

ADDITIONAL VIEWS OF COMMISSIONER PATRICK A. MULLOY

Reaching agreement on a Report such as this requires that each Commissioner not insist on his or her preferred wording for every paragraph or phrase. By working together, and with the help of able staff, we have achieved a unanimous, bipartisan, consensus on the complex issues we were charged by Congress to address. There are, however, two issues about which I feel compelled to make my own views absolutely clear because of their importance to our nation's welfare.

The first deals with the security relationship among the United States, Taiwan, and the People's Republic of China (PRC), which our governing statute charged us to examine. Commentators on this three-part relationship often assume that the United States is already committed to use our forces to assist in Taiwan's defense if the latter were attacked by the PRC. This is not the case.

The Joint Communiqué issued by the United States and the PRC at the conclusion of President Nixon's historic visit to that country on February 28, 1972, stated in part: "The United States acknowledges that all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is a part of China. The United States government does not challenge that position." On January 1, 1979, in the Joint Communiqué issued by the government of the United States and the government of the PRC on the Establishment of Diplomatic Relations, the United States recognized the government of the PRC as the sole legal government of China, and it acknowledged the Chinese position that there is but one China and Taiwan is part of China.

Within that context, the two sides agreed that the people of the United States would continue to maintain cultural, commercial, and other unofficial ties with the people of Taiwan. On this basis, relations between the United States and China were normalized. Our government then abrogated the United States-Republic of China (Taiwan) Defense Treaty. The 1979 Communiqué was issued when President Carter was in office. The above description of what the 1979 Communiqué meant to accomplish is confirmed verbatim in the 1982 Joint Communiqué issued during President Reagan's first term. The latter Communiqué reiterates that the United States has no intention of pursuing a policy of "two Chinas" or "one China, one Taiwan".

On April 10, 1979, the Taiwan Relations Act was signed into law, and among other things, it sets forth U.S. national policy regarding the security of Taiwan. It states "any effort to determine the future of Taiwan by other than peaceful means" would be "of grave concern to the United States." It further states that it is U.S. policy "to provide Taiwan with arms of a defensive character" and "to

maintain the capacity of the United States to resist any resort to force” with regards to Taiwan.

Significantly, the Taiwan Relations Act makes no commitment to have U.S. forces defend Taiwan. Rather it provides that the President is directed to inform the Congress promptly:

Of any threat to the security or the social or the economic system of the people of Taiwan, and any danger to the interests of the United States arising there-from. The President and Congress shall determine, in accordance with constitutional processes, appropriate action by the United States in response to any such danger.

This is an important distinction that the United States has used to maintain a policy of “strategic ambiguity” with regard to whether it would employ American forces to help defend Taiwan from an attack by the PRC. The United States has always recognized that if Taiwan believed that our commitment to its security was without limits, it might be emboldened in its dealings with the PRC perhaps to the point of provoking a conflict, by among other things, moving toward an independence that our government does not support.

In a March 2, 2004, speech to the Heritage Foundation, Secretary of State Colin Powell stated, “We adhere firmly to our One-China policy as defined by the three communiqués and the Taiwan Relations Act. We do not support Taiwan’s independence and we oppose moves by either side to unilaterally change the status quo.” While the United States does want to assist Taiwan in preserving its thriving democracy and robust economy, it is necessary for the governing authorities on that island to fully recognize the parameters of our commitment to them under the Taiwan Relations Act and the three Communiqués.

The other matter I want to highlight is the Commission’s finding in Chapter 7 that the Chinese government has instituted policies to accelerate the growth of its high technology industries whose growth, that government believes, can help lift the whole economy. While China cannot be faulted for instituting policies that do not violate its WTO and other trade agreement obligations, we, as a nation, must ensure that the growth of China’s high tech economy does not result in the deterioration of our own. That is why the Commission has recommended that our government develop a coordinated, comprehensive, national policy and strategy to maintain our own scientific and technological leadership.

Such a strategy must be multifaceted including, among other things, increased emphasis on science education, modernizing our nation’s infrastructure, vigorously enforcing our trade laws and agreements, providing real retraining for displaced workers, increasing funding incentives for the development of possible breakthrough technologies, and ensuring we have an international financial architecture that does not undermine our manufacturers through exchange rate misalignments. Developing and implementing such a policy is, in my view, a key challenge for our nation and ultimately the standard of living of our citizens and our national security will be dependent on how we meet it.

ADDITIONAL VIEWS OF COMMISSIONER WILLIAM A. REINSCH

Although this Report has a number of troubling elements, I have decided to sign it, largely in recognition of the progress the Commission has made since its first Report in moving toward balance and objectivity. While the first Report merrily drove off the credibility cliff at a high rate of speed, this one teeters on the edge but ultimately pulls back from disaster, at least with respect to its recommendations. That means my support for this document is based largely on the bad things that are missing from it rather than the good things that are in it. Even so, the progress in muted rhetoric and not unreasonable recommendations is noteworthy, and I hope my support this year will encourage the Commission to do even better next time.

On the plus side, the Report avoids much of the excessive verbiage and sweeping judgments that compromised the 2002 Report. As a consequence, this Report has fewer rhetorical excesses and is more focused on matters within the Commission's purview.

Second, the hearings on which the Report is based were balanced. Unfortunately, that balance is not fully reflected, as the Commission majority has chosen to continue its habit of selective quotation, but the Chairman deserves to be commended for his efforts to ensure varied points of view were presented in testimony.

Third, a number of the less well-considered recommendations from 2002 are not repeated, and, in the interest of not disturbing the hopefully dead, I will not resurrect them here.

Fourth, a number of the recommendations are thoughtful and validate the policy of constructive engagement that I believe to be correct.

Despite these improvements, the Report contains serious flaws.

- 1) The tone of the Report continues its predecessor's focus on the negative. In short, the indictments of China keep changing, but the verdict is always the same—guilty. The Report's perspective is simple and simplistic: we are right; China is wrong; the only issue is how to force them to do what we want.

There are some circumstances—human rights, worker rights, nonproliferation—where Chinese behavior is clearly outside the norm, and a strong, principled U.S. position is appropriate, although the Commission majority's assumption that unilateral action by the United States can solve these problems is naive.

In other areas however, particularly economic and trade policy and cross-Straits issues, "right" and "wrong" are murkier. The Chinese are pursuing policies they believe are in their interest, many of which appear to be actually working, in contrast to some of our own economic policies. To the extent they are violating WTO rules or other treaties or are not fulfilling obligations they have undertaken, it is appropriate for us to act, and the Report properly takes note of those circumstances. In my judgment, however, the Report grossly overestimates the ability of the United States, acting by itself,

to pressure the Chinese to alter their course. It will take patience, subtlety and diplomatic creativity more than the ham-handed use of “leverage” advocated in this Report to achieve that result.

To be more specific, with respect to the exchange rate issue, the Report avoids arbitrary or provocative recommendations but steps up to the brink in its assumption that the United States can somehow force the Chinese to revalue. The Report’s fondness for legislated or juridical solutions is ill-suited to the nuanced world of exchange rates. Likewise, the section on Chinese involvement in Western capital markets usefully focuses on an issue that is growing in importance and again avoids over the top recommendations, but the clear implication is that the government ought to be doing more to influence or limit investor choices, despite evidence that the market itself appears to be addressing the problem.

Similarly, the chapter on nonproliferation gives China too much responsibility for solving the situation in North Korea and takes too little note of the failures of U.S. policy over the past three years.

- 2) The Report is deficient in its treatment of China’s domestic economic problems. The bulk of the economic section deals with Chinese actions that disadvantage the United States and increase our bilateral deficit. While individual domestic problems, such as bad bank loans and growing inflation, are mentioned, there is little effort to place them in a larger context and evaluate their likely impact on the bilateral relationship. The implicit—and simplistic—assumption is two straight lines—China is growing stronger while the United States grows weaker. This may well turn out to be true, but many of us said the same thing about Japan and the United States in the late 1980s. Having been proved wrong once, I am more skeptical than my colleagues that they will be right this time. In particular, the Report virtually ignores growing signs of internal economic difficulties that could seriously compromise growth and create internal economic and political crises that would at best preoccupy and at worst directly threaten the current government.

- 3) The Report makes a number of recommendations which I strongly oppose, but space permits listing only two:

The recommendation for additional sanctions legislation (Chapter 5) is entirely unnecessary and inappropriate. More than adequate authority to impose sanctions already exists, making the recommendation unnecessary, and the uniformly poor record of sanctions in accomplishing their objectives makes it unwise.

The recommendation for retaliation against companies that sell weapons-related items to the Chinese (Chapter 8) could have serious adverse implications for NATO interoperability and transatlantic defense cooperation were the EU arms embargo to be lifted.

Despite these objections and misgivings, I have decided to sign the Report, in significant part to acknowledge the Commission's rejection of so many of the unwise recommendations it considered. I hope that in the next iteration we are able to move beyond the simplistic "we're right; they're wrong" approach and undertake more sophisticated analysis that better explains the complexities of the bilateral relationship and the long term implications for the United States of China's economic and political growth and development.

**ADDITIONAL VIEWS OF
COMMISSIONERS LARRY M. WORTZEL AND
STEPHEN D BRYEN**

We agree with the general thrust of this Report and the majority of its findings and recommendations. However, we find its approach to foreign trade and commerce to be far too protectionist. Further, while we agree with the general approach to assessing the relationship between high technology trade and security, we believe that more attention needs to be paid to the specific improvements in Chinese defense-related products that flow from the trade in dual use (civil-military) items that are covered by the Export Administration Act (EAA).

The tone of the discussion of job growth and the effect of the globalization of industrial production on the United States needs correction in our view. The term “a jobless recovery” that appears several times in the Report is partisan and both emotionally and politically loaded. It is also factually incorrect. A “jobless recovery” is a myth that masks the strength of the American economy and its flexibility.

The assertion in the Report that job growth is not taking place rests on a single measure, total non-farm payroll employment as measured by the U.S. Department of Labor’s payroll survey. As The Heritage Foundation pointed out in its May 13, 2004, Backgrounder #1757, “jobless claims are now 10 percent below the 25 year average.” Additionally, the household survey, which is the only direct employment survey of Americans, shows that “2.2 million more Americans are employed now than were employed in November 2001.” The U.S. labor force has grown by 2.3 million people since November 2001, showing real gains in employment even while the size of the labor force is growing.

It is true that there is significant dislocation of the U.S. labor force as a result of structural change in the U.S. economy. But even net jobs may be gained as a result of outsourcing. According to a March 30, 2004 study by Global Insight (USA) Inc., also cited the Heritage Backgrounder #1757, “the incremental activity that follows offshore information technology outsourcing created over 90,000 net new jobs in 2003, and is expected to create 317,000 net new jobs in 2008.” To take advantage of these new employment opportunities, however, means that workers may need new training and education and may have to relocate.

“Insourcing” of new jobs into the United States is also taking place as a result of the globalization of manufacturing. As cited in the same Heritage Foundation paper, “according to the Organization for International Investing, over the last 15 years ‘insourced’ jobs grew by 82 percent, at an annual rate of 5.5 percent, and manufacturing ‘outsourced’ jobs grew by 23 percent, at an annual rate of 1.5 percent.” There are 14,000 workers employed at Honda plants in Ohio and 4,300 workers at the BMW factory in South Carolina. Michigan has 244,200 ‘insourced’ workers, Ohio has 242,200, and Idaho has 13,900 ‘insourced’ jobs.

It is also important to consider that labor dislocation because of structural changes in the economy is not unique to the United States. While U.S. manufacturing jobs have declined by eleven per-

cent between 1995 and 2002, China has lost fifteen percent of its industrial jobs in the same time frame. The loss of 2.45 million manufacturing jobs, which is the current rate in the United States, are about the same as the losses the United States experienced between 1979 and 1982. General employment in the United States recovered when new American companies created new jobs in new sectors of the economy.

Jobs can be created in the United States, and foreign companies attracted to the United States creating “insourced” jobs, by reducing frivolous lawsuits against manufacturers and products, eliminating burdensome taxes and regulations in localities and states, simplifying the tax code, and ensuring affordable energy supplies.

The Report is also too protectionist and some of its recommendations too quick to suggest broad government sanctions on trade. Every American has the power to sanction China, or any other country, in his or her pocket by exercising choice in the marketplace. By refusing to purchase goods from specific manufacturers or countries Americans can deliver a powerful message that they want different suppliers. Concerned citizens or interest groups must educate the American public if they want action. Of course, for a short period of time a consumer may have to pay more for an item or do without certain items until the marketplace adjusts.

Finally, the Report has devoted too little attention to the need to revise the Export Administration Act (EAA), which controls the export of dual use (civil-military) items and technologies. The Commission should study the effect of dual use technology transfers to China on defense production there and how Chinese defense industry has managed to improve the military as a result of those dual use transfers. The EAA has not been updated since 1979, thus law and regulation have failed to keep up with globalization and advances in technology. Congress must tackle that task.