US-China Economic and Security Review Commission
Hearing on Evaluating China's Past and Future Role in the World Trade Organization

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Thank you Chairman Slane for holding this important hearing to evaluate whether China is living up to its international obligations as a member of the WTO. I also would like to thank the Commission for continuing to provide thoughtful and thorough recommendations to Congress on the complex web of issues surrounding the U.S.-China relationship. We would be wise to heed much of your advice.

Let me get right to the heart of one of the biggest sticking point in U.S.-China relations – an issue that is undermining the prosperity of the American people and our economy – China's continued manipulation of its currency. China's persistent undervaluation of its currency adversely affects the U.S. trade and current account deficits with China – and growing deficits mean growing costs of financing that deficit.

China's policy of large-scale intervention in the exchange markets and the significant undervaluation of its currency also subsidize Chinese exports to the United States and, at the same time, make U.S. exports to China more expensive. Thousands of U.S. factories have been shuttered and millions of jobs have been lost or displaced over the past decade as result.

According to a recent Economic Policy Institute report, since China joined the WTO in 2001, 2.4 million jobs have been lost or displaced in the United States as a result of the burgeoning U.S.-China trade deficit. Almost universally, manufacturing and labor representatives are saying that the single biggest step we can take to create jobs domestically and improve the outlook for domestic manufacturing is to get China to reform its currency exchange rate practices. In other words, if China appreciated its currency and moved towards a free-floating exchange rate, it would do more for jobs here in the United States than any single stimulus program we could pass into law.

There is no question that this is what one might call a "put-up or shut-up" moment for U.S. lawmakers. American jobs and wealth are flowing out of the U.S., across the globe to China and other countries with cheap labor, lax environmental standards, and no compunction about flouting WTO rules to gain an unfair competitive trade advantage. This has got to stop.

Earlier this year, the Treasury Department announced it would delay indefinitely its statutorily-required report to Congress on currency manipulation, apparently in the hope that China might be willing to address concerns about its exchange rate policies in the context of upcoming high-level, multilateral discussions. Given China's past intransigence on exchange rate reform, such optimism seems misplaced.

And in fact, to date, China has refused to announce any plan to appreciate its currency. This should not be surprising. Years of meetings and discussions with Chinese officials in an effort to persuade China to float its currency have repeatedly failed to produce lasting, meaningful results. Haven't we been through this charade too many times already? Isn't doing the same thing over and over again and expecting different results the very definition of insanity?

As I travel across the great state of New York, I meet with manufacturers to hear their concerns. Not surprising, the talk these days is all about jobs and the economy. Companies like SCP, a manufacturer of silicon carbide ceramics for tough industrial applications, Selux Corporation, a maker of high quality lighting fixtures, and Brakewell Steel Fabricators, to name just a few – make great, innovative products.

These are the folks who provide good jobs and keep the local economy humming. And their success will make or break the Administration's goal of doubling exports in the next five years. I hear similar stories from many of these companies – they are trying to sell in China and elsewhere in the global marketplace, but it is a huge uphill battle.

U.S. companies are forced at home and around the world to compete with artificially low-priced Chinese exports benefiting from huge government subsidies. Those same subsidies also make it difficult to compete within the Chinese market. And that's not all. Chinese competitor's end up copying American manufacturers' products and then shut those manufacturers out of the market. To add insult to injury, the Chinese companies turn around and sell the copied products right here in the United States. Forget the Administration's export promotion plans – these companies are worried about simply staying in business.

Treasury's failure to call China on its currency manipulation and other WTO violations is disappointing to say the least. And other parts of the government also are dropping the ball. The Commerce Department, for example, is not doing everything it should to enforce U.S. trade laws designed to protect U.S. companies from unfair foreign trade practices.

U.S. manufacturers have repeatedly provided Commerce with evidence that China's manipulation of its currency is a countervailable subsidy. Yet, the Department has refused – at least 11 times in the past two years – even to launch an investigation into U.S. manufacturers' allegations. Even now, it has been sitting for months on two outstanding requests to investigate, with no lawful reason for doing so.

So while the Administration continues on its path of disappointing discussions with China, China's mercantilist policies continue to undermine the health of many U.S. industries – industries that inject billions of dollars into the U.S. economy and employ hundreds of thousands of American workers.

If the executive branch will not take decisive action against China's currency manipulation and other economically injurious behavior, Congress must do so. We simply have no choice but to defend and protect U.S. jobs and the U.S. economy unless and until China starts behaving like the international law-abiding, global emerging power it seeks to be recognized as.

This is one reason why, in the next two weeks, my colleagues and I intend to move forward with legislation to provide specific consequences for countries that fail to adopt appropriate policies to eliminate currency misalignment.

The bipartisan Currency Exchange Rate Oversight Reform Act of 2010 (S.3134) combines the best elements of a Schumer-Graham bill that was passed by the Senate Finance Committee in 2007 and a separate measure advanced by Senators Stabenow, Brown and Snowe that uses U.S. trade laws to counter the economic harm to U.S. manufacturers caused by currency manipulation. In short, the bill will require Treasury to identify misaligned currencies and require action by the administration if countries fail to correct the misalignment. The bill also provides consequences for countries that fail to adopt appropriate policies to eliminate currency misalignment and includes tools to address the impact of currency misalignment on U.S. industries.

I am confident that this bill will pass the Senate with overwhelming support.

Let me turn now from the macro to the micro – to illustrate that the fact that no U.S. industry is immune from China's mercantilist behavior. I want to talk for just a minute about how the U.S. honey industry is under siege from imports of Chinese-origin honey and how on-going schemes by Chinese exporters to circumvent U.S. antidumping, food labeling, and food safety laws threaten the continued health of the U.S. honey industry and, by extension, the health of U.S. agricultural industries. These schemes raise serious questions about China's commitment to its WTO obligations, the safety of imported honey, and the ability of the U.S. government to effectively enforce food safety and trade laws.

The United States produces less than half the honey that it consumes, which means the U.S. relies on imports to make up the difference. The U.S. imports from major honey producers like Canada, Argentina and Brazil. However, customs data also reveals that the U.S. imports a significant percentage of honey – perhaps as much as a third of total imports – from countries with no significant commercial honey exporting business. Four of the top eight countries – India, Malaysia, Taiwan, and Indonesia – export far more honey than their domestic bees produce.

Official imports from China, which as recently as 2006 provided over ¼ of U.S. honey imports, are now virtually nonexistent – unofficial, illegal imports are another matter. Since the United States imposed stiff antidumping duties on imports of Chinese honey in 2001, attempts to avoid such duties – by sending Chinese honey into the U.S. from a second or even a third country -- have proliferated. This transshipping or "honey laundering" – the intentional mislabeling of the country of origin – is costing the U.S. millions of dollars in unpaid duties and putting consumers at risk from honey contaminated with antibiotics, a problem common with Chinese honey.

Transshipment of Chinese honey through other countries is not the only problem. Chinese shippers also are mislabeling honey as malt sweetener or blended syrup to avoid paying the antidumping duty. According to recent testimony before the House Ways and Means Trade Subcommittee, by the American Honey Federation, the American Honey Producers Association, and the National Honey

Packers & Dealers Association, nearly half of the honey entering the United States without payment of duty is imported as a mislabeled product.

The amount of lost revenues for the U.S. Treasury – as a result of both transshipment and mislabeling – is significant. In both 2008 and 2009, at least 80 million pounds of Chinese honey entered the United States each year without paying the antidumping duty. This means that uncollected duties totaled $200 million in lost revenues for the U.S. Treasury for this two-year period. As well all recognize, particularly in these tough economic times, $200 million in lost revenues is not inconsequential.

However, efforts to monitor and impose duties on dumped Chinese honey imports are being severely weakened by intentional circumvention of U.S. trade and food safety laws. These circumvention schemes often depend on fly-by-night importing companies that are thinly-capitalized and specialize in importing questionable food products. When Customs tries to collect antidumping duties or ICE tries to take enforcement actions, these companies shut down operations and become insolvent; the owners simply disappear. The companies are then replaced with new, undercapitalized shell companies, often run by the same owners of the previously-shuttered entities.

These are serious problems – ones we cannot afford to leave unaddressed. I intend to work with my colleagues to fix the loopholes and gaps in U.S. trade laws that allow these problems to persist.

Let me conclude by noting that over the past five years, my colleagues and I have been sending a message to the Chinese government about their exchange rate policies and other WTO-inconsistent behavior, but apparently they are not listening. Ultimately, if you refuse to play by the same rules as everyone else, we will force you to.

China's currency manipulation would be unacceptable even in good economic times. At a time of almost 10 percent unemployment, we simply will no longer for stand for it. There is no bigger step we can take than to confront China's currency manipulation. This is not about China bashing; it is about defending the United States. I call on my colleagues to join in the defense.

Thank you Mr. Chairman and members of the Commission.