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The U.S.-China Relationship: Economics and Security in Perspective

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Madam Chair, Vice Chair, Commissioners, thank you for inviting me to testify today on behalf of the ten million working men and women of the AFL-CIO on the trade and economic relationship between the United States and China.

I want to start by commending the U.S.-China Commission (USCC) for the great work you have done and are doing: the research you have commissioned, the diversity of voices and perspectives you have brought together, and the cogent policy recommendations you have put forth. Your annual reports are a tremendously valuable resource for policymakers, scholars, and activists, and I would like to convey the appreciation of the AFL-CIO for all the hard work that goes into those reports.

Much is at stake in getting the basic elements of our trade and economic relationship with China on a sounder footing. China is already a major global player politically and economically, and will be even more important in the future. The AFL-CIO, like the rest of the global labor movement, would like to see China become more prosperous, stable, and fair – but that can't happen if it continues on its current path of repression, dictatorship, and unfair trade practices. We need our own government to get its priorities straight with respect to China, and we look forward to working with the China Commission, the Administration, and the Congress to develop and implement appropriate policies.

Many of us in this room – and outside it as well -- agree that the U.S. trade relationship with China is enormously imbalanced and problematic. The Chinese government has violated its international obligations with respect to workers' rights, human rights, currency manipulation, export subsidies, and intellectual property rights, among other things.

All of these factors contribute to the growing U.S. trade deficit with China, which will probably exceed $230 billion in 2006. Our imports from China exceed our exports by a factor of 5.3-to-one, which represents an extraordinary degree of lopsidedness compared to any other major trading relationship. By comparison, our other major trade imbalances – with Europe and our NAFTA partners – represent an excess of imports over exports of only about 1.5-to-one (using trade figures through the first eleven months of 2006). Our imports from Japan exceed our imports by 2.5-to-one, while even our OPEC trade imbalances are only at 3.7-to-one.

This enormously lopsided trade relationship has concrete consequences for the workers I represent. Many have lost their jobs, of course, but the impact goes much deeper and broader. The "China threat" affects wages, benefits, and even the prospect of forming a union – as employers wield the threat of moving jobs to China to stave off union organizing drives, first contracts, and wage or benefit increases. We hear a similar story from our union counterparts, and also from governments, around the world, in both developing and industrialized countries.

How does a struggling democracy in Africa or Latin America meet “the China price”? By dismantling its own democratic freedoms, busting its unions, gutting its labor laws, trashing its environment, and manipulating its currency? If we don’t think that is the right answer, then we need to put policies in place that create a more coherent framework for our trade with China, and indeed, with the world.

Similarly, at home, what do we tell American workers and businesses thrown into ever-more direct competition from China in ever-expanding areas? Work harder, be more efficient? American workers are the most productive in the world, have more education and training than they’ve ever had, and – as a nation – work longer hours than those in any other developed country. And I know that our domestic producers are innovating and scrimping and pulling out all the stops to explore global markets as well as domestic. The problem is that American workers, farms, and businesses have not had the support they need from policymakers to face this competition on anything remotely resembling a level playing field.

Our trade relationship with China is a little bit like the Agatha Christie mystery, *Murder on the Orient Express.* A group of people jointly commits a murder, each stabbing the victim in a dark train compartment so that no single one can be held accountable. The truth is there is no single factor that explains the U.S. trade imbalance with China.

China experts often say the extent of China’s cost advantage over the U.S. is so enormous that there is no point tackling any one piece of it. That is simply illogical. We need to identify the sources of unfair competitive advantage and address each of them in turn.

In order to be successful, however, we need our own government to take this issue seriously, be honest about the magnitude of the problems we face, and begin to use the policy tools at its disposal to wield effective economic leverage in our bilateral relationship. We don’t need another round of ineffectual and insincere diplomacy, with no clear benchmarks and no consequences for repeated failure.

The Chinese government has charted out an economic growth strategy that relies heavily on export-led growth, primarily to the U.S. market. The elements of the strategy include maintaining an undervalued currency through massive intervention in the foreign exchange market, an industrial policy of targeting favored or pillar sectors through cheap loans and subsidies, and protection of domestic markets through overt and covert trade barriers. This is well-documented in the China Commission’s annual reports, as well as elsewhere.

The Chinese government’s political agenda requires heavy-handed repression of free speech and free association, and the prohibition of independent unions or other non-governmental organizations that might challenge the government’s power. Labor in China is not just cheap: it is deeply disenfranchised and disempowered, leading to horrible abuses of workers’ individual liberties, but also to dangerous and unsafe working conditions, unpaid wages, and abuse of prison labor.

The Chinese government’s political and economic strategy is coherent and rational from the point of view of China’s leaders – as long as the U.S. government is willing to go along with it.

Up until now, our government has acquiesced to this strategy, with only occasional and ineffectual protests, for several reasons. First, this strategy happens to serve the interests of an economically and politically influential segment of the U.S. business community: multinational corporations that import from China for sale in the U.S. market or produce in China for sale in the U.S. market. These corporations' interests are closely aligned with those of the Chinese government – although not so well aligned with those of American workers or domestic producers. Artificially low prices on Chinese products – whether caused by currency manipulation, subsidy, or repression of workers' rights – are a competitive advantage for companies importing from China.

Geopolitical concerns also contribute to our government's acceptance of China's export-led growth strategy, even in the face of protests from domestic producers and workers.

What can and should our government do differently?

Yesterday, AFL-CIO Secretary-Treasurer Richard Trumka testified before the Senate Banking Committee on the question of China's currency manipulation, certainly a key element in the economic and trade imbalance between our countries.

The AFL-CIO belongs to the China Currency Coalition (CCC), which is made up of several dozen industrial, service, agricultural, and labor organizations that have come together to press our government for an effective policy response to this problem. In 2004, the CCC filed a Section 301 petition alleging that China's currency manipulation was an unfair trade practice and a violation of China's obligations under both International Monetary Fund and World Trade Organization rules. The Bush Administration summarily rejected the petition within a few hours of its filing – apparently without taking the time to read the several hundred pages of analysis, documentation, statistics, and tables. The Administration was no more receptive when members of Congress refiled the same petition in September of 2004 and again in April 2005.

At yesterday's hearing, Treasury Secretary Paulson presented the 2006 Report to Congress on International Economic and Exchange Rate Policy (IEERP). Once again, the Treasury Department has determined that "no major trading partner of the United States met the technical requirements for designation [as a currency manipulator] under the terms of Section 3004 of the [Omnibus Trade and Competitiveness] Act [of 1988] during the period under consideration."

During the last several years, the Chinese government has intervened repeatedly and one-sidedly in exchange-rate markets to prevent the value of the yuan from responding to market forces, accumulating more than one trillion dollars worth of foreign exchange reserves ($200 billion in the last twelve months alone) and running a current account surplus of more than 8 percent of GDP.

As Secretary Treasurer Trumka said yesterday, "Either there is something wrong with the criteria Treasury is using to determine currency manipulation, or there is something wrong with the Treasury Department's math." Treasury's failure to take this one simple and straightforward step of designating China as a currency manipulator undermines U.S. credibility, deprives the government of leverage in ongoing negotiations, and sends a message to the Chinese government that no serious action is required.

Secretary Paulson described the Administration's new initiative toward China, the Strategic Economic Dialogue (SED). The SED is meant to be a "forum for addressing critical economic issues and planning for long-term cooperation." Issues to be addressed include developing efficient innovative service sectors, health care, cooperation on transparency issues, and a joint economic study on energy and environment, among other things.

This SED offers too little, too late. The proposed forum, dialogue, and cooperation are grossly inadequate, given the magnitude of the economic problems we face with respect to China.

When pressed by several senators for what action the Treasury Department would take if the SED failed to produce results, Secretary Paulson said he would go back to the table and talk some more, explaining to the Chinese government why "more currency flexibility" would be in China's interest and how important it is to the American people.

With all due respect, the time for talking is long past.

Here are several key steps the Bush Administration could take tomorrow to move beyond "bilateral consultation" and continued dialogue.

First, the economic agenda laid out by this Administration vis-à-vis China is way too narrow. Workers' rights appear to have fallen off the list of key economic topics to be addressed, whether in the SED or the Joint Commission on Commerce and Trade (JCCT).

Violation of workers' rights is just as much an economic issue as currency manipulation, violation of intellectual property rights, or illegal subsidies. In 2004, and again in 2006 (with bipartisan support from Representatives Benjamin Cardin and Christopher Smith), the AFL-CIO filed a Section 301 petition alleging that the Chinese government's brutal and systematic repression of its own workers' fundamental human rights constitutes an unfair trade practice under U.S. law. (In 1988, Congress amended Section 301 to explicitly include egregious violation of workers' rights as an actionable unfair trade policy when it "burdens and restricts U.S. commerce.") We calculated the economic impact of the Chinese government's repression and estimated that it contributes to the loss of hundreds of thousands of U.S. jobs in addition to the suffering inflicted on Chinese workers.

The Bush Administration rejected both worker rights petitions without the courtesy of a substantive reply.

A first and obvious step would be for the Administration to accept both the worker rights petition and the currency manipulation petition. Accepting the petitions simply commits the Administration to investigating the claims and, if warranted, to take appropriate action through the WTO. More important, it signals the Chinese government that real economic consequences will ensue if acceptable progress is not made toward complying with international obligations to respect workers' rights and a substantial revaluation of the yuan does not take place (our estimate is that the yuan needs to appreciate by 40 percent in order to reflect underlying market fundamentals).

Second, whether or not it responds to the 301 petitions, the Administration can and should initiate WTO dispute resolution immediately in several areas, including currency manipulation and violation of workers' rights.

Third, the Administration should work more aggressively to generate multilateral support at both the IMF and the WTO. Both institutions have crystal clear obligations with respect to currency manipulation, but seem uncertain – or unwilling – about actually enforcing them. Similarly, the Administration has not taken full advantage of International Labor Organization and United Nations pressures on China with respect to human and workers' rights.

Fourth, the Administration can clarify without delay that countervailing duty remedies can be applied to non-market economies.

But Congress cannot wait for this Administration to act.

We urge Congress to give immediate consideration to the Fair Currency Act, which was introduced with bipartisan support yesterday as H.R. 782

This bill clarifies the definition of currency manipulation, identifies currency manipulation as an illegal subsidy, and ensures that countervailing duty laws can be applied to non-market economies. It does not apply exclusively to China, but is broadly applicable. It is a crucial first step in addressing the urgent economic problems we face today.

I thank the Commission for the invitation to appear here today, and I look forward to your questions.