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Testimony to the U.S. U.S.-China Economic & Security Review Commission
Hearing: Chinese State-Owned Enterprises and U.S.-China Bilateral Investment
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Thank you for inviting me to testify today before the U.S.-China Economic and Security Review Commission. I am pleased that your hearing today will focus on the difficulties of competing against China's state-owned enterprises (SOEs). This is an important topic that has very real local impacts in Maine and throughout the country.

Before I begin my testimony, I want to suggest that we look at the issue differently. It's not just state-owned enterprises in China that American companies have trouble competing against. The Chinese government uses subsidies and interest free loans, among other things, to promote scores of companies and industries that aren't technically state-owned enterprises. But the effect of these subsidies is the same. So my recommendation to the Commission is to not focus on just those companies that are explicitly state-owned, but take a broader view of state-promoted enterprises in China.

I believe combating China's trade violations, especially their promotion of specific companies and sectors, is critical to our economic recovery as well as our national security. And we must respond to their unfair trade practices by focusing on our manufacturing sector at home and aggressively combating their trade fraud abroad.

My thoughts on China's role in the global economy and the American economy have been shaped by the negative impacts China's unfair trade practices have had on Maine's communities. Our paper industry, for example, has felt the consequences of China's decisions to become a global leader in paper products. Domestic mills simply can't compete against companies that get interest free loans or enormous subsidies. I think it's important to state that often these companies aren't state-owned enterprises, but the favorable treatment they get from Beijing often makes them an equally big threat to American companies.

But it's important to note here, that the single biggest challenge from China facing American companies is the undervaluation of the yuan. All questions about how we should respond in the face of state-owned enterprises are moot unless we address China's currency manipulation. Congress must pass the Currency Reform for Fair Trade Act immediately, and President Obama must sign it into law. In addition, the U.S. should bring a WTO case against China for undervaluing its currency. Their currency manipulation puts Americans out of work and forces American businesses to close their doors. We must act with urgency to stop it.

Maine's paper companies got some relief at the end of last year when the International Trade Commission made a positive determination and the Department of Commerce began levying duties on certain Chinese and Indonesian paper imports. These tariffs helped the Maine firms rebound, and some of them were able to hire back workers as a direct result. This response proved two important things: first, that American companies can compete successfully on a level

playing field; and second, that we must use all of the tools at our disposal to try to bring China in line.

But this won't be easy. China's national policies often violate international trade law. For example, several years ago, China decided that it wanted to be the global leader in paper products and embarked on a strategy of illegal trading practices to achieve this goal. They were successful; in 2008, China – despite having no lumber natural resources to speak of – became the world's largest producer of paper products. Such laser-focused and at-all-costs plans are typical of China's government. And this presents the main challenge Congress and communities all across America face: How do you respond to and engage economically with a country that so flagrantly violates international rules?

I am not sure there is a way to engage economically with China that will protect our workers and businesses from their nefarious trade practices. Congress wrestled with this issue when they were deciding in 2000 whether or not to give China Normal Trade Relation status. At that time, the proponents argued that admitting China into the WTO would allow us to better engage them and respond to their unfair trade practices. Although we will never know what would have happened if we had not admitted them into the WTO, it seems clear that letting them into the global trade framework has not resulted in their compliance with international trade law. So what do we do now? I think we have to develop and devote resources to two important strategies.

The first would be a national manufacturing sector strategy. If China is going to implement nation-wide policies designed to boost specific sectors, we must fight fire with fire. Our strategy should not involve illegal subsidies, but it should involve clear objectives. We should ask ourselves the question: what should the American manufacturing sector look like? I believe a diverse, robust manufacturing sector is key to a strong American economy and critical to our national security. The strategy should also evaluate what policy changes are needed to promote more domestic production. Seeking input from companies that currently choose to make their products in the U.S. would help to develop these ideas. We should consider ways to incentivize U.S. production through our tax structure. And finally, the manufacturing strategy should establish clear metrics of success over the short-, medium-, and long-term. Our manufacturing sector has declined over several decades, and it won't be rebuilt overnight. But if we are going to compete against China's state-owned enterprises, or the industries that receive preferential treatment by Beijing, we are going to have to have our own roadmap for the U.S. manufacturing industry.

The second strategy we must develop is a comprehensive trade enforcement strategy. The USTR under the Obama Administration has already taken strides to enforce our trade laws and keep China in line. But they do not have enough resources, and the trade enforcement tools are not accessible to enough American companies. In 2010 USTR filed three WTO disputes with China. Surely this is a small fraction of China's WTO violations. The problem is that initiating WTO disputes is extremely time- and resources-consuming. The same is true for anti-dumping and countervailing duty cases at the Department of Commerce and the ITC. Only seven anti-dumping and countervailing duty cases were filed last year, all of them against China. Our trade enforcement strategy must increase the resources available to USTR, the Department of Commerce, and the ITC to investigate and analyze the petitions submitted to them. In addition,

we must find a way to make these tools available to smaller companies who cannot hire law firms to put together a petition or cannot afford to collect all of the data necessary to make their case that China's unfair trade practices are putting them out of business.

These two strategies should be pursued as matters of economic development and national security. We cannot sit idly by while China out-produces and out-grows the U.S. economy. Instead, we must look at our own economic priorities and adjust them accordingly. I firmly believe that a strong, diverse manufacturing sector is key to maintaining our spot as the global economic leader. Congress and the Administration must devise a comprehensive strategy to rebuild our manufacturing sector. We cannot compete against China's illegal trade practices without one. We must also work to make our trade remedies available to more Americans. Although I do not believe the WTO is always the most effective means of getting China to play by the rules, I do believe we must give every affected American company the opportunity to file a formal complaint against China's violation of their WTO commitments.

And we must address China's currency manipulation. The time for diplomacy is over. Congress and the Administration must act now to stop China from undervaluing the yuan. We can't afford not to – American jobs and our economic viability are at stake.

Thank you for the opportunity to participate in today's important hearing.