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**Testimony at Senate Finance Committee Hearing on
“Opportunities and Challenges in the U.S-China Economic Relationship”**

**Tuesday, March 27, 2007
Senate Dirksen Building, Room 215**

Mr. Chairman, I would like to thank you for inviting me to testify at today’s hearing, with regard to S. 571, a bipartisan bill to rescind Permanent Normal Trade Relations status with respect to China.

It may surprise some members of this Committee to learn that in September 2000, I voted to grant PNTR status to China. I voted for PNTR because, on balance, I thought that it was important to engage with China, a country of 1.3 billion people that was at a crossroads in its relationship with the United States and the world. But I was under no illusion that the agreement with China would necessarily mean greater access to the Chinese market. And on the floor of the U.S. Senate, I made the following statement:

“I want it to be clear that, if we accord Permanent Normal Trade Relations to China and we discover that they are not in fact complying with the terms of the bilateral agreement we negotiated with them . . . then I believe we must reserve the right to revoke China’s Normal Trade Relations status.”

I am here today, nearly seven years later, to say that there is irrefutable evidence that China has not lived up to the spirit or the letter of the trade agreement that we signed with them, and that we need to rescind China’s Permanent Normal Trade Relations status.

When the United States granted PNTR to China in 2000, our merchandise trade deficit with China, was \$83 billion. By last year, that trade deficit had exploded to \$233 billion.

For every six dollars of merchandise that we buy from China, the Chinese buy only one dollar of merchandise from us.

That is a staggering indictment of the one-way trade that we have with China, and reflects a wide range of problems. These include vast intellectual property theft and piracy, currency manipulation, unfair barriers against U.S. exports, and an unfair playing field in which U.S. jobs go to China because of sweatshop conditions there.

Now, I represent an agricultural state, and as I indicated, China is a significant market for U.S. agricultural products. But our exports to China would be greater by many orders of magnitudes if we could sell to China’s 1.3 billion people without facing all kinds of non-tariff barriers. According to the Census Bureau, China is only the 15th largest export market for North Dakota. In fact, North Dakota exports nearly 10 times as much to Belgium as it does to China.

Why are our exports to China as limited as they are? Take the case of wheat, for example. When they joined the WTO in November 2001, the Chinese agreed to significantly expand the amount of imported wheat that could come into China at relatively low tariffs, to 8.5 million metric tons per year. But in 2002, China allowed less than 10% of that amount to be imported. The Chinese government allowed only 10 percent of the import licenses to be available to private importers. The remaining 90 percent was reserved by the Chinese government itself, and they made sure that our wheat did not enter China.

In March of 2003, the USTR official in charge of agricultural trade with China stated that China has failed miserably to live up to the promises it had made on wheat trade, and said that the United States would be well justified in filing a WTO case against China. But the official said that the Administration was reluctant to do so, because a WTO case would be seen as an “in-your-face” thing to do to China, so soon after China joined the WTO.

Well, we held a hearing in the Commerce Committee on the issue of trade with China, at which I complained forcefully about this. And we were able to export a little more wheat to China in the couple of years that followed. But in 2006 we exported less wheat to China than we did in 2002. And the Chinese government is incredibly inventive in finding non-tariff barriers to our products.

This is what the USTR report on Chinese trade barriers had to say last year:

“... Agricultural trade with China remains among the least transparent and predictable of the world’s major markets. Capricious practices by Chinese customs and quarantine officials can delay or halt shipments of agricultural products into China, while sanitary and phytosanitary (SPS) standards with questionable scientific bases and a generally opaque regulatory regime frequently bedevil traders in agricultural commodities.”

Why do we keep tolerating this from a county with which we have a \$232 billion annual deficit?

I could testify at length about the currency manipulation that China is engaged in, but my colleagues Senators Schumer and Graham will be testifying to that issue tomorrow. Suffice it to say that after several years of raising this issue with the Chinese, the manipulation of the Chinese currency continues unabated.

I could also testify at length about the issue of intellectual property violations, which USTR has described as reaching “epidemic levels,” and costs our producers an estimated \$200 billion a year.

And I could testify at length about the issue of rampant sweatshop production in China, taking place in blatant violation of China’s own labor laws and right under the noses of multinational companies that claim to have effective monitoring systems. BusinessWeek magazine, which is a conservative publication, devoted an entire cover story to exposing that issue just last year.

The article described how on three separate occasions, Wal-Mart determined that one of its Chinese suppliers paying its 3,000 workers less than China's minimum wage and violating overtime rules. Wal-Mart issued warnings that went unheeded. When Wal-Mart issued a fourth warning, the Chinese company hired a consultant which, for a \$5,000 fee, taught the company how to keep a double set of books and hide its workers during inspections. Problem solved.

I could give you a thousand more examples of ways in which China is not trading fairly. But I think every member of the Finance Committee, at least in private, would readily agree that China has not lived up to its promises when it obtained PNTR.

Last year, Senator Grassley, at that time the Chairman of the Finance Committee, described his feelings on the subject with some language that came right from the heartland. During consideration of the Vietnam PNTR legislation, Senator Grassley said that “We need to make sure that we aren't played for a sucker in the case of Vietnam, as we have been with China.”

The Chinese don't take us seriously on trade issues. And a big reason is that China believes that it faces zero risk of losing their Normal Trade Relations Status.

Until October 10, 2000, China was subject to the provisions of the Jackson-Vanik amendment. This meant that China was granted normal trade relations only on an annual basis, and renewal was subject to Congressional approval. In turn, this gave Congress the ability to credibly demand that the Chinese abide by the rules of fair trade.

We gave away that leverage in 2000, and we need to reclaim it. I was joined by Senators Graham and Brown in introducing S. 571, a bipartisan bill that says, enough is enough. We need to rescind permanent normal trade relations (PNTR) with China. Our bill would instead require that China once again obtain annual approval for normal trade relations with the United States. Passage of our legislation will demonstrate to China that the U.S. Congress is serious about enforcing the rules of fair trade, and will ultimately lead to a much more constructive trading relationship for both countries.

I agree with the sentiment that Senator Grassley echoed last year: the Chinese have played us for suckers. And I think that we need to rescind PNTR, and send a message to the Chinese that will be heard loud and clear. I hope that this Committee will consider favorably the bipartisan legislation that I have introduced to do precisely that.