

Remarks by Congressman Jim McDermott  
Hearing conducted by the U.S. Commission  
Seattle, WA , January 13, 2005

Chairman D'Amato, Members of the Commission, on behalf of my constituents and the state of Washington, welcome to Seattle.

Seattle is such a fitting choice to hold this hearing on U.S.-China trade because our businesses and our workforce symbolize both the challenges and opportunities that result from our region's strong trading ties with China.

By way of the Port of Seattle, Washington State exports to China many agricultural products because we have some of the best fruits and vegetables found anywhere in the world. The increasing buying power of the Chinese and their growing demand for our products hold substantial opportunities for America's agricultural industry, and Washington's in particular.

Furthermore, the growing transportation and technological needs of China have resulted in the sale of billions of dollars worth of commercial aircraft and computer hardware and software manufactured or designed in Washington State. Trade liberalization with China has helped many of our local industries and supports thousands and thousands of jobs and will continue to do so. As you know, however, we are also feeling a downside to freer trade with China. The United States has a massive trade deficit with China that continues to grow, and alarms policymakers like me.

Just this Tuesday, according to the *New York Times*, China reported that the U.S. trade deficit with China grew for the seventh consecutive month, to a record \$11.1 billion. So when my constituents ask what this trade deficit means, I have to tell them it means that the United States bought \$11.1 billion more goods and services from China than we sold to them.

It means that the United States borrowed \$11.1 billion from the Chinese to pay for those goods and services we imported from China.

It means that we are going to – sooner or later – repay China \$11.1 billion, plus interest, just for our December, 2004 purchases.

Our trade deficit with China is not popular and is eroding the public's support for the proliferation of free trade agreements that we currently are considering.

There are many reasons for our trade deficit with China, and I am sure that the commission is more familiar with those reasons than I am, but it appears to me that China's currency manipulation and cheap labor are among the most important. Getting China to allow its currency to float will be a difficult thing to achieve, but the United States must use every tool it has to push for such action. China has come a long way in

terms of economic reform and it has been rewarded for doing those reforms, but, quite simply, the United States still has a lot of work to do to eliminate the barriers to trade erected by China's central government.

I read with great interest the report released this week by this commission which says that 1.5 million American jobs were lost between 1989 and 2003 because of our trade deficit with China. I'm sure that there are economists that will quibble over the numbers in the report, but even if the report's numbers are off by a third, we have still lost a million jobs because of a trading relationship with one country.

Over the last two years, the chorus of people who blame China for our economic woes has grown louder. While I think the critics of U.S.-China trade have valid points, I think that the Congress needs to look first at our domestic policies that affect the efficiency of our economy and our ability to sell American goods and services abroad, before it blames the policies of foreign governments for our problems. I'd like to suggest a few areas where the Congress should begin working.

First, to retain and attract quality employers, the United States must have the most productive, creative, and skilled workforce in the world. The wages of American workers may always be higher than wages of Chinese workers. It is something we cannot control. But what we can control -- what we can ensure -- is that our workers are provided real opportunities to attend post secondary education and to obtain the continuing education that will enable them to out compete their foreign counterparts.

Second, we've got to do something about healthcare in this country. Healthcare costs are rising nearly 10 percent every year and they impact American employers' ability to compete globally. President Bush may say that we can reform healthcare by simply pursuing malpractice reform, but consider this: medical malpractice liability represents two percent of all medical costs. So even if medical malpractice did not exist, the costs of healthcare would continue to soar. We need real healthcare reform in this country. After all, how can we have the most productive workforce in the world if our workers cannot get medical treatment, or if they go bankrupt trying to pay for it?

Third, we need to strengthen the federal programs, like the federal-state unemployment insurance program, so these programs can better react to the changing nature of work in America and the fact that workers face a more unstable work environment and a more competitive market than any previous generation.

In summary, I feel that we still have an opportunity to shape our trading relationship with China, and with the rest of the world, in a manner that improves outcomes for Americans. But we must proceed with a two-pronged approach by first by ensuring that we have an environment that allows employers and employees to truly be competitive and, second, by being more forceful in demanding that our trading partners play by the rules to which they agreed.

Lastly, Mr. Chairman, I would like to take a moment to discuss with the commission some troubling emerging issues. The removal of apparel quotas and the imminent dominance of China in the textile and apparel industry will devastate the economies of many poor countries. The ripple effect of the Multifiber Arrangement is going to be felt like a tsunami for some developing countries, particularly those in sub-Saharan Africa.

China's growing demand for energy is changing geopolitical dynamics all over the world. Already, we find China resisting efforts by members of the United Nations Security Council to take action to stop the genocide in Sudan. I believe this is because of China's growing reliance on Sudanese oil. China is a key player in helping control nuclear proliferation on the Korean Peninsula and as a result enjoys growing influence in the region. Economically and geopolitically, China greatly impacts America's global influence and ability to protect its interests. Given that, I truly feel that the United States should not only do more to ensure that China plays by the rules of international commerce, I believe that we should do more to spur the democratization of China's political system. After all, the reason that so many Members of Congress supported Permanent Normal Trading Relations was that many of us believed that economic liberalization would encourage democratic reform.

I thank the commission for coming to this great city and would be happy to try and answer any questions that you may have.