United States Senate
Committee on Finance

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Opening Statement of Senator Chuck Grassley
Finance Committee Hearing
"Opportunities and Challenges in the U.S.-China Economic Relationship"
March 27, 2007

Today's hearing is another in a series of hearings in which the Finance Committee periodically reviews the status of our economic relationship with China. I first want to thank our witnesses for being here. In particular, I want to thank Norman Sorensen, the President and CEO of Principal International, who joins us today from Des Moines, Iowa. Before we hear from each of the witnesses, I want to offer a few comments on our economic relationship with China.

As with any important relationship, it's likely that difficult issues will arise from time to time. The question is, how do you respond to those issues. In my view, you don't retreat from the relationship. Instead, you work hard to resolve the issues and improve the relationship. Clearly we have significant issues with the Chinese. Infringement of intellectual property rights in China remains rampant. The Chinese currency remains artificially undervalued relative to the U.S. dollar. The Chinese government appears to have a number of policies in place that are inconsistent with China's obligations as a member of the World Trade Organization. The Chinese government needs to do more to improve transparency. And, I think China could be doing more to help advance the Doha Round negotiations in the World Trade Organization. Those are just some of the issues. I'm very frustrated because China is not moving quickly enough, in my view, to resolve them.

On the other hand, we need to recognize that China is engaging with us in an effort to improve our economic relationship. That ongoing engagement means there's hope that, with a lot of hard work, we can resolve our issues. We've already been able to work through some important issues with the Chinese. In March 2004 we filed a case against China's value-added tax rebates that discriminated against imported semiconductors. We were able to resolve that dispute through consultations. In January 2006 we were about to bring a case against China's imposition of antidumping duties on our exports of linerboard, and we were able to resolve that without having to bring a case to the WTO.
Last year we filed a case against China's discriminatory charges on imported auto parts, and that litigation is ongoing. And, just last month, we filed a case against nine prohibited subsidy programs maintained by the Chinese government. China responded by terminating one of those programs a few weeks ago, and we're in consultations on the eight remaining programs. That's one of the benefits of having China in the World Trade Organization. We have a forum for resolving trade disputes.

Now, I also want to address our bilateral trade deficit. In 2006, our trade deficit with China exceeded $232 billion dollars, which was over one quarter of our total trade deficit in goods that year. But it's also true that in 2006 our exports to China grew by about 32 percent, which was significantly higher than the 18 percent increase in our imports from China. Combined with Hong Kong, China is now our third-largest export market behind Canada and Mexico. Our trade deficit with China is very much a function of U.S. consumption, because we're producing more and exporting more than ever before.

Some critics may argue that our trade deficit with China translates directly into jobs going to China, and that if we just reduce our deficit those jobs will come back to the United States. That strikes me as simplistic and inaccurate. We have an open economy, and if we were to somehow shut off trade with China our trade deficit would most likely migrate to other countries in Asia, assuming our consumption patterns stay the same. Trade policy should not be used to attempt to restrict economic activity to the United States. We tried that once. It was called Smoot-Hawley, and that protectionism certainly didn't help our economy any. Instead, we should embrace the benefits of our open economy and focus on what other policies will help us to remain competitive, create jobs, and attend to the needs of our workers and businesses here in the United States.

So let's review our economic relationship with China with open eyes. Let's acknowledge the benefits of that relationship, and identify the problems that remain. Let's voice our frustrations, and work on solutions. But above all, let's recommit ourselves to improving our economic relations with China through engagement, not retreat.