Statement Of

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On Behalf Of

American Iron And Steel Institute
China Currency Coalition
And
Steel Manufacturers Association

Before The

Committee On Ways And Means
U.S. House Of Representatives

Concerning

United States-China Economic Relations And China's Role In The World Economy

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My name is John Nolan, and I am Vice President and Manager of Sales and Marketing for Steel Dynamics, Inc. (SDI), a producer of a broad array of high-quality, carbon flat-rolled, structural, and bar steels. SDI was founded in 1993 as a new, independently financed, American steel company with several mini-mills and steel-processing operations located in Indiana, and our total annual capacity now exceeds 4 million tons. I am submitting this written statement on behalf of the American Iron and Steel Institute (AISI), the China Currency Coalition (CCC), and the Steel Manufacturers Association (SMA), all organizations to which SDI belongs.

There can be no reasonable doubt that China presents an enormous challenge for the United States. The single greatest commercial disadvantage that the U.S. faces is China's manipulation of its currency. The undervaluation of the yuan is estimated to be about 40 percent and acts both as a subsidy for Chinese exports to the United States and third countries and as a hidden duty on U.S. products that would be imported into China. From our perspective, the situation is not unlike being in a 100-yard dash and starting at least 40 yards behind your chief competition, not a good position in which to be.

Last week, as you know, Chairman Hunter and Congressman Ryan introduced H.R. 1498, the Chinese Currency Act of 2005, a bipartisan effort to address in a constructive manner an extremely serious threat. The AISI, CCC, and SMA all wholeheartedly support this legislation, which is a thoughtful attempt to hold China to account for its currency manipulation in a way that is consistent with the agreements of the World Trade Organization (WTO).

It is vitally important that China's undervaluation of the yuan be seen as the violation that it is. China must not be allowed to ignore its international legal obligations at the WTO. Exchange-rate issues become trade issues as a practical matter and are recognized as such under Article XV of the General Agreement on Tariffs and Trade. Consequently, they should no longer be considered to be solely within the purview of the Treasury Department and monetary policy. When currency manipulation acts as a prohibited export subsidy and facilitates imports from China, the result is market disruption in the United States.

The Ryan-Hunter bill rightly recognizes this distinction and would amend the U.S. countervailing duty statute and the China-specific, market-disruption statute to enable U.S. industries and workers to pursue relief under either or both laws against subsidized, injurious imports into the United States from China. Also importantly, in a case in which market disruptions were found, the Ryan-Hunter bill would prohibit the Secretary of Defense from procuring Chinese-origin products if the Secretary determined that the U.S.-made products like the imports from China were critical to the U.S. defense industrial base. The President could waive this prohibition on a case-by-case basis only if he decided waivers were in the national security interests of the United States.

Along these same lines, we also enthusiastically support H.R. 1216, introduced by Congressman Phil English and others, which would clarify that the U.S. countervailing duty statute applies to imports from nonmarket-economy (NME) countries. These WTO-consistent bills are a valuable part of the broader effort to check China's unlawful subsidization.

Finally on this subject, I want to convey a sense of urgency. Valuable time is being lost, and the figures on China's enormous foreign-currency reserves, bilateral trade surplus with the United States, and global trade surplus continue to rise alarmingly and at an unsustainable pace from the vantages of the United States and China itself in the final analysis. Even so, the Treasury Department in recent years has refused in its semi-annual reports to find any currency manipulation and undervaluation by China of the yuan. This reluctance is unsettling and confusing. During the period of 1992-1994, the Treasury Department in five semi-annual reports made affirmative findings of currency manipulation by China on the strength of data far below the levels of today. A chart showing these contrasts is attached. More than negotiation with China is needed to avoid serious adverse consequences for the economic and security interests of the United States.

The United States needs to communicate a clear, unified, consistent, and apolitical position to the Chinese on the important business issue of their currency manipulation. This position needs to address the yuan's undervaluation for the prohibited export subsidy that it is; it needs to address the impact of the yuan's undervaluation on U.S. manufacturers; and it needs to address the dangers of China's currency manipulation to the Chinese economy going forward.

While China's manipulation of its currency is of paramount concern, not surprisingly, we have a number of concerns regarding important <u>non-currency matters</u>, and it is essential to get these right as well.

<u>WTO Compliance Problems</u>

Ensuring that China fully implements and abides by its WTO commitments – and that U.S. industries have ready and meaningful access to WTO-sanctioned trade remedies – is a top priority to industries in the United States.

With regard to China's compliance record, we have growing concerns about the pace and thoroughness of China's efforts to comply with its WTO obligations. Particularly worrisome is that China:

- Imposes WTO-inconsistent restrictions on the exportation of key raw materials;
- Provides significant subsidies beyond its currency manipulation to its manufacturing and other industries;
- Fails to meet key implementation milestones (e.g., on trading and distribution rights);

- Continues to pressure the U.S. and others to end nonmarket-economy treatment in antidumping (AD) cases, in spite of China's failure to eliminate its non-market practices;

- Continues to pressure foreign countries to eliminate China-specific "safeguard" provisions early (e.g., Section 421 in the U.S.), despite numerous findings of disruptive trade, and threatens to take countermeasures; and

- Manipulates its value-added tax system to benefit Chinese companies.

Chinese Government Subsidies

In China, key national, provincial and local governmental goals are to promote investment, exports and employment. Governmental policies are used to "direct" or "manage" corporate decision-making in manufacturing and other industries. For example, at industrial parks throughout China, a wide variety of tax-related investment incentives are advertised to encourage direct foreign investment, with exemptions and reduced rates often linked to "technologically advanced" enterprises and to export levels (that is WTO-illegal).

We believe it is well past time to do an in-depth analysis of the entire government-industry relationship in China. It should, at a minimum, explore such factors as: government ownership; privatization and private ownership; land ownership and control; price coordination; other administrative guidance; banking and finance; utility rates; infrastructure development; taxation; restraints on imports; restrictions on exports; research and development; worker training and retraining; and rationalization and the closure of uneconomic enterprises.

China's Unacceptable Position in the OECD Steel Subsidies Agreement (SSA) Negotiations

China is already the world's largest producer and consumer of steel by far (with nearly 30 percent of total world steel production and consumption). Its actions are having a growing impact in a number of areas of direct importance to the global steel industry – including trade in raw materials and activity in other manufacturing sectors.

The positions that the Government of China has taken in the SSA negotiations are revealing of larger aims. China would like to use these negotiations (whose initial goal was to enhance subsidy disciplines in the global steel sector) to obtain relief from its WTO accession obligations. The three steel industries of North America have spoken with one strong, united view on China's goals in the SSA negotiations. They oppose:

- Granting China market-economy status in steel antidumping cases;
- Guaranteeing that there will be no use of the "special safeguard" mechanism against Chinese steel products; and
- According China status as a "developing country" and giving it preferential treatment of any kind in the SSA.

At a time when China is running enormous trade surpluses with the United States and North America:

1. We must retain an unchallenged right to use the special safeguard mechanism if there are surges of imports from China of steel or any other product;
2. We must retain an unchallenged right to apply NME methodology in AD cases involving imports from China until steel and other key sectors of the economy in China are no longer under governmental regulation or control; and
3. China should comply fully with its WTO commitments and eliminate all of its direct and indirect subsidies to steel.

<u>Need to Get Our Own House In Order</u>

We need to continue to make ourselves much more competitive through a comprehensive and proactive approach that might be called "trade policy plus." With regard to domestic policy, we need to do all we can to help:

- Make steel producers and our customers in the U.S. and North America more competitive;
- Look at our own natural advantages; and
- Reform tax, litigation, regulatory, health care and energy policies.

The goal must be to make it more attractive to invest in manufacturing -- and infrastructure -- in the NAFTA region. China is in the process of building a first-class, nation-wide infrastructure. As it does, it will drive down production costs for manufacturing and other industries even more.

Attachment

Historical Comparison of Determinations by the U.S. Department of the Treasury Regarding the People's Republic of China and Currency Manipulation

Values in Billions of U.S. Dollars

Date of Determinations	**1992 - 1994**	**1995 - 2004**
Semiannual Treasury Determinations	**Affirmative Determinations: Currency Manipulation Found**	**Negative Determinations: No Currency Manipulation Found**
Foreign Exchange Reserves	$19.4 - $51.6	$73.6 - $609.9
Capital Controls Employed	* Dual Exchange Rate System * Regulated Currency Swap Markets * Foreign Exchange Allocations	* Forced Repatriation of Profits * Households' Access to Foreign Exchange Curtailed * Open Market Operations to "Sterilize" Excess Yuan * Increased Banking Sector Reserve Requirements * Foreign Exchange Surrender Requirements * Restrictions on Foreign Exchange Holdings
China's Global Trade Surplus	-$3.6 - $14.7	$18.1 - $256.2
China's Bilateral Trade Surplus With the U.S.	$18.2 - $29.4	$33.8 - $163.6

Sources: Foreign Exchange Reserves and Global Trade Surplus Data (1992-1994): IMF International Financial Statistics; data on China's Bilateral Trade Surplus with the United States from Official Statistics of the U.S. Department of Commerce; data on China's Global Trade Surplus (2004) estimated by the China Currency Coalition based upon data from China's major trading partners through Global Trade Information Services (all data are on an annual basis for ease of comparison).

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