

Testimony of Senator Sherrod Brown
before the
U.S.-China Economic and Security Review Commission
February 1, 2007
Washington, D.C.

Mr. Chairman. Members of the Commission. It is an honor to appear before you today. Since the creation of this Commission in the wake of Congress' passage of Permanent Normal Trade Relations with China, you have performed a vital service to Congress and the public in analyzing and reporting on a variety of important issues regarding China's relations with the U.S. and the world.

Let me first comment briefly on China's recent destruction of one of their satellites using a ground-based missile. This raises serious questions about the militarization of space and is something that we must all evaluate carefully. I know that your hearings this week will look at this important matter. I hope that you will pay particular attention to this issue during this year's reporting cycle.

Your field hearing in my home state of Ohio more than two years ago helped small- and medium-sized businesses and their employees add their voices to the debate over what impact China's entry into the World Trade Organization has on our country. I, and my constituents, thank you for taking your valuable time to visit our state.

This past November voters all across this country spoke out on issues of national concern. Certainly our presence in Iraq dominated the minds of voters.

But voters also voiced their concerns about the direction of our trade policy. They know firsthand what only now the economists are beginning to understand – that the NAFTA trade model has not lifted all boats.

In fact, it's lifted a very few. They know that, for the majority of Americans, our nation's trade policies have resulted in loss. The Loss of jobs, the loss of income, the loss of health and retirement benefits and the loss of dignity.

China cannot be blamed for our nation's misguided trade policies, but they have certainly been a *beneficiary* of those policies.

China is engaged in an effort to promote the interests of its people. We certainly can't fault them for that. But, when their efforts to promote their own interests come at the expense of ours, when they engage in predatory and exclusionary trade practices, we do have a right and, indeed, a duty, to speak out and take action.

When proponents of China's entry into the WTO argued that Congress should grant them permanent normal trade relations, they told us this would assure China's move to be more of a market economy. They said that it would help promote growth and opportunity for the people of both our nations.

Unfortunately, on both counts, that has not been the case. Certainly, China has engaged in much more economic activity. Last week's news that China's economy grew at more than a 10% rate is a measure of their success.

But the economic data shows that the fruits of trade are not being shared equitably. The gap between the haves and the have-nots in both the U.S. and China continues to grow.

And communist China's chokehold on their economy and all their activities continues. Indeed, in December the Chinese leadership, building on the 11th Five Year Plan adopted in 2006, announced seven sectors that would continue to be controlled by the state. And, they announced a number of other so-called "heavyweight" industries, which would continue to be dominated and guided by the state.

I don't know about you, but to me that doesn't sound like a bold transition to a market economy.

Last Congress, I and others spoke out against CNOOC's proposed acquisition of UNOCAL and argued, in part, that it was not a "market transaction" because of the state involvement and state-subsidized capital that was involved in the transaction. It's impossible for our companies to compete against state-controlled and state-supported actors – and they shouldn't have to.

China has amassed a surplus of US dollars, treasury notes and related assets topping \$800 billion.

If history is any guide, China will eventually spend these dollars and the interest they accrue, interest which comes out of the pockets of US citizens.

Our hope, of course, is that they will spend those dollars on US products, truly opening their markets to our nation's products and permitting their consumers to purchase our exports.

Hopes, even the sincerest of them, do not form a sound basis for trade and economic policy. China's markets are not free now, and unless something changes -- and by "something" I mean our nation's laissez faire attitude -- China's markets are unlikely to be free tomorrow.

China may also choose to recycle U.S. dollars by purchasing other assets, such as brick and mortar in the U.S. In so doing, the real question is whether China will invest dollars here or engage in a "cash and carry" approach of buying our companies, dismantling them and shipping our productive capacity back home to China, further exacerbating our trade and job loss problems.

Mr. Chairman, there are a number of important issues this year that must be addressed with regard to U.S.-China relations. I've already mentioned the ASAT issue. We need to better understand China's military buildup and what their intentions are. We need to carefully evaluate and influence, where possible, their energy acquisition and utilization policies.

In the trade and economic arena, there a myriad of issues. We all know about currency manipulation and intellectual property rights violations that are rampant and virtually unaddressed by the Chinese -- or, indeed, the Bush Administration.

But, an important looming issue is how the U.S. can respond to the hundreds of billions of dollars in subsidies that the Chinese give to their industry – directly and indirectly through such mechanisms as subsidized and no-cost loans.

Late last year a U.S. paper company filed a countervailing duty case against Chinese subsidies given to their industry.

For many years the Department of Commerce has interpreted the law and court decisions to indicate that they do not have the authority to impose countervailing duties against a non-market economy. They are now reviewing that decision.

I think we should place a priority on passing legislation making it clear that we will not let Chinese subsidies go unanswered.

There are other trade issues you have raised in your reports that demand attention. In the short time I have left, let me turn to one last issue – our defense industrial base.

As a new Senator and member of the Banking Committee, which has jurisdiction over the Defense Production Act, I intend to spend a good bit of time and energy understanding exactly what impact our trade policies have had on our defense industrial base and our ability to meet our national and homeland security needs.

I know that this Commission held a hearing on this important matter last summer in Michigan and intends to further work on this issue.

Your findings will be important as our committee works to better understand the implications of our weakened manufacturing sector and the appropriate steps needed to prevent its further erosion.

Thank you.