

**Congressman Sherrod Brown
Testimony before the U.S.C.C.
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As Prepared**

This commission is important to what happens to the United States as the world market expands, and I thank you for having me here today.

For better or worse, there is no denying China is the greatest accelerator of globalization.

The list of issues facing us with China are many.

Currency Manipulation

Record U.S. Trade Deficits

China as America's largest creditor

The EU considering lifting its arms embargo

The IBM merger and sensitive technology

WTO Compliance in Textiles, Intellectual Property, and Agriculture

Anti-Secession laws and increased aggression towards Taiwan

The Byrd Amendment and illegal dumping into the United States

Taken alone, any single one of these issues should be of extreme concern. Taken as a whole, put simply, we've got one big mess confronting us. It's like a five alarm fire burning before our eyes, we've called the fire department, and nobody's showed up.

Chinese Currency

Last fall the administration gave senior Chinese officials a seat at the table with the most powerful G7 countries without demanding anything in return.

The President missed an opportunity to stand up to China to demand that stop manipulating its currency.

Such an action would be the most important immediate step the President could take to restoring US exports and jobs.

Instead China gets to join the community of the world's most advanced nations without taking steps to move toward an open market. When the administration allows China to break the rules, he is undermining US jobs and competitiveness.

301 Petition

Last September, the administration failed to support a petition by industry and workers to bring a case against the Chinese for manipulating their currency at the WTO. These failures to stand up for US workers are part of a broader policy of neglect where China is concerned.

We're mortgaging our future to China. The Chinese have increased their trade surplus with the US by 91 percent since 2001 and I haven't seen the administration do anything to combat their assault on US jobs and competitiveness. The longer we run these deficits, the more dependent we become on China.

We're failing to use America's leverage of being China's largest export market and the only nation with which the Chinese have a large trade surplus.

I'm still to see an effective plan from the administration to pry open the Chinese market for our exports, or a plan to combat the import surges from China, or a plan to protect the intellectual property of America's knowledge based industries from Chinese theft.

Trade Deficit

The trade deficit with China has increased a whopping 91 percent since 2001. The 2001 US trade deficit with China was \$83.0 billion, but when we get the numbers next week 2004 it is expected to top \$160 billion.

The US trade deficit with China is soaring because the Chinese Yuan is undervalued by 40 percent.

Chinese leaders don't want the Yuan at its real value because they want to keep cost of Chinese exports to America low and the cost of US exports to China high. So they buy US assets like treasury bills to keep our trade deficit artificially high and to prevent export and job growth in the US.

This commission hit the nail on the head with its most recent annual report. It stated, "The U.S. trade deficit with China is of major concern because it has contributed to the erosion of manufacturing jobs and jobless recovery in the United States."

In my state of Ohio, we've lost 1 out of every 6 manufacturing jobs over the past four years. We can't afford this any longer.

Lifting the EU Arms Embargo

The European Union (EU) is considering lifting its arms sale embargo to China. The EU imposed its ban on selling arms to China after the 1989 Tiananmen Square Massacre.

The 15-year-old embargo of arms sales to China is a clear gesture of Europe's ongoing dissatisfaction with the pace of political reform in China and the Chinese government's continuing violation of human rights.

I hope the EU will take a broader view and reconsider efforts to lift the embargo.

Lifting the embargo will alter the current fragile military balance across the Taiwan Strait and will rapidly tip the balance in China's favor.

Taiwan lives with the daily intimidation of its democratic institutions by the People's Republic of China.

Lifting the EU-China arms ban could send only one signal: Democratic Taiwan will be staring down the barrel of guns manufactured by EU democracies. Such an act should not be considered.

WTO Compliance

USTR says that “Three areas of US-China trade continue to generate significant problems—agriculture, intellectual property rights and services.”

So the vast majority of trade with China is in trouble and the Administration is doing nothing about it.

Now Chinese textiles will swamp US producers and every other developing nation since textile quotas expired on January 1.

The US says it is contemplating surge protection as provided when the Chinese were granted WTO accession. Again, the track record of doing nothing is not encouraging.

The problem of Chinese piracy is increasing. The Chinese are pirating our technology as well as our music and films.

The value of counterfeit goods in China amount to about \$19 billion to \$24 billion annually, according to Beijing's own State Council. So in reality it's probably about twice as much.

Last fall, Josette Shiner of USTR said, “We have negotiated with them some actions that will improve this and if they don't, we will have the right to follow through eventually with trade retaliation.”

Last fall? Eventually?

Previously, we took a tougher approach toward Chinese IPR violations. We signed agreements with China in 1992, 1995, 1996 that demanded progress from China and kept the pressure on.

Over time we have become more dependent on China as industries like electronics, textile and furniture get swamped by Chinese imports and our, auto, steel and even high tech industries rely increasingly on imported Chinese components.

Enough is enough, it's time for the US to take action.

Proliferation

I would also like to congratulate former Senator Fred Thompson who has joined this important commission. In 2000, Senator Thompson introduced an amendment to H.R. 4444, the bill Congress voted on to extend PNTR to China.

Senator Thompson's important amendment was titled the China Nonproliferation Act. Unfortunately, the amendment was tabled.

In the years since PNTR, we're continuing to see a disturbing trend—the kind of trend Senator Thompson's amendment could have helped curb.

North Korea continues efforts to obtain increased nuclear capabilities. If China is not directly responsible for North Korea's proliferation, they certainly have done little enough to discourage it.

Why isn't the Bush administration making this more of a priority?

Why does the US leave China responsible for negotiations on this matter, when we know they are doing nothing?

Why haven't we stopped North Korea and other members of the Axis of Evil from obtaining nuclear arms? This is an issue both Republicans and Democrats agree about, but the administration has failed to address.

Byrd Amendment

The Byrd Amendment has played an important role in evening out the playing field on steel for the US.

China doesn't play fair, and if our steel industry is to survive, the Byrd amendment is necessary.

China's failure to comply with its WTO obligations is having a serious adverse impact on U.S. manufacturers.

Congress has an obligation to reverse this trend and make China live up to its international obligations.

They manipulate currency policy, they subsidize industry, and they restrict our products.

Because of currency manipulation, China starts out with an immediate and artificially created 40% advantage over U.S. industries.

Then throw in government subsidies that to benefit Chinese producers and you've devastated your competitors.

The American Iron and Steel Institute estimates that almost 90 percent of Chinese steel production comes from state-owned enterprises.

Until and unless China plays by the rules, constructs such as the Byrd amendment will be necessary to level the field.

Unfortunately I can't see that happening any time soon unless the administration makes some real efforts to cure some large problems.

Looking Forward

Despite these dangerous trends we continue business as usual with China.

We allow them to buy our companies then move them there. They don't open shops in the U.S.

The problem isn't that some things are being moved to China: our money, our factories, our credit; our industries, but that everything is going to China.

President Bush vowed during his inauguration to end tyranny. It's a noble goal, a goal every member of Congress, Democrat or Republican supports.

But we won't reach that goal by empowering dictatorships. We won't meet that goal by allowing China to hold our debt.

We don't reach that goal by allowing theft of our technology. We won't reach that goal by shutting down factories here to gain cheap labor there.

We end tyranny by making other nations play by the rules. We end tyranny by stopping the spread of nuclear arms. We end tyranny by helping workers in autocratic states.

We end tyranny by rewarding countries that support our goals and ideals.

We do not end tyranny by strengthening the Chinese hand in order to turn a quick buck.

We value democracy and liberty. China is a communist dictatorship.

We value freedom of religion. China has none.

We talk about capitalism and open markets, when China has neither.

The short view on China is one of instant profits for investors but dangerous long-term consequences for all.

We need to take the long view on China. It is a view of promoting freedom and democracy by using the trade and investment tools available to us.

We are the world's most powerful economic nation on the planet, but we're losing ground.

If we don't do something now, we're going to be following the world economy rather than leading it.

Thank you again for having me here today.