

Statement of Senator Carl Levin
U.S.-China Economic and Security Review Commission Hearing on
The U.S. China Relationship
February 1, 2007

Thank you for the opportunity to testify on the subject of the U.S. –China relationship. I'd like to focus the majority of my statement on trade and then mention the strategic relationship. This hearing is timely as the one-sided nature of the U.S.-China relationship in trade is causing increased impatience in America's heartland as well as in the U.S. Congress.

We need a more balanced trading relationship with China. We need to take bold action and insist that trade with China be a two-way street for American manufacturers, farmers and service providers trying to do business there.

The one-sided nature of the U.S.-China trade relationship is evident when you look at the trade deficit figures. In 2005, China exported \$243 billion worth of goods to the U.S. – six times the amount that the U.S. exported to China. This left us with a deficit of \$202 billion in 2005 – our largest deficit with any country. In 2006, the U.S.-China trade deficit is expected to exceed \$230 billion.

One reason for this glaring trade imbalance is China's continued non-compliance with its WTO obligations and our failure to challenge this non-compliance. When China joined the WTO it committed to abide by international trade laws. But in case after case China has thumbed its nose at these laws and we've not objected. We should be bringing trade cases against China on currency manipulation and Intellectual Property Rights (IPR) violations and against its industrial policies that discriminate against imports.

As a result of the administration's lack of action in the face of China's WTO noncompliance, Congress will need to take greater legislative initiative to force action.

There are many facets to our failed trade relationship with China. This morning I'd like to run through the most glaring complaints that we should be taking up at the WTO.

Intellectual Property:

Counterfeiting has exploded in recent years across many industries to become a serious threat to the competitiveness of the U.S. economy. Intellectual property theft is rampant in China, and counterfeit products make their way back into the U.S. and third country markets, hurting the companies that are the victims of this theft.

I testified before this Committee last June on the topic of auto parts counterfeiting. We know that China is the primary source of counterfeit auto parts and components and counterfeiting is one of the U.S. auto parts industry's greatest concerns with China. The U.S. auto parts industry loses \$12 billion annually to counterfeit auto parts, and China is responsible for about 75 percent of those counterfeit auto parts. A new U.S. Chamber of

Commerce study reported that counterfeiting and piracy cost the Ford Motor Company about \$1 billion annually, not including the health and safety costs associated with the fake items. The Justice Department and other federal agencies need to do more to fight auto parts piracy. Intellectual property theft is a serious crime with serious consequences and should be treated as such.

On April 29, 2005, the USTR placed China on the Special 301 Priority Watch List because of its failure to improve protections for U.S. intellectual property rights. Yet China has not changed its behavior. We need an enforcement office at USTR to pursue trade cases against countries that fail to meet commitments to reduce IPR infringement levels, and to prosecute counterfeiting more aggressively.

Currency manipulation

The Bush administration has also failed to take action on China's currency manipulation. The continued undervaluation of the Yuan has made Chinese products artificially cheaper, harming U.S. workers and businesses, and has exacerbated the U.S.-China trade deficit. By rigging its currency at between 15 and 40 percent below its appropriate value, China is giving a subsidy to its imports to the United States and imposing a direct cost on U.S. exports to China.

China has pegged the value of its exchange rate to a basket of currencies heavily weighted to the dollar and intervenes massively to maintain that peg. So why has China not been cited by the Treasury Department in its semi annual report? We should challenge China's currency manipulation in the WTO by initiating either a Section 301 unfair trade case or filing a case with the World Trade Organization's Dispute Settlement Body against China's currency peg. U.S. manufacturers and many members of Congress are wondering: why has the U.S. Trade Representative not taken such actions?

We should also be honest about what currency manipulation really is. Currency manipulation is a government subsidy, and it should be treated as such. That is why I will work with Senator Stabenow and others to develop legislation to make currency manipulation subject to U.S. countervailing duty laws and to direct the U.S. government to pursue countervailing duty cases in non-market economies such as China.

Import Surges

The administration has also failed to use China specific safeguards that were built into China's accession agreement precisely to defend American industries harmed by surging Chinese imports. Despite the International Trade Commission finding that U.S. manufacturers are being harmed by a flood of Chinese imports in various sectors, the administration has denied cases involving standard pipe, ductile ironworks, wire hangers, and pedestal actuators. We should be pursuing these cases and defending our manufacturers.

Industrial Policy

This administration has been dragging its feet for years on using international trade laws to fight for a two-way street on trade. The USTR has finally requested a WTO dispute

settlement panel with China over its unfair tax regime on imported auto parts. This is a long overdue step which will hopefully end some of the discriminatory treatment of American auto parts by China. By vigorously pressing our case against these and other egregious violations of the very WTO rules that China has agreed to abide by, we can hopefully help force an end to the one-way street on trade with China.

We have a huge and growing trade imbalance with China. So far, our government has done nothing to stop China's unfair trade practices, and this is costing us jobs.

This Commission can help exert pressure on the administration by continuing to expose these egregious practices and by making strong recommendations for actions to address them.

Finally, as the Chairman of the Senate Armed Services Committee I want to say a few words about the U.S.-China strategic relationship. Over the last several years, the United States and China have pursued a constructive strategic relationship, addressing common concerns such as North Korea's nuclear programs, bilaterally and multilaterally. China has demonstrated a greater willingness to play a responsible role on the world stage, contributing police forces to the U.N. operation in Haiti, for example.

Yet, at the same time, China is still unwilling to join the international community and pressure the Sudanese government to end the genocide in Darfur. The Chinese government speaks in favor of export controls, but still appears to have a way to go in establishing its own regime to prevent proliferation of nuclear, chemical and biological weapons. And most shockingly, a few weeks ago, the Chinese government, authorized the shooting down of their own weather satellite, raising questions about whether they are indeed – contrary to their protestations – pursuing the weaponization of space.

So, while the U.S.-China strategic relationship has been strengthened through the pursuit of common national security objectives, through diplomatic efforts and increased military contacts, it is a fragile accommodation for the United States, fraught with uncertainty about China's true intentions.

The Commission will hopefully offer recommendations to Congress regarding how the United States might more effectively further its interests vis-à-vis China, and how Congress can help the Administration to foster greater transparency and cooperation from China.