believes these standards should be used to measure China's actions and activities. This report compares what China has done during the past year in the areas of the Commission's Congressional mandate to these standards. We hope it will assist Congress to determine how it generally should respond to China in order to protect U.S. interests. More specifically, the Commission offers an agenda of proposed Congressional actions it believes will most directly secure those interests.