

EXECUTIVE SUMMARY

The 2009 Annual Report to Congress of the U.S.-China Economic and Security Review Commission sets forth the Commission's analysis of the U.S.-China relationship in the topical areas designated by the Commission's Congressional mandate. These areas are China's proliferation practices, the qualitative and quantitative nature of economic transfers of U.S. production activities to China, the effect of China's development on world energy supplies, the access to and use of U.S. capital markets by China, China's regional economic and security impacts, U.S.-China bilateral programs and agreements, China's compliance with its accession agreement to the World Trade Organization (WTO), and the implications of China's restrictions on freedom of expression. The Commission's analysis, along with recommendations to the Congress for addressing identified concerns, is chronicled in the Report and summarized herein.

COMMISSION ASSESSMENT OF U.S.-CHINA ECONOMIC AND SECURITY RELATIONS

Congress gave the Commission the mission of evaluating "the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China" and reporting its evaluation to Congress annually together with its findings. The Commission adopts a broad interpretation of "national security" in evaluating how the U.S.-China relationship affects the economic health and industrial base of the United States and the state of U.S. economic and security interests and influence in Asia.

As in its previous six Annual Reports, the Commission sees progress on some issues but the continuation of a number of troubling trends. The Commission also notes that it continues to stand behind both its conclusions as enunciated in the previous Reports to Congress and its recommendations to Congress contained in those Reports, and it does not routinely repeat either its conclusions or recommendations contained in prior Reports.

COMMISSION CONCLUSIONS

The Report presents its conclusions, analyses, and recommendations to Congress in 13 segments organized in four chapters. However, the Commission has attempted to take an integrated approach to its assessments, believing that economic, security, and other issues are interrelated. The intersections of U.S. geopolitical, economic, security, diplomatic, and cultural interests form a complex web of concerns that are connected to the overall relationship between the United States of America and the People's Republic of China.

The Commission's conclusions are included in this Executive Summary. At the end of this summary, the Commission's 10 key recommendations are listed. The Commission makes a total of 42 recommendations to the Congress in this Report. Those pertaining to each of the four Report chapters appear at the conclusion of the chapter, and a comprehensive list is provided beginning on page 325.

The U.S.-China Trade and Economic Relationship

The current global economic crisis poses unique challenges for the United States and China. Starting in 2008 and continuing into 2009, global trade and investment flows have been severely impacted, and China, whose economy is very dependent on exports, seemed particularly vulnerable. However, in November 2008, China launched an ambitious stimulus package, 4 trillion renminbi (RMB) (\$586 billion) over two years, to help its economy. The Chinese government is using the money to pursue specific policy initiatives, including infrastructure investment, strengthening of the social safety net, and increasing domestic consumption. The international community has welcomed China's swift response, but doubts remain about the eventual effect that China's stimulus will have. The fact that the government in Beijing is still pursuing an export-led strategy based on a wide variety of subsidies to export industries, including an RMB that remains substantially undervalued, is a cause for concern. If China continues to pursue huge trade and investment surpluses and to accumulate vast financial claims, it will hinder the necessary global economic adjustment, create excess manufacturing capacity, and lay the groundwork for the next crisis.

Despite international calls for more market reforms and greater market access, China continues to employ an industrial policy that risks expanding the trade imbalance. China encourages foreign manufacturing to relocate to China and uses strict capital controls to keep the value of the RMB artificially low. China's industrial policy is also aimed at promoting the manufacture of higher-technology products, replacing lower valued-added and labor-intensive products. Indeed, Beijing's industrial policy was a contributing factor to the imbalances that led to the global financial crisis that affected the economies of rich and poor nations alike. Pursuit of export-promoting policies has contributed to China's massive trade surplus and its accumulation of more than \$2.27 trillion in foreign exchange reserves by September 2009, the world's largest cache, most of which is in dollar-denominated bonds. The United States today no longer is the world's biggest creditor; it is the world's biggest debtor, with China as the largest overseas holder of U.S. debt instruments.

Conclusions

The U.S.-China Trade and Economic Relationship's Current Status and Significant Changes During 2009

- China's trade surplus with the United States remains near record levels, despite the global economic slowdown that has reduced imports from other nations. While the U.S. trade deficit in goods with China through August 2009 was \$143.7 billion, rep-

representing a decline of 17.6 percent over the same period in 2008, China now accounts for an increasing share of the U.S. global deficit in goods. By September 2009, China had accumulated more than \$2.27 trillion in foreign currency reserves.

- China's currency has strengthened against the U.S. dollar by about 21 percent since the government announced in July 2005 it was transitioning from a hard peg to the dollar to a "managed float" against a basket of currencies. Starting in July 2008, however, the RMB's appreciation was halted by Chinese government policy as Beijing reimposed strict controls in order to support China's export industries. China's RMB remains significantly undervalued.
- China's growing cache of dollar reserves, a consequence of a deliberate Chinese government policy, is a continuing source of tension between the two countries. Chinese leaders profess alarm that the value of their dollar cache depends on the health of the U.S. economy and the willingness of the U.S. Federal Reserve system to hold down inflation. On the other hand, the size of China's dollar reserves makes it unlikely that China could divest its dollars without reducing the value of its dollar holdings.
- The Chinese leadership has become critical of the reserve currency status of the dollar, recommending a greater role for the International Monetary Fund's (IMF) accounting unit, special drawing rights, and perhaps even preparing the RMB for internationalization. For now, the RMB remains nonconvertible. China is also seeking more influence within the IMF.
- China continues to use trade-distorting measures in violation of its WTO commitments. The WTO found that China failed to comply with its obligations in terms of enforcement of intellectual property rights laws and to provide sufficient market access to intellectual property rights-related products.

China's Role in the Origins of the Global Financial Crisis and China's Response

- The current economic crisis, which started in the United States but has now shifted to encompass the entire world, has its roots in the massive global economic imbalances. The responsibility for these imbalances can be placed partially on the United States as the world's biggest spender and borrower and partially on China as the world's biggest saver and lender.
- China pursues policies that have the effect of increasing Chinese savings, restraining consumption, and keeping the RMB undervalued. These actions boost investment in manufacturing capacity and help to promote Chinese exports. Combined with other export incentives and subsidies, the boom in China's exports helped China accumulate the world's largest foreign exchange reserves, valued at more than \$2.27 trillion by the end of September 2009, most of which is invested in U.S. Treasury bonds and other dollar-denominated assets.

- The policies that China adopted generated a huge flow of liquidity—or money that can be easily lent to borrowers—into U.S. markets. This excess liquidity created perverse incentives in the United States that encouraged banks to make risky loans to U.S. households, which in turn grew ever more indebted. High U.S. demand for imports allowed China to save even more, creating a vicious cycle and laying the foundation for the current crisis.
- In response to the crisis, China introduced a fiscal stimulus package, raised rebates to exporters, and introduced other measures supporting the manufacturers in the export sector. This will only exacerbate overcapacity, aggravating the overall problem. China has also taken some steps to increase domestic consumption, but they are far outweighed by measures supporting exports.

China's Industrial Policy and its Impact on U.S. Companies, Workers, and the American Economy

- China's economic reforms were not based on traditional free market principles. China's policy during the past 30 years has instead relied on a government-directed industrial policy to promote certain segments of the economy over others and to bolster export-led growth.
- China's more recent Five-Year Plans have shifted the emphasis away from labor-intensive operations and toward increasing the production of high-technology goods. China has matured as a manufacturer and assembler of advanced technology products and as a consumer of electronics and information technology products. The low cost of labor along with government investment in high-tech industrial parks—and a variety of direct and indirect subsidies—created an attractive environment for foreign companies to invest in China, particularly after China joined the WTO in 2001.
- China provides subsidized land, energy, and water to many foreign manufacturers who relocate their operations in China. 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 manufacturers. China's subsidies have grown over the years and now include tax incentives and preferential loans, which further reduce the cost of investing in China.
- China has consistently used a 17 percent value added tax (VAT) as an instrument of industrial policy. China selectively rebates the VAT when a domestic manufacturer exports but imposes it on imports. The United States, on the other hand, does not use the VAT and is not allowed by WTO rules to rebate income taxes on exports. China's VAT policy therefore places U.S. exports at a distinct disadvantage.
- The U.S. government has filed a variety of WTO cases against China's barriers to trade. These WTO cases, while important, are very industry specific, time consuming, and fail to have an impact on the trade-distorting aspects of China's industrial policy or to deal with the underlying causes of the U.S.-China trade def-

icit. Tackling the systemic trade imbalances between China and the United States through WTO mechanisms will not address broader issues such as environmental pollution, or workers' rights abuses. The U.S. government will have to find alternative venues in which to address such matters.

China's Industrial Policy and its Impact on Upstate New York

- China's industrial policy targets and supports strategic industries identified as important to its economy in the 11th Five-Year Plan. This industrial policy promotes and subsidizes many of the same industries that comprise the industrial cluster of upstate New York. These industries include auto parts, machine tools, information technology, optics, photonics, and, more recently, clean renewable energy.
- China's industrial policy has contributed to the loss of manufacturing in the region and presents a challenge to New York as it seeks to become a global leader in the renewable energy field.
- The relocation of manufacturing from upstate New York has weakened the industrial cluster, which in turn has greatly impacted the ability of remaining firms to be innovative. Advanced technology companies in the region that have been moving their manufacturing operations to China are now relocating their research, development, and innovation operations there as well.

China's Activities Directly Affecting U.S. Security Interests

As China's economy continues to grow, its military also is experiencing dramatic modernization and changes in its approach to national security. Beijing has mandated the People's Liberation Army (PLA) to change from a territorially focused military that counters traditional military threats to a more globally focused force that, in addition to maintaining its traditional competencies, can handle nontraditional security threats. In order to support the PLA's expanded activities abroad, China has rapidly modernized its naval forces. Since the mid-1990s, China has embarked on its largest naval modernization since the People's Republic of China (PRC) was founded in 1949, quantitatively and qualitatively improving its modern naval platforms. In addition to giving the PLA a greater reach, these improved naval forces have bolstered China's ability successfully to conduct a more diverse set of naval missions. These improvements could impede the U.S. military's access to the region in the event of a crisis.

As a means of enhancing its military modernization and economic development, China has been heavily involved in conducting human and cyber espionage against the United States. U.S. counterintelligence officials have concluded that Chinese intelligence collection efforts are growing in scale, intensity, and sophistication. In addition, there has been a marked increase in cyber intrusions originating in China and targeting U.S. government and defense-related computer systems. This malicious activity has the potential to destroy critical infrastructure, disrupt commerce and banking systems, and compromise sensitive defense and military data.

Conclusions

China's Military and Security Activities Abroad

- Beijing has begun to broaden its national security concerns beyond a potential contingency across the Taiwan Strait and issues around its immediate periphery.
- Chinese leaders place a growing emphasis on militarily safeguarding China's expanding national interests. Hu Jintao codified this trend in 2004 when he declared a new set of guiding principles for the armed forces called the *Historic Missions*.
- China's leadership has a growing appreciation for the seriousness of overseas, nontraditional threats that could adversely affect China's economic and other interests, as evidenced by the military's increasing allocation of resources toward missions such as peacekeeping, counterpiracy, and disaster relief.
- These geographical and functional changes in China's military missions correlate with an increase in China's military, security, and economic activities abroad.
- China's expanded claim over freedom of navigation in what it considers to be its exclusive economic zone could lead to further incidents involving the U.S. military.
- At the same time, however, the expansion of China's military and security activities abroad are more *evolutionary* than *revolutionary* in nature. Although the PLA is operating more frequently abroad, it should not yet be considered a global military or a military with a global reach.
- PLA activities abroad will improve the PLA's military capabilities—such as command, control, communications, and logistics—in ways that will contribute to PLA competence in a broad range of operations.
- The Chinese military's more international orientation is not a fundamentally negative development. A more activist PLA could in some circumstances provide a “public good” by contributing more to global stability. Other nations, including the United States, may benefit from Chinese peacekeeping operations and counterpiracy efforts.
- The Chinese military's more international orientation—combined with its improved military capacity—could, however, adversely affect U.S. national security. Of particular import will be whether a militarily confident China will take a more confrontational stance toward the United States or its allies.

China's Naval Modernization

- Since the mid-1990s, China, enabled by its growing economy, has embarked on its largest naval modernization effort since the founding of the PRC in 1949. This modernization process includes foreign purchases and indigenous production of naval platforms, weapons, and equipment. In addition, institutional changes such as organizational, personnel, and logistics reforms have improved the PLA Navy's capacity to conduct operations.

- Deterring Taiwan from declaring independence is the near-term goal of this modernization process. A key component is the necessity to impede other nations—including the United States—from intervening on Taiwan's behalf.
- Other reasons driving China's naval modernization include the need to protect China's economic-intense coastal regions from maritime attacks, assert its maritime sovereignty and regional economic interests, safeguard its access to international sea lanes, provide a credible at-sea nuclear deterrent, and satisfy a national desire for a powerful navy.
- As China's naval modernization efforts progress, China increasingly will be able to project power in East Asia and interfere with U.S. freedom of access to the region. China's antiaccess strategy hinges upon deploying a powerful navy on, above, and below the surface, supported by its air and missile forces.
- Concern about China's naval modernization is beginning to fuel a maritime arms race in the region. Several nations, including close U.S. allies, have recently officially questioned PLA Navy modernization efforts. Already a few nations have even begun to augment their own navies by purchasing naval platforms and weapons.

China's Human Espionage Activities that Target the United States, and the Resulting Impacts on U.S. National Security

- The intelligence services of the Chinese government are actively involved in operations directed against the United States and against U.S. interests. China is the most aggressive country conducting espionage against the United States, focusing on obtaining U.S. information and technologies beneficial to China's military modernization and economic development.
- Some of the espionage carried out on behalf of China is conducted by nonprofessional collectors. These nonprofessional collectors may be motivated by profit, patriotism, feelings of ethnic kinship, or coercion. Even in many cases where there is no obvious direct state involvement in the theft or illegal export of controlled technology, the Chinese government encourages such efforts and has benefited from them.
- Recent cases of espionage involving China show evidence of more focused efforts at information collection employing sources outside of the Chinese-American community.
- Chinese operatives and consular officials are actively engaged in the surveillance and harassment of Chinese dissident groups on U.S. soil.

China's Cyber Activities that Target the United States, and the Resulting Impacts on U.S. Security Interests

- The quantity of malicious computer activities against the United States increased in 2008 and is rising sharply in 2009; much of this activity appears to originate in China.

- The direct attribution of such activities targeting the United States presents challenges due to hackers' ability to conceal their locations. Nonetheless, a significant and increasing body of circumstantial and forensic evidence strongly indicates the involvement of Chinese state or state-supported entities.
- The Chinese government has institutionalized many of its capabilities for computer network operations within elements of the People's Liberation Army. The PRC is also recruiting from its growing population of technically skilled people, including those from the private sector, to increase its cyber capabilities. It is recruiting skilled cyber operators from information technology firms and computer science programs into the ranks of numerous Information Warfare Militia units.
- China's peacetime computer exploitation efforts are primarily focused on intelligence collection against U.S. targets and Chinese dissident groups abroad.
- In the early stages of a conflict, the PLA would employ computer network operations against opposition government and military information systems.
- Critical infrastructure in the United States is vulnerable to malicious cyber activity. Chinese military doctrine calls for exploiting these vulnerabilities in the case of a conflict.

China in Asia

In recent years, Beijing has enhanced its political, security, and economic relationships with Afghanistan, Pakistan, and Central Asia. The object has been to bolster stability in China's Xinjiang Province and to promote China's economic growth through greater trade and access to natural resources in the region. China has been reluctant to intercede directly in Afghanistan and Pakistan; rather, it depends on U.S. and North Atlantic Treaty Organization (NATO) military forces and influence in the two countries to help secure China's investments.

Beijing's engagement in Taiwan also has increased significantly. Beijing and Taipei have taken numerous steps in the past year to increase political and economic cooperation, notably easing cross-strait tensions. However, despite the warming of ties, Beijing's military modernization continues to pose a threat to the island, and China has offered no indication that it plans to downsize its military buildup vis-à-vis Taiwan.

During the Commission's May 2009 fact-finding trip to Hong Kong, meetings with Hong Kong government officials, U.S. government officials, and private business leaders revealed that Beijing's political and economic influence over Hong Kong is growing. Because of the effects of the global financial crisis on the island and Hong Kong's increasing economic dependence on the mainland, Beijing has gained leverage over Hong Kong's much smaller economy.

Conclusions

China in Afghanistan, Pakistan, and Central Asia

- Beijing's primary interests in Afghanistan, Pakistan, and Central Asia concern isolating Chinese Muslim separatist groups from

fundamentalist influences in Central Asia, maintaining stability along China's borders, diversifying its energy supplies, and increasing economic investments in the region.

- China continues to exercise a great deal of influence over Pakistan, stemming from the historic military and political ties between the two countries and their mutual desire to balance India's power.
- In Afghanistan, China also is increasing its influence due to its ability to offer economic aid and invest in large-scale infrastructure projects. However, China's influence in Afghanistan is still less than that of the United States.
- While China has not provided any direct military support to U.S. and coalition forces in Afghanistan, Chinese investments in Afghanistan and Pakistan are contributing to those countries' economic development. China contributes no forces of its own, relying on U.S. and NATO forces to protect these investments.
- China is increasing its economic, security, and political influence in Central Asia, possibly to the detriment of the United States. However, China's influence over the region is still limited because of historical mistrust, cultural barriers, and traditional Russian influence.
- The Shanghai Cooperation Organization has provided a forum for China to negotiate bilateral trade and energy deals with Central Asian states. It is not yet a genuine security alliance.
- In the wake of the June 2009 riots in Xinjiang, China will likely devote even more attention to developing political, security, and economic ties with Central Asia in order to ensure the security of its border and bolster stability in Xinjiang Province.
- China's energy investments in Central Asia are large. As Beijing seeks a means of importing oil and gas over land to ensure its energy security, Chinese investments in the Central Asian energy sector will continue to expand.

Taiwan

- Since the May 2008 inauguration of President Ma Ying-jeou, cross-Strait relations between China and Taiwan have improved on some fronts. Although noticeable political and economic improvements in the relationship have occurred, these improvements are not matched in the military arena. Instead, the PLA's capabilities continue to grow, increasing the military threat confronting Taiwan.
- One area of improvement entails the resumption of semiregular, high-level meetings between the two sides. In particular, the cross-Strait dialogue between Taiwan's Straits Exchange Foundation and mainland China's Association for Relations Across the Taiwan Strait has occurred three times, with a fourth tentatively scheduled for late in 2009.

- As a result of improving cross-Strait relations, a growing number of agreements have been signed between Taiwan and China since May 2008. These agreements include the resumption of the Three Direct Links, the signing of a financial cooperation agreement, the commencement of cooperation on combating cross-Strait crime, and the establishment of a food safety agreement. In addition, there has been substantial progress toward the establishment of a free trade agreement.

Hong Kong

- The influence of China's central government in Hong Kong is increasing, including in the political and economic spheres.
- As a very export-dependent economy, Hong Kong has been severely impacted by the current economic crisis, both in its own right and as result of a fall in demand for Chinese exports.
- Beijing has been very active in offering economic support to Hong Kong, but democratic activists are worried about Hong Kong's growing economic dependence on the mainland, which they see as undermining Hong Kong's autonomy and international competitive edge.
- Beijing appears to be increasing its influence over the Hong Kong Special Administrative Region (SAR) government by strengthening the position of its official representative organization, the Central Government Liaison Office, and promoting pro-Beijing political parties within the Hong Kong Legislative Committee.
- A crucial component of Beijing's strategy of reining in Hong Kong appears to be its policy of chipping away incrementally at the legal support for Hong Kong's autonomy in domestic affairs. Evidence exists that Beijing already may be interfering in Hong Kong's domestic issues.
- Due to its geographic convenience as a transshipment point, as well as the long-standing presence of Chinese government-affiliated intelligence and commercial interests, Hong Kong could emerge as a significant transshipment point for transfers of export-controlled technologies into China in violation of U.S. law.

China's Media and Information Controls—The Impact in China and the United States

China's propaganda and information control apparatus continue to support the authoritarian rule of the Chinese Communist Party (CCP). Journalists reporting on sensitive subjects or loosely defined "state secrets" are routinely harassed, intimidated, and/or imprisoned. Although the Internet has provided a freer venue for discussion of sensitive issues than traditional news media, the Chinese government has employed new techniques for controlling or "guiding" flows of publicly available information over the Internet.

The Chinese government also has taken steps to improve its ability to shape international perceptions of China through the extensive use of propaganda and the dissemination of selective information. Motivated by a belief that western governments manipulate the press unfairly to portray China in a negative light, the Chinese

government is increasing resources devoted to China's state-sponsored foreign language media outlets. Beijing has also employed western public relations and lobbying firms to help improve its international image, as well as to advocate for its preferred policies. Additionally, the Chinese government seeks to shape opinion in elite policy-making circles by influencing the commentary about China and U.S.-China relations that emerges from U.S. academics and think tanks.

Conclusions

Freedom of Expression in China

- The January 2007 media reforms instituted in response to international pressure leading up to the Summer Olympics Games in Beijing and extended indefinitely in October 2008 have resulted in modest improvements in the working conditions for foreign journalists in China, but their effect has been limited because of the Chinese government's selective implementation and adoption of new strategies for restricting the flow of information.
- The January 2007 reforms have not improved working conditions for Chinese journalists, who remain subject to intimidation, harassment, violence, and imprisonment, often on vaguely defined "state secrets" charges.
- The Chinese government is employing a diverse array of strategies for silencing or guiding discussion about issues it considers politically sensitive.
- The Internet has emerged as a contested space in China. It provides a venue for discussion that is more open than traditional media but is also subject to the world's most sophisticated Web filtering system. The Chinese government's insecurity about Internet-enabled protests and the increased scrutiny of government officials on the Web has prompted the government to add additional elements to its already advanced Internet control system.
- The case of Green Dam demonstrates that even if the Chinese government had the technological capability to assert complete control over the Internet, it would not necessarily have the political clout to achieve this end. Furthermore, the case of Green Dam demonstrates that the Chinese government is not immune to pressure on information control issues from the international community.

China's External Propaganda and Influence Operations, and the Resulting Impacts on the United States

- The Chinese government is directly engaged in promoting its preferred propaganda narratives to foreign audiences and has an extensive bureaucracy dedicated to work in this area. The international propaganda messages of the government are similar in most respects to those for a Chinese audience—emphasizing China's economic growth, China's desire for a peaceful international system, and China's "stability" under CCP leadership.

- To its domestic audience, the Chinese government promotes the message that China is under attack from hostile forces abroad. Many figures within both the Chinese government and the public express a sense of frustration that the western media presents unfair portrayals of China and state that China therefore needs more effective international communication tools to counter such “attacks.”
- The Chinese government views effective foreign propaganda as an essential tool of state power and is significantly increasing the level of effort and resources devoted to China’s state-sponsored foreign language media outlets. Some of these efforts may also assume the form of nominally “independent” news outlets in which the Chinese government or Chinese state-owned firms exercise considerable influence behind the scenes.
- The Chinese government actively seeks to influence the commentary about China and U.S.-China relations that comes from U.S. academics and think tanks. This takes the form of providing both positive rewards to “friendly” scholars—such as preferred access to interviews and documents—as well as taking punitive actions such as denying visas for academics who anger Beijing. These rewards and punishments offer the Chinese government leverage over the careers of foreign scholars and thereby encourage a culture of academic self-censorship.
- In recent years, U.S. public relations and lobbying firms have played a more prominent role in Beijing’s efforts to improve its image and advocate for its preferred policies. The advice of western public relations firms has helped to shape the messages that the Chinese government presents to international audiences. However, China’s use of direct lobbying in the United States is still limited in scale compared to the efforts of many other countries.

THE COMMISSION’S KEY RECOMMENDATIONS

The Commission believes that 10 of its 42 recommendations to Congress are of particular significance. These are presented below in the order in which they appear in the Report. The complete list of 42 recommendations appears at the Report’s conclusion on page 325.

- **Employing World Trade Organization trade remedies more aggressively.** The Commission recommends that Congress urge the administration to employ more aggressively all trade remedies authorized by World Trade Organization rules to counteract the Chinese government’s practices. The Commission further recommends that Congress urge the administration to ensure that U.S. trade remedy laws are preserved and effectively implemented to respond to China’s unfair or predatory trade activities.
- **Responding effectively to China’s currency manipulation.** The Commission recommends that Congress urge the administration to press China to allow the RMB to become flexible and responsive to market forces, thereby contributing to the correc-

tion of global economic imbalances. The Commission further recommends that Congress consider legislation that has the effect of offsetting the impact on the U.S. economy of China's currency manipulation.

- **Evaluating the impact of China's value added tax.** The Commission recommends that Congress urge the United States Trade Representative to evaluate the use of selective value added tax rebates by China and their trade-distorting effect and determine what steps, if any, should be taken to address the issue.
- **Reporting on the implications of Chinese subsidies to the U.S. clean energy sector.** The Commission recommends that Congress urge the Department of Energy, in consultation with other appropriate agencies, to report to Congress on the impact of Chinese subsidies and other elements of China's industrial policy on U.S.-based companies manufacturing clean energy products.
- **Ensuring adequate funding to limit China's antiaccess capabilities.** The Commission recommends that Congress assess the adequacy of planning and resourcing of Department of Defense programs that would limit China's antiaccess capabilities. In particular, Congress should focus on antisubmarine warfare and ballistic missile defense programs. Congress should also assess the adequacy of funding and resources for the Department of Defense's Pacific Command.
- **Meeting the rising challenge of Chinese espionage.** The Commission recommends that Congress assess the adequacy of resources available for intelligence, counterintelligence, and export control enforcement programs to ensure that U.S. government agencies are able to meet the rising challenge of Chinese human intelligence and illicit technology collection.
- **Ensuring adequate funding to respond to computer exploitation and computer attacks.** The Commission recommends that Congress assess the effectiveness of and resourcing for law enforcement, defense, and intelligence community initiatives that aim to develop effective and reliable attribution techniques for computer exploitation and computer attacks.
- **Encouraging China to draw down the number of forces opposite Taiwan.** The Commission recommends that Congress urge the administration to take additional steps to encourage the People's Republic of China to demonstrate the sincerity of its desire for improved cross-Strait relations by drawing down the number of forces, including missiles, opposite Taiwan.
- **Assessing the adequacy of U.S. export control policy in Hong Kong.** The Commission recommends that Congress examine and assess the adequacy of U.S. export control policy for dual-use technology as it relates to the treatment of Hong Kong and the PRC as separate customs entities. The Commission further recommends that Congress urge the administration to consider ways to collaborate more closely with the authorities in Hong Kong in order to prevent the transshipment of controlled technologies from Hong Kong into the PRC.

- **Monitoring the role of U.S. companies in Internet censorship.** The Commission recommends that Congress continue to monitor and assess the development and progress of industry and other efforts to create and implement an effective code of ethics and best practices related to the operations of U.S. high-tech firms in China and other authoritarian countries where Internet content and activity are controlled and monitored by the government.