

**12The U.S.-China Relationship: Economics and Security in Perspective
U.S.-China Economic and Security Review Commission
Statement: Senator Benjamin L. Cardin (D-MD)**

February 1, 2007

Chairwoman Bartholomew and Vice-Chair Blumenthal, thank you both for the opportunity to testify on the U.S.-China relations and its implications for economic and security cooperation.

Prior to my election in 2006 to the United States Senate, I spent 18 years on the House of Representatives Committee on Ways and Means Committee. The last two years I served as the Ranking Member of the Trade Subcommittee.

The matter of U.S.-China trade was a matter that often made its way on the Subcommittee's agenda. There can be no mistake; China is the fastest growing economic force in the world today. China's need for sources of energy and markets to absorb its products means there are few nations in the world that have yet to be impacted by China's largesse.

China is one of the most important trading partners of the United States, yet, there are severe problems with this relationship due to China's longstanding unfair trade practices. Their unfair trading

practices have led to historic trade imbalances allowing China to acquire too large amount of U.S. debt. That is not in our security or economic interest.

China's unfair trade practices include currency manipulation, flagrant piracy of intellectual property, unreasonable restrictions on market access and industrial subsidies.

The U.S. trade deficit with China has doubled in the last 5 years. This is a dangerous trend as it forces our nation to borrow massive amounts of money from foreign countries to fund the deficit. The imbalance is caused in part by China's continuing currency manipulation. Despite repeated promises to adopt a more flexible exchange rate, China continues to peg its currency to a rigid policy that has caused the yuan to be under valued by as much as 40%. Thus, Chinese exports are cheaper than U.S. exports.

China also continues to flaunt international trade rules by failing to crack down on wide-spread pirating of intellectual property. Again, despite repeated commitments to protect and enforce intellectual property rights—in accord with the WTO—every year more and more American companies lose an estimated \$2 billion to Chinese copy cats.

Additionally, China continues to use unfair trade practices to provide advantages to Chinese companies and restrict U.S. companies from competing on equal footing. China often imposes overly burdensome licensing and operating requirements and often discriminatory regulations to restrict U.S. exports of services.

In response to China's unfair trade practices, I introduced the Fair Trade with China Act of 2005 (FTCA). The FTCA addressed the four key facets of the U.S. trade relationship with China.

First, the FTCA amended the U.S. countervailing duty (CVD) law to direct the Dept. of Commerce to investigate subsidies provided by the Chinese government to sectors of industry or agriculture.

Second, the FTCA proposed to change U.S. law to make currency manipulation an unjustifiable act, policy or practice. Thereby, the USTR could file a case in the WTO to address currency manipulation.

Third, the legislation proposed strengthening the special China safeguard law, which is intended to provide a remedy for U.S. industries against import surges caused by China's non-market

economy. Additionally, we proposed to amend the customs provisions to ensure the collection of duties owed on imports from China.

Fourth, the FTCA would revive the “Super 301” trade law to direct USTR to identify the priority barriers to U.S. exports of goods and services and China’s unfair trade practices. This would also include China’s failure to protect intellectual property rights and unfair trade practices.

For America’s economic and security interest it is essential that we aggressively enforce fair trade laws with China and if necessary strengthen our enforcement provisions through congressional action.

China/Iran Relations

Another cautionary aspect of China’s economic ascendancy is its relations with Iran. This relationship is both mutual dependence and political calculation.

China finds in Iran a permanent source for its exports and growing energy demand. China is the second leading exporter of goods to Iran with 8.3% of total market share. Between 2000 and 2005,

Iran's imports from China rose by 360%. In dollar value, this represents a leap from US\$3.3 billion in trade to US\$9.2 billion. Additionally, 13.6% of China's oil imports come from Iran.

There should be no surprise as to why China opposes sanctions against Iran for Iran's non-compliance with the international community regarding its nuclear energy program.

As long as China enjoys a United Nations Security Council veto authority, Iran finds that it has a very useful and powerful ally.

I believe the United States should include Iran's nuclear program in all high level talks with China to ensure Iran is clear it can not circumvent international compliance by hiding behind China's economic and political clout

Again, I thank the Commission for an opportunity to testify and I look forward to the final report on these hearings.

