COMMITTEE ON FINANCE
U.S. SENATE

# OPPORTUNITIES AND CHALLENGES IN THE U.S.-CHINA ECONOMIC RELATIONSHIP

## TESTIMONY OF DAN DIMICCO
## CHAIRMAN, PRESIDENT AND CEO
## NUCOR CORPORATION

[redacted]

MARCH 27, 2007

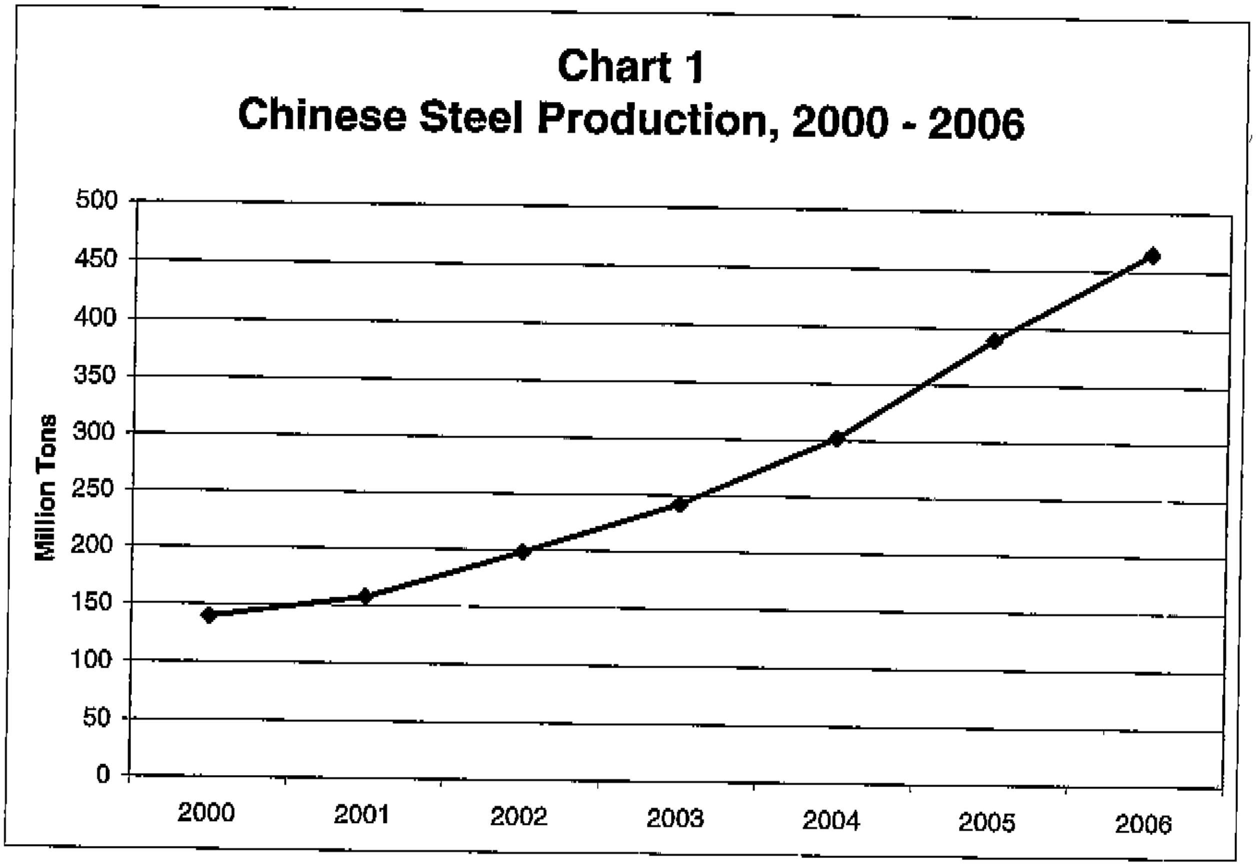
I am Dan DiMicco, Chairman, Chief Executive Officer, and President of Nucor Corp. In 2007, Nucor will be the largest steel producer in the United States. We are one of the most efficient producers in the world whether measured by raw material use, energy consumption, or labor per ton. We are also the country's largest recycler; in 2006, Nucor recycled over 20 million tons of steel. Thank you, Mr. Chairman, for convening this important hearing to address opportunities and challenges in the U.S.-China economic relationship.

President Ronald Reagan got it right over twenty years ago - "to make the international trading system work, all must abide by the rules." When it joined the World Trade Organization, China agreed to these rules. Quite simply, the U.S.-China economic relationship is not working today as it should because China is breaking the rules on every front -- from using massive subsidies, to the manipulation of its currency, to widespread violation of intellectual property rights -- all to give its exports an unfair advantage in international trade. This behavior has cost the U.S. economy hundreds of billions of dollars and millions of jobs. And we have let them get away with it.

Defending and enforcing the rules that are internationally agreed upon is not "protectionism." Shame on us if we do not make China live up to its commitments. It is time for Congress, the Administration, and the American public to make China abide by the rules – rules to which it agreed in return for access to our and world markets.

We have heard repeatedly that the U.S.-China economic relationship is complicated, and that we should "just let the market work." In fact, China is not letting the market work. And time is not on our side. We have been letting China get away with this behavior for the last five years – ever since it formally joined the WTO. We have a lot of catching up to do.

Our economic relationship with China can be explained in four simple charts. The first chart is of the growth in China's steel production over the last seven years.



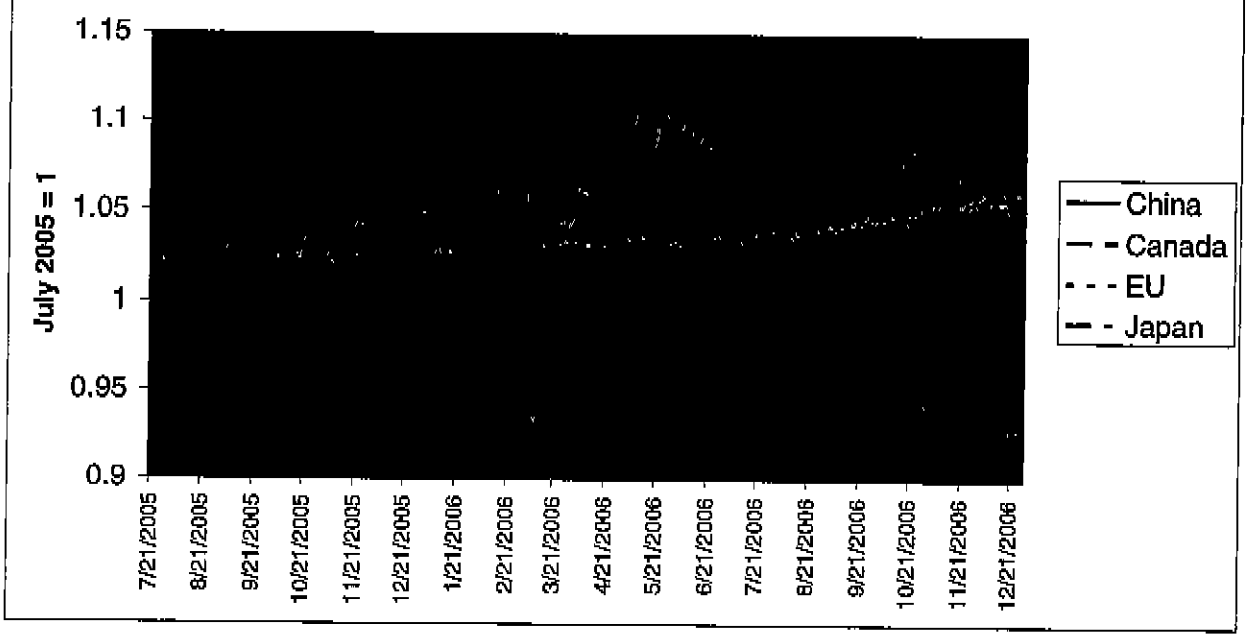

Between 2000 and 2006, China's steel production increased by *234* percent. In 2006, China produced nearly 465 million tons of steel, almost 35 percent of world production. It produced more steel than the next four largest producers – Japan, the United States, Russia, and Korea – *combined.* Yet China has no comparative advantage in steel.

No other steel industry in the world added remotely as much capacity as China over this period. This explosion of Chinese steel production was no accident. A huge steel industry is a vital component in China's plans to transfer the world's manufacturing capability from the rest of the world to China. Steel is an essential ingredient in many of China's major exports to the United States, including electronics, machinery, appliances, auto parts, and now automobiles themselves. To turn China into the "factory of the world," the Chinese government has funneled hundreds of billions of dollars in subsidies into a multitude of industries, including the steel industry and industries using steel. These subsidies take the form of equity investments, cash grants, and write-off of nearly a trillion dollars of loans by state-owned banks, among others.

Another major "subsidy" is the non-enforcement of environmental laws. If China enforced its own environmental laws, it could not have permitted and built so much capacity in the last few years. China's export boom is based, all too frequently, on using pollution as a source of comparative advantage. Along with its manufactured products, China is also exporting its pollution with globally disastrous results.

The direct subsidization of manufacturing is only part of the Chinese government's plan to make China the world's factory. The Chinese government also consciously manipulates the value of the Chinese RMB, intervening in world currency markets to keep the RMB well below what I and many others believe is its true value. If you have any doubt that the Chinese government is tightly controlling the value of the RMB, look at Chart 2. It shows the changes in the value of the currencies of our major trading partners, including China, from July 2005, when China announced that it was revaluing the RMB, to March 21, 2007.

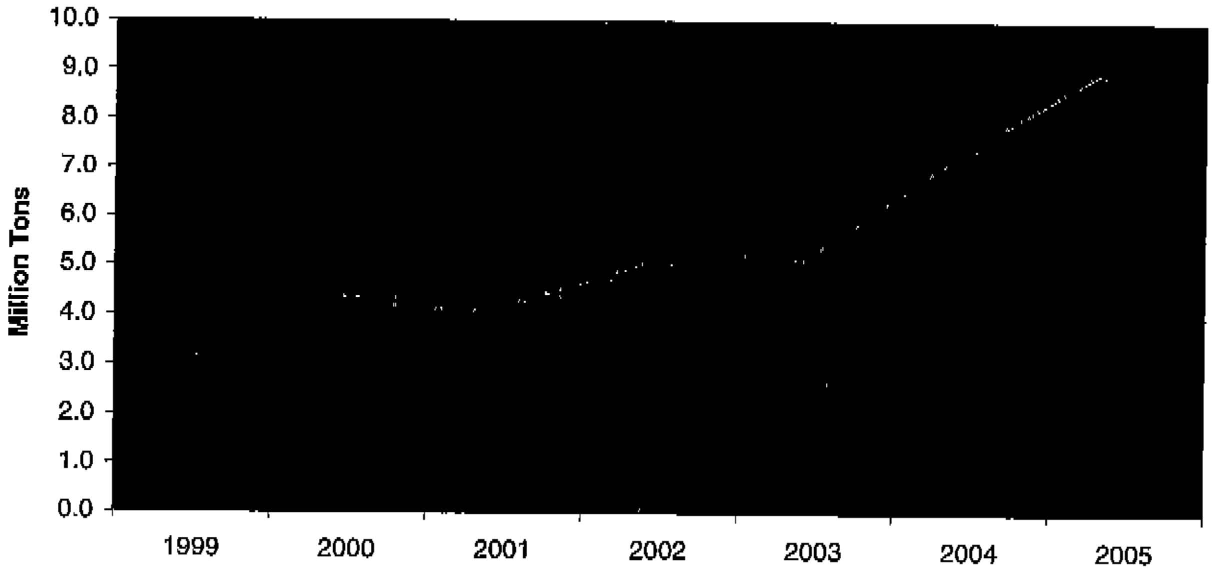
**Chart 2**
**Exchange Rate Movements, Major U.S. Trading Partners**




Currency manipulation provides Chinese exports with a tremendous advantage in international commerce. By keeping the RMB 50 percent or more below its true value, the Chinese government's currency policies make imports from China artificially cheap and exports to China artificially expensive. Our own Federal Reserve Chairman, Ben Bernanke, has recognized China's control over the RMB's value for what it is, a subsidy. He called China's currency manipulation, and I quote: "the effective subsidy that an undervalued currency provides for Chinese firms that focus on exporting rather than producing for the domestic market."

Subsidies and the deliberate manipulation of the value of the RMB have worked exactly as the Chinese government hoped. From 1999 to 2005, Chinese exports of steel to the United States, both as steel and in the form of products containing steel, increased by nearly 200 percent, as Chart 3 shows.

**Chart 3**
**Direct and Indirect Steel Imports from China, 1999 - 2005**




The metals industry is not the only manufacturing industry that has experienced this explosion in imports. From 2000 to 2006, imports of furniture from China rose by nearly 170 percent; imports of electrical machinery increased by 234 percent, while imports of other types of industrial machinery grew by 365 percent.

Normally, U.S. producers being injured by subsidized imports could seek relief through the subsidy laws. However, due to a misguided policy decision 20 years ago, the Commerce Department has chosen *not* to apply the countervailing duty law to imports from China and other "non-market" economies, even though the Department admits that the statute would allow it to do so. By continuing to exempt China and other non-market economies from application of the subsidy law, the United States sends the message that countries can violate international rules with impunity. A bill recently introduced by Senators Bayh and Collins, S.974, would clarify that the subsidy laws do apply to China and other non-market economies. As China has already agreed to be covered by the subsidy law, passage of this bill should be non-controversial. Let's get on with it – it would be a good start in holding China to their commitments.

My fourth chart shows the ultimate impact of China's policies of subsidization and currency manipulation. From 2000 to 2006, the United States' deficit with China in trade in goods grew by 155 percent, to more than $213 billion dollars. American exports to China grew over this period, by $37 billion -- but Chinese exports to the United States grew by over $200 billion, more than five times as much. It is a cruel hoax on the American public to focus on the growth of exports to China while ignoring the massive and widening gap between exports and imports. In addition, because other Asian countries believe they have to manipulate their currencies to keep their exports competitive with China's, the U.S. trade deficit with Asia reached $344 billion in 2006 – nearly half our total trade deficit.