

me—I will not embarrass that person; I don't want to get him in trouble with anyone—he said: Keep pushing this. This is something we need.

We know that. But he should not be talking to me, although I am happy to talk to him anytime. He should be talking to whoever is holding this up.

#### WOMEN IN THE SENATE

Mr. REID. Mr. President, we were finally able to get the military construction appropriations bill completed. We will vote on it in the morning, but basically it is completed. That is our first appropriations bill. We will vote on that tomorrow. We will have 12 to go. I hope we can make good progress in the next couple of weeks and get more of those done. But before we leave the military construction appropriations bill, I want to make a few comments.

I had the good fortune of being able to chair that subcommittee for some time. I was ranking member after that. It was a great experience. It is a wonderful bill, to work on programs that directly affect military personnel. It affects them all over the world.

Construction takes place in Nevada at Nellis Air Force Base, Fallon Naval Air Station, Indian Springs, that used to be a full-fledged air base and now it is a base that deals principally with the drones, unmanned vehicles. It is not only a bill that is for Nevada, it is good for every State in the Union. As I indicated, construction takes place around the world.

The reason I wanted to comment on this is, I know this bill very well. I have to say Senators FEINSTEIN and HUTCHISON have done a remarkably good job.

I talked to Senator FEINSTEIN after she completed debate. I said: DIANNE, I just think you have done such a good job on this, you and Senator HUTCHISON. I don't want to say anything that is wrong, that will be untoward, but I think it speaks volumes that two women are handling the legislation dealing with the military personnel of our country.

She said to me that she recognized that.

And I said: Would you be offended in any way if I talk about that a little bit, the fact that here we have this multibillion-dollar bill that has been handled as well as any bill could be handled, and I think the American public should understand the great contribution made by these two female Senators.

I have seen the Senate change since I came here. Twenty percent of the Democratic caucus now are women. The Senate is a better place because of women serving here. Things have been accomplished that would not have been accomplished but for them.

I go back to something that really struck home with me. I was touring a ranch in northern Nevada. The ranch was run by the Glaser brothers. I know them well. One of them I served with in

the State legislature for many years. He had retired at the time. He is now deceased.

We were out looking at this bird sanctuary he had created on his own with no Federal help, no State help, in the middle of this vast, beautiful ranch of his. We were talking about how much farm equipment costs.

Farm equipment is very expensive. But he said something to me I have never forgotten. He said: You know, Harry, any time that I can hire women to run these big pieces of heavy equipment, I do so.

I said: Norm, why is that?

He said: Because they take better care of it. I have found over the years that they are more gentle with the equipment. They don't do things to hurt the equipment. Any chance I get that I can hire women to run these big pieces of equipment, I do, because they do a better job than the men.

Well, I don't want to concede anything at this time, that these two Senators did a better job than has been done in the past. But I will have to tell you, it wouldn't take much to convince the rest of the Senate that they probably did a better job than has ever been done before.

I say the Senate and the country are better for having these women in the Senate. I hope that as the years go by there will be more women elected to the Senate. There are a lot of women around the country running for the Senate this year. In the years to come, there will certainly be more than 20 percent of the Democratic caucus that are women.

#### U.S.-CHINA SECURITY REVIEW COMMISSION ANNUAL REPORT

Mr. BYRD. Mr. President, the U.S.-China Security Review Commission on Monday released its first annual report, as directed by the Congress in its authorizing statute, P.L. 106-398, October 30, 2000. It is a broad-ranging analysis, with major recommendations for consideration. I will ask unanimous consent that the Executive Summary be printed in the RECORD at the conclusion of my remarks.

The report is extensive, thorough, and disturbing in many respects. It paints a detailed portrait of a China determined to: acquire a vast array of high technology; broaden and deepen its industrial base; expand its research and development capabilities; and attract substantial amounts of American and other foreign investment. China is on the move. But, it is worthwhile to note that China pays for much of its progress through a highly imbalanced trade relationship with the U.S. Last year the U.S. trade deficit with China exceeded \$80 billion U.S. dollars.

One could simply say that the Chinese are intent on entering the modern era, and on building a strong nation state, financed by aggressively exporting goods to the U.S. But, Mr. President, there are some very troubling aspects of the U.S./Chinese relationship.

The Commission found that U.S. policy toward China has been and is alarmingly fragmented. It lacks consistency and depth. U.S. policy toward China has often been driven solely by commercial interests, specific human rights issues, or by a particular military crisis, rather than by a comprehensive examination of all the issues which impact upon this relationship. Furthermore, over the last 30 years U.S. policy toward China has been dominated by strong Executive branch personalities and compulsive secrecy. There seems to be little sustainable consensus on the long-term national interests of the U.S. vis a vis China.

The Report makes numerous recommendations designed to elicit a more comprehensive understanding of China by U.S. policy makers and by the general public. These include rebuilding the Library of Congress' China collection, new language and area studies programs, new efforts at open source collection by the intelligence community, and an upgrading of the Federal Broadcast Information Service. The fact is that we as a nation know far too little about China, and we need a better level of effort in this regard.

There is new information and analysis in the Commission's report regarding Chinese access to U.S. capital markets, and a renewed call for more effective consultations and consensus-building between the President and Congress on Taiwan policy. The report also recommends new tools which should be employed to encourage the Chinese to comply with their commitments—in proliferation practices, prison labor agreements, intellectual property agreements enforcement, and most importantly, with their far-reaching obligations under the WTO.

The report calls for increased scrutiny of corporate activities in China, and a new corporate reporting system to reveal what investment, R&D and technology is being sent to China. Transparency, disclosure and corporate accountability should be required of U.S. firms' operations in China, and are certainly of much interest to American shareholders and investors.

I am pleased that the Report is a strong bipartisan effort, a broad consensus of nearly all the Commissioners, who approved it by a vote of 11-1. It is both an educational report and an action document. Each chapter highlights findings and makes recommendations for action which flow from those findings. The executive summary gives the key 21 recommendations, but additional valuable proposals are found at the end of each chapter.

Some of the Report's key findings about the U.S.-China relationship include:

The U.S.-China bilateral relationship is poorly coordinated and lacks a sustainable consensus among elected officials in Congress and the Executive branch;

China's leaders see the United States as a declining power with important military vulnerabilities that can be exploited;

There are serious differences in perceptions each country holds of the other and a potential for misunderstandings that are compounded by the lack of bilateral institutions for confidence-building and crisis-management;

There is plausible evidence that the burgeoning trade deficit with China will worsen despite China's entry into the World Trade Organization (WTO);

The U.S. may be developing a reliance on Chinese imports that could in time undermine the U.S. defense industrial base;

The U.S. lacks adequate institutional mechanisms to monitor national security concerns involving Chinese and other foreign entities seeking to raise capital in the U.S. debt and equity markets;

China provides technology and components for weapons of mass destruction and their delivery systems to terrorist sponsoring states, presenting an increasing threat to U.S. security interests, in the Middle East and Asia in particular.

Radical changes in China's economic fortunes have been fueled by U.S. investors and multinational firms, and have come with severe sacrifices in the form of lost American manufacturing jobs.

Mr. President, there is much to recommend in this Report, and many recommendations which may be of interest to my colleagues.

I congratulate the Chairman and all of the commissioners who authored this fine report, as well as the staff members of the Commission who worked tirelessly on this important endeavor.

Mr. President, I ask unanimous consent that the executive summary be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

#### EXECUTIVE SUMMARY

Relations between the United States and China during the last half-century have not always been smooth. The two countries have sharply contrasting worldviews, competing geo-strategic interests, and opposing political systems. More recently, bilateral ties have centered on rapidly growing economic interactions that have muted political differences. For the moment, these relations have not softened China's egregious behavior on human rights nor changed its strategic perceptions that the U.S. is its principal obstacle to growing regional influence. No one can reliably predict whether relations between the U.S. and China will remain contentious or grow into a cooperative relationship molded by either converging ideologies or respect for ideological differences, compatible regional interests, and a mutually beneficial economic relationship.

However the relationship develops, it will have a profound impact on the course of the twenty-first century. The policies pursued today by both China and the United States will affect future relations. The Congress

created the U.S.-China Security Review Commission to assess "the national security implications and impact of the bilateral trade and economic relationship between the United States and the People's Republic of China" and to report its conclusions annually to the Congress. It specifically directed the Commission to focus on our deepening economic, trade, and financial linkages with China. The Congress wanted the Commission to evaluate whether our economic policies with China harm or help United States national security and, based on that assessment, to make recommendations in those areas that will improve our nation's interests.

National security has come to include military, economic and political relationships. At any time, one of these concerns may dominate. They interact with one another and affect our overall security and well-being. Neglect of any one element will diminish our overall security as a nation. The United States must be attentive to the strength and readiness of our military forces, the health of our economy, and the vibrancy of our political relationships.

The Congress also asked the Commission to include in its Report "a full analysis, along with conclusions and recommendations for legislative and administrative actions." This is the Commission's first Report. In keeping with the Congressional mandate, this Report provides a comprehensive analysis of the Commission's year-long review of U.S.-China relations, the principal findings that emerged from that investigation, and the recommendations or measures the Commission believes should be implemented to help safeguard our national security in the years ahead. This initial Report provides a baseline against which to measure and assess year-to-year changes in the relationship.

#### MAIN THEMES

Our relationship with China is one of the most important bilateral relationships for our nation. If it is not handled properly, it can cause significant economic and security problems for our country. China is emerging as a global economic and military power, and the United States has played, and continues to play a major role in China's development.

China's foreign trade has skyrocketed over the past twenty years (from approximately \$20 billion in the late 1970s to \$475 billion in 2000). Our trade deficit with China has grown at a sharp rate, from \$11.5 billion in 1990 to \$85 billion in 2000. Foreign investment—with America a leading investor—grew apace. This trade and investment has helped to strengthen China both economically and militarily.

America's policy of economic engagement with China rests on a belief that the transition to a free market economy and the development of the rule of law in China's business sector would likely lead to more political and social openness and even democracy. This belief, along with the desire to expand American commercial interests, drove U.S. support for China's entry into the World Trade Organization (WTO). Many also believe that a more prosperous China will be a more peaceful country, especially if it is fully integrated into the Pacific and world economies.

But these are hypotheses, and many leading experts are convinced that certain aspects of our policy of engagement have been a mistake. They argue that the PRC faces enormous economic and social problems, that its leaders are intractably antidemocratic, that they are hostile to the U.S. and its prominent role in Asia, and that we are strengthening a country that could challenge us economically, politically and militarily.

The Commission does not believe that anyone can confidently forecast the future of China and the U.S.-China relationship, and contends that while we may work and hope for the best, our policymakers should prepare for all contingencies.

Over the past twenty years, China has created a more market-based economy and allowed more social and economic freedom. Chinese participation in international security and economic regimes has grown. On the other hand, China has made little progress toward granting its citizens political and religious freedom, and protecting human and labor rights. In fact, the government has notably increased its repression of some religious practices, including its brutal campaign against the *Alum Gong*.

Chinese leaders have repeatedly stressed to their Communist Party support and the Chinese people that they have no desire to repeat in China the political and economic collapse that took place in the former Soviet Union. They seek to maintain and strengthen the Communist Party's political and social control while permitting freer economic activity. They consistently limit the freedom of the Chinese people to obtain and exchange information, practice their religious faith, to publicly express their convictions, and to join freely organized labor unions. Chinese leaders frequently use nationalistic themes to rally support for their actions, including crack downs on dissenters.

China is thus embarked on a highly questionable effort—to open its economy but not its political system—the outcome of which will influence the destinies of many countries, including our own. If the economy fails, or if the Chinese people demand full freedom instead of merely a taste of it, then the leaders will have to choose between reasserting central control and granting greater political and social freedom, with a consequent weakening of their own authority. On the other hand, if China becomes rich but not free, the United States may face a wealthy, powerful nation that could be hostile toward our democratic values, to us, and in direct competition with us for influence in Asia and beyond.

American policymakers must take these scenarios seriously, and to that end the Commission has established benchmarks against which to measure future change. There are important areas in which Chinese policy runs directly counter to U.S. national security interests, such as not controlling exports that contribute to the proliferation of weapons of mass destruction, its close relations with terrorist-sponsoring states like Iran, Iraq, Syria, Libya, Sudan and North Korea, its expanding long-range missile forces, its threatening policies toward Taiwan, and its pursuit of both asymmetric warfare capabilities and modern military technology that could menace American military forces.

China's leaders view the United States as a partner of convenience, useful for its capital technology, know-how and market. They often describe the United States as China's long-term competitor for regional and global military and economic influence. Much rhetoric and a considerable volume of official writings support this hypothesis. The recent empirical study of Chinese newspapers' coverage of the U.S., conducted by University of Maryland scholars for the Commission, found a divided perspective: articles in these newspapers, which we believe generally represent the views of the leadership, are consistently positive on trade and investment matters and applaud Sino-U.S. cooperation in these areas. In contrast, their coverage of U.S. foreign policy is largely negative and frequently depicts the U.S., as hegemonic and unilateralist.

In time we will learn whether China is to become a responsible world power or an aggressive, wealthy dictatorship, and whether the Communist Party maintains its monopoly of political power or shares it with the Chinese people. We will also learn whether the Chinese economy flourishes or stumbles and collapses under the burden of state-owned industries, a weak banking system, enormous debt, wide-scale corruption, social dislocation, and the new challenges of international competition brought about by its WTO entry.

Current U.S. policies and laws fail to adequately monitor the transfers of economic resources and security-related technologies to China, considering the substantial uncertainties and challenges to U.S. national interests in this relationship. This Report attempts to begin to address these uncertainties, trends, and challenges in a systematic manner. It proceeds on the premise that far more prudence must be displayed and far better understanding developed on the part of the Congress on the full extent of this relationship and its impact on U.S. interests. In addition, too little attention has been devoted to the adverse impact of recent Chinese economic strength on our Asian allies and friends. The Commission believes the U.S. must develop a better understanding of the vulnerabilities and needs of our Asian allies and friends, and must carefully construct policies to protect and nurture those relationships.

#### SUMMARY OF RECOMMENDATIONS

The Commission has identified its key findings and recommendations with each chapter in this Report. The Commission developed more than forty recommendations that are listed with each of the ten chapters. We have prepared a separate classified report providing additional details and recommendations. Here, we highlight and summarize those recommendations we believe are the highest priority and which we recommend for immediate action. A more extended analysis is contained in each of the Report's ten chapters.

#### CONFLICTING NATIONAL PERSPECTIVES

The United States Government is poorly organized to manage our increasingly complex relationship with China. We are not adequately informed about developments within China and about their leaders' perceptions of the U.S., and we dedicate insufficient resources to understand China. Because Chinese strategic thinking and analysis of military planning differ markedly from our own, our incomplete understanding enhances the possibilities for miscalculation, misunderstanding, and potential conflict.

Recommendation 1: The U.S. Government should expand its collection, translation and analysis of open source Chinese-language materials, and make them available to the larger community. Despite two studies advocating an improved collection of Chinese materials at the Library of Congress, its collection is nearly unusable and shameful. Congress should provide funds to implement recommendations already submitted by the two previous studies. In addition, the Commission recommends increased funding for Chinese language training and area studies programs, similar to the program in the National Defense Education Act of 1958, and incentives for post-secondary graduates to participate in government services. The relevant executive branch agencies should report annually to the Congress on steps taken to rectify this situation.

Recommendation 2: The U.S. should develop a comprehensive inventory of official government-to-government and U.S. Government-funded programs with China. The President should designate an executive

branch agency to coordinate the compilation of a database of all such cooperative programs. The database should include a full description of each program, its achievements to date, and the benefits to the U.S. and should be prepared annually in both classified and unclassified forms. The Commission further recommends that the executive branch prepare a biannual report, beginning in 2004, on the cooperative Science and Technology (S&T) programs with China patterned on the report submitted to Congress in May 2002 at the request of Senator Robert C. Byrd. The President should establish a working group to set standards for S&T transfers, monitor the programs, and coordinate with the intelligence agencies.

Recommendation 3: The Commission recommends that Congress encourage the Department of Defense to renew efforts to develop military-to-military confidence building measures (CBMs) within the context of a strategic dialogue with China and based strictly on the principles of reciprocity, transparency, consistency, and mutual benefit.

#### MANAGING U.S.-CHINA ECONOMIC RELATIONS (TRADE AND INVESTMENT)

The United States has played a major role in China's rise as an economic power. We are China's largest export market and a key investor in its economy. Fueled by China's virtually inexhaustible supply of low-cost labor and large inflows of foreign direct investment (FDI), the U.S. trade deficit with China has grown at a furious pace—from \$11.5 billion in 1990 to \$85 billion in 2000. The U.S. trade deficit with China is not only our largest deficit in absolute terms but also the most unbalanced trading relationship the U.S. maintains. U.S. trade with China is only 5 percent of total U.S. trade with the world but our trade deficit with China is 19 percent of the total U.S. trade deficit. U.S. exports to China are only 2 percent of total U.S. exports to the world, while we import over 40 percent of China's exports.

Foreign direct investment has helped China leapfrog forward both economically and technologically. These developments have provided China with large dollar reserves, advanced technologies, and greater R&D capacity, each of which has helped make China an important world manufacturing center and a growing center of R&D, which are contributing to its military-industrial modernization. U.S. companies have difficulty competing with Chinese based companies, in large part, because the cost of labor in China is depressed through low wages and denial of worker rights. Essentially, Chinese workers do not have the ability to negotiate their wages. Attracted in part by the low wages in China, a growing number of U.S. manufacturers are now operating in China, many of whom are utilizing China as an "export platform" to compete in U.S. and global markets.

China's large trade surplus with the United States, the inflow of U.S. private investment into China, and China's access to U.S. capital markets each contributes, directly or indirectly, to China's economic growth and military modernization.

Recommendation 4: The Commission recommends the creation of a federally mandated corporate reporting system that would gather appropriate data to provide a more comprehensive understanding of the U.S. trade and investment relationship with China. The reporting system should include reports from U.S. companies doing business in China on their initial investment, any transfers of technology, offset or R&D co-operation associated with any investment, and the impact on job relocation and production capacity from the United States or U.S.

firms overseas resulting from any investment in China.

Recommendation 5: The Commission recommends that the U.S. make full and active use of various trade tools including special safeguards provisions in the WTO to gain full compliance by China with its World Trade Organization (WTO) accession agreement.

#### CHINA'S WTO MEMBERSHIP: CONFLICTING GOALS

The U.S. and China hold differing goals for China's membership in the WTO. (The Chinese saying for this situation is: "same bed, different dreams"). China's leadership sought WTO membership to further the nation's economic reform and growth through export production and the accumulation of foreign investment, capital, and technology in order to become a world power. U.S. support for China's WTO membership was intended to enhance market access for U.S. goods and services, and also to promote internal economic, political and civil reforms, including a more open society.

China has instituted legal reforms to supervise foreign direct investment (FDI), financial markets and private businesses in order to stimulate trade and investment and fulfill the country's WTO commitments. The development of a commercial rule of law in China faces numerous obstacles, including the lack of an independent judiciary and trained judges, local protectionism, and widespread corruption. Despite some advances in commercial legal reforms, China remains grossly deficient in granting its citizens civil and political freedoms, and makes widespread use of prison labor.

Recommendation 6: The Commission recommends that Congress renew the Super 301 provision of U.S. trade law and request the Administration to identify and report on other tools that would be most effective in opening China's market to U.S. exports if China fails to comply with its WTO commitments. In examining these tools, priority should be given to those industry sectors where China expects rapid economic growth in exports to the U.S. market.

Recommendation 7: Congress should authorize and appropriate additional funds to strengthen the Commerce Department's support for commercial rule of law reform in China, including intellectual property rights and WTO implementation assistance, and to strengthen the Department of State's promotion of capacity-building programs in the rule of law, administrative reform, judicial reform and related areas.

Recommendation 8: The U.S. should improve enforcement against imports of Chinese goods made from prison labor by shifting the burden of proof to U.S. importers and by more stringent requirements relating to visits to Chinese facilities suspected of producing and exporting prison-made goods to the United States. (Note: The Commission made recommendations to Congress on this issue in a May 2002 letter).

Recommendation 9: The Commission recommends that Congress request the annual Trade Promotion Coordination Committee (TPCC) report prepared by the Department of Commerce include an assessment of China's progress in compliance with its WTO commitments, recommendations on initiatives to facilitate compliance, and a survey of market access attained by key U.S. industry sectors in China, including agriculture. The report should include comparisons of U.S. market access in those key industry sectors with those gained by the European union and Japan.

Recommendation 10: The Commission recommends that Congress urge the U.S. Trade Representative (USTR) to request WTO consultations on China's noncompliance with its obligations under the Trade-related Aspects

of Intellectual Property Rights (TRIPS) Agreement, particularly its inadequate enforcement, to deter China's counterfeiting and piracy of motion pictures and other video products. If China fails to respond, Congress should encourage the USTR to request a WTO dispute settlement panel be convened on the matter.

Recommendation 11: Congress mandated the Commission to evaluate and make recommendations on invoking Article XXI of the General Agreement on Tariffs and Trade (GATT), relating to security exceptions from GATT obligations. The Commission believes that the steel industry is a possible candidate for using Article XXI. If the Administration's current safeguard measures prove ineffective, the Commission recommends that Congress consider using Article XXI to ensure the survival of the U.S. steel industry.

#### ACCESSING U.S. CAPITAL MARKETS

Chinese firms raising capital or trading their securities in U.S. markets have almost exclusively been large state-owned enterprises, some of which have ties to China's military and intelligence services. There is a growing concern that some of these firms may be assisting in the proliferation of weapons of mass destruction of ballistic missile delivery systems. The U.S. lacks adequate institutional mechanisms to monitor national security concerns raised by certain Chinese and other foreign entities accessing the U.S. debt and equity markets. We also lack sufficient disclosure requirements to inform the investing public of the potential risks associated with investing in such entities.

Recommendation 12: The Commission recommends that foreign entities seeking to raise capital or trade their securities in U.S. markets be required to disclose information to investors regarding their business activities in countries subject to U.S. economic sanctions.

Recommendation 13: The Commission recommends that the Treasury Department, in coordination with other relevant agencies, assess whether China or any other country associated with the proliferation of weapons of mass destruction or ballistic-missile delivery systems are accessing U.S. capital markets and make this information available to the Securities Exchange Commission (SEC), state public pension plans, and U.S. investors. Entities sanctioned by the Department of State for such activities should be denied access to U.S. markets.

#### PROLIFERATION OF WEAPONS OF MASS DESTRUCTION

China fails to control the export of dual-use items that contribute to the proliferation of weapons of mass destruction and their delivery systems. China is a leading international source of missile-related technologies. Its proliferation activities with terrorist-sponsoring and other states, despite commitments to the U.S. to ease such activities, present serious problems for U.S. national security interests, particularly in the Middle East and Asia.

Recommendation 14: The Commission recommends that the President be provided an extensive range of options to penalize foreign countries for violating commitments or agreements on proliferation involving weapons of mass destruction and technologies and delivery systems relating to them. All current statutes dealing with proliferation should be amended to include a separate authorization for the President to implement economic and other sanctions against offending countries, including quantitative and qualitative export and import restrictions, restricting access to U.S. capital markets, controlling technology transfers, and limiting U.S. direct investment.

Recommendation 15: The United States should work with the United Nations Security Council and other appropriate inter-governmental organizations to formulate a framework for effective multilateral action to counter proliferation of weapons of mass destruction and their delivery systems. Member states found in violation of the agreed framework should be subject to international sanctions.

Recommendation 16: The United States should continue to prohibit satellite launch cooperation with China until it puts into place an effective export-control system consistent with its November 2000 commitment to the U.S. to restrict proliferation of weapons of mass destruction and associated technologies to other countries and entities.

#### CROSS-STRAIT AND REGIONAL RELATIONS

Cross-strait relations are a major potential flashpoint in U.S.-China relations. Economic and people-to-people interactions between Taiwan and the Mainland have increased dramatically in recent years, raising prospects that such interactions could help ameliorate cross-strait political tensions. At the same time, China is enhancing its capability to carry out an attack across the Taiwan Strait with special operations, air, navy and missile forces. It continues to deploy short- and intermediate-range missiles opposite Taiwan and although the threat of an immediate attack appears to be low, this buildup appears designed to forestall pro-independence political movements in Taiwan and help bring about an eventual end to the Island's continued separate status.

China's economic integration with its neighbors in East Asia raises the prospects of an Asian economic area dominated or significantly influenced by China. The U.S. has an interest in China's integration in Asia if it gives all parties a stake in avoiding hostilities. Nonetheless, U.S. influence in the area could wane to a degree, particularly on economic and trade matters.

Recommendation 17: The Commission recommends that the Department of Defense continue its substantive military dialogue with Taiwan and conduct exchanges on issues ranging from threat analysis, doctrine, and force planning.

Recommendation 18: The Commission recommends making permanent those provisions in the fiscal years 2001 and 2002 Foreign Operations Appropriations Acts providing for executive branch briefings to the Congress on regular discussions between the administration and the government on Taiwan pertaining to U.S. arms sales to Taiwan.

Recommendation 19: The Commission believes that the Congress should encourage the Administration to initiate consultations with other Asian countries to assess and make recommendations on the impact of the "hollowing out" phenomenon with respect to China on regional economies and on U.S. economic relations with the region.

#### CHINA'S MILITARY ECONOMY

China's official defense spending has expanded by more than one-third in the past two years. The Commission estimates that China's official defense budget represents about one-third of its actual spending level. Its ability to increase defense spending in the face of competing priorities is supported by its rapid economic growth. China has the largest standing army in the world and ranks second in actual aggregate spending. The military's role in China's economy has been reduced in recent years, but the military derives extensive financial and technological benefits from the growth and modernization of the domestic economy, which is designed to serve it.

Recommendation 20: The Commission recommends that the Secretary of Defense pre-

pare a biannual report on critical elements of the U.S. defense industrial base that are becoming dependent on Chinese imports or Chinese-owned companies. The Department of Defense should also update its acquisition guidelines and develop information from defense contractors on any dependency for critical parts of essential U.S. weapons systems.

#### TECHNOLOGY TRANSFERS AND MILITARY ACQUISITIONS

China has a well-established policy and program to acquire advanced technologies for its industrial development, military capabilities and intelligence services. Over the next ten years, China intends to acquire an industrial capability to build advanced conventional and strategic weapons systems. Current U.S. policies do not adequately consider the impact of the transfers of commercial and security-related technologies to China.

Recommendation 21: The Commission recommends that the Department of Defense and the FBI jointly assess China's targeting of sensitive U.S. weapons-related technologies, the means employed to gain access to these technologies and the steps that have been and should be taken to deny access and acquisition. This assessment should include an annual report on Chinese companies and Chinese PLA-affiliated companies operating in the United States. Such reports are mandated by statute but have never been provided to Congress.

The Commission cannot forecast with certainty the future course of U.S.-China relations. Nor can we predict with any confidence how China and Chinese society will develop in the next ten to twenty years. We do know that China now ranks among our most important and most troubling bilateral relationships and believe that China's importance to the United States will increase in the years ahead. As its economy and military grow and its influence expands, China's actions will carry increased importance for the American people and for our national interests.

For this reason, the Commission believes that there is a pressing need to fully understand the increasingly complex economic, political and military challenges posed by China's drive toward modernity. To gain such comprehension will require the allocation of more resources and the elevation of China in our foreign and national security priorities. The Commission hopes that U.S.-China relations will develop in a positive direction but we must urge that this outcome, though preferred, may not happen. The U.S. must, therefore, be prepared for all possible contingencies.

#### THE SILK ROAD: CONNECTING CULTURES, CREATING TRUSTS

Mr. KENNEDY. Mr. President, I welcome this opportunity to commend the Smithsonian Institution and Yo-Yo Ma for this year's extraordinary Folklife Festival, "The Silk Road: Connecting Cultures, Creating Trusts." The festival, which was held from June 26 through July 7 on The Mall, enabled hundreds of thousands to experience the art of 375 musicians, dancers, cooks and storytellers from the nations along the famous Silk Road trade routes through central Asia centuries ago.

In the aftermath of September 11, it is more important than ever to expand our understanding of those cultures. Yo-Yo Ma, with broad support from Secretary of State Colin Powell, the