

Ways & Means June 16, 2010

Testimony of Hon. Mark H. Schauer

Mr. Chairman, Ranking Member Camp, members of the Committee - it's a pleasure to come here to discuss our trade issues with China. I appreciate the invitation and look forward to working with the Committee on these issues.

I'm pleased that the committee is examining the indigenous innovation issue, because it is perhaps the best example we have of China overtly favoring its captive industries. Because China is not an open society, there is little we can do except count the missing jobs, unless we are willing to take a strong stand against favoritism as evidenced in China's indigenous innovation initiative. My legislation is one tool that can be used to discourage China from continuing to go down this path.

Although the committee is examining a number of issues today, I'd like to focus on the patent unfairness of China's government procurement policy, as contrasted with the U.S.'s open procurement policy.

Although I represent a manufacturing state that has longstanding concerns with China, my most recent involvement in this issue started rather innocently. This year, I was provided a bag of Census promotional materials. As is my custom, I inspect the labels of the product to determine the country of origin.

The first article was this hat. Now, we all get hats from every group in our district, and I proudly display a number of hats in my Congressional office.

Of all the hats I've ever received, I've never seen one of as poor quality as this. I can't imagine anyone wearing this hat. I was shocked to see that this hat was made in China. I wasn't shocked because the quality was poor; I was shocked because I couldn't believe that our Census was procuring promotional goods from China.

In the same package of goods, there was a Census 2010 keychain - you guessed, "Made in China."

I was outraged that our taxpayer dollars were going to our competitors, and I really hit the ceiling when I realized that China shut out US firms from its \$580 billion stimulus plan. Something is fundamentally wrong here when a trading relationship is a one-way street that drives jobs out of the US.

When I began talking about my concerns with this procurement publicly, I received an email from the Census. To the extent I understand it – and I’m not certain that I do - the Census seems to believe that these articles were “substantially transformed” by an American company adding the words “Census 2010” to these Chinese goods. The email also contained an explanation stating that “it is extremely difficult to find vendors that sell entirely U.S. made products.”

That answer is unacceptable – if U.S. vendors exist AT ALL, there needs to be a damn good reason why they didn’t get this work.

The Census’s reasoning here is circular: they can’t find a U.S. firm to make the hats, because they don’t give contracts to U.S. firms to make the hats. Well, as I am inclined to do, I looked into this: in my own office I found this, and this, and this (showing U.S.-made hats). All of these are U.S.-made hats of recent vintage.

I also spent about 3 minutes on the internet and came up with a number of options to have these goods made in the U.S. There is no question but that there is sufficient U.S. manufacturing capacity to make these goods, so what went wrong and how did this money find its way to China? We’re still looking into this issue, but it’s clear that something went wrong, especially when the American Chamber of Commerce in China is reporting that U.S. companies – even U.S. companies that have operations in China – are being shut out of that market.

China is playing us for fools regarding the Government Procurement Agreement – the GPA. Upon joining WTO in 2001, China said it would sign the GPA as soon as possible. [noted in USCBC July 2009 “PRC Government Procurement Policy, page 4]. Nine years later, that still hasn’t happened. The U.S.-China Business Council notes in its 2010 White Paper that there has been zero progress on China submitting a commercially-meaningful accession offer to the GPA. It would be interesting to know how many billions of taxpayer dollars have gone to China during this 9-year waiting period.

When they do submit an offer, you can bet that it will be full of exceptions that will end up costing American jobs.

So, when will we play tough? When will we get it? At the very least – the very least - we need to show China that we are willing to be strong until they open their procurement markets to us.

I've offered one way of addressing this issue, and that is to cap the amount of US government procurement of Chinese goods to the amount of American goods purchased by the Chinese government.

My bill, H.R. 5312, includes a provision that requires the Secretary of Commerce to perform both a legal and factual analysis of whether China has opened its procurement practice to U.S. goods. Since China isn't a transparent society, we need more than China's signature to be assured that they, in fact, are buying U.S. goods.

Under H.R. 5312, the International Trade Administration would report the total value of American goods procured by the Chinese government. The Secretary of Commerce would then certify the amount of that year's cap for US procurement of Chinese goods – in short, a dollar out, a dollar in. We need this type of basic fairness to bring jobs back to America.

The Economic Policy Institute estimates that we've lost 2.4 million American jobs since China joined the WTO in 2001, and that doesn't include 2009, which was probably a very good year for the Chinese. Will this program be easy to administer? Perhaps it presents challenges, but there are 2.4 million American families that want us to face those challenges.

To a casual observer, it might look as if there are sufficient laws on the books to favor U.S. goods, but it is apparent that the current laws have not been sufficient to stem the flow of jobs heading out. I suspect that the exceptions and waivers have swallowed the rule, and it's time to reexamine this relationship. At the very least, if we take some positive action, China may understand that it needs to put forth a meaningful accession offer to the GPA, and they'll stop this "indigenous innovation" program.

There's a right way to do this. Secretary LaHood travelled to China to tell them that rolling stock for our new railroad investments needs to be made in the U.S., and that waivers won't be granted. That's the right message.

American workers can build anything if they're given half a chance to do it. Earlier I showed you the worst ballcap I've ever seen – here is the best one ... made right here in the U.S.A. in Newark, New Jersey. Anyone involved in this industry knows that there is sufficient U.S. capacity to make these hats and keep these jobs in the United States.

We can't afford to continue to let China eat the lunches of American workers through currency manipulation, "indigenous innovation," and other means.