Testimony
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U.S.-China Economic and Security Review Commission
China's State-Owned and State-Controlled Enterprises
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I would like to thank Chairman Shea, Hearing Co-Chair Cleveland, Hearing Co-Chair Wessel, and all of the members of this Commission for their invitation to speak before you today on the very timely and important issue of China's state-owned and state-controlled enterprises.

I represent the First Congressional District of Indiana, where more steel is produced than in any state in the nation. The Steel Caucus, of which I am Vice Chairman, became aware of the issue of Chinese state-owned enterprises in 2010. While the Caucus took action two years ago, this issue is as relevant and more troubling today. I am concerned that China's state-owned enterprises will only continue to gain influence in our country and around the world in the future, and it is my hope that through hearings and discussions such as the one that you are holding today, we can begin to develop the appropriate policies that ensure American workers and American companies can fairly compete in a world with Chinese state-owned enterprises.

To demonstrate the relevance of China's state-owned enterprises today, I would point out that just this past week there were two articles of note. On February 10, 2012, the Washington Post had an article entitled, "U.S. Says it Wants Investment, But China Remains Wary." The article stated how the Obama Administration has made seeking Chinese investment a priority, and that this will be a topic that is discussed during this week's visit of China's Vice President Xi Jinping, who is expected to become China's President later this year. The article goes on to note that China invested $1.1 billion in the U.S. in 2011, and that some expect that Chinese state-owned enterprises could invest as much as $2 trillion worldwide in the next decade. Historically, from 1990 to 2000, China invested $2.4 billion abroad per year, but in 2009 that number exploded to $43.3 billion, and it increased further to $59 billion in 2010.

We can see why the United States is so interested in this type of investment from an article in the Wall Street Journal that ran the following day entitled, "In the Heart of the Rust Belt, Chinese Funds Provide the Grease." This article stated that Nexteer Automotive in Saginaw, Michigan, was on the verge of closing and letting go of 3,000 jobs. But then a Chinese state-owned enterprise, Pacific Century Motors, which is controlled by the Aviation Industry Corporation of China and Beijing E-town International Investment Corporation, bought the auto-parts maker for $450 million. These 3,000 workers, instead of looking for their next employment opportunity, are now installing new equipment, thanks to the investment of a Chinese state-owned enterprise.

So while this appears to be a positive investment initially, I remain very cautious. My concern is that there is no means for oversight or recourse for American workers if ulterior motives are involved and if the original investment dollars were generated through state subsidies that rendered other Americans unemployed.

The above mentioned case is an apparent win for the American worker, but what if the motive for the investment of a Chinese state-owned enterprise is to gain technology developed in the United States for export to China? What if the motive for the investment of a Chinese state-owned enterprise is to operate an American facility so that they can avoid paying American tariffs? Should we reward the use of investment dollars secured through practices that violate international trading standards and that have had an abusive effect on existing businesses in our country? I do not believe these fears are speculative in nature. I do not assume that Chinese state-owned enterprises operate based solely on market forces. We should have a way to transparently and fairly assess their investments.

Currently, the only mechanism that America has to examine investments from Chinese state-owned enterprises is through the Committee on Foreign Investment in the United States (CFIUS), and that is the mechanism that I and the Congressional Steel Caucus pursued when we had concerns about the Anshan Iron and Steel Group's investment.

Anshan is a Chinese state-owned enterprise and is China's fourth-largest steel producer. I would add that 16 of the top 20 steel groups in China are 100 percent state-owned enterprises. So Anshan is controlled by China's Assets Supervision Commission of the State Council, and they decided to invest in the project of an American firm, the Steel Development Company, located in Mississippi. As a Caucus, we were concerned that the investment would allow a Chinese state-owned enterprise to pursue the government of China's aims, and not the aims of the employer, the American worker, or the market. We were concerned that this investment would allow the full force and financing of the Chinese government to exploit the American steel market from American soil. We also were concerned that China would have access to new steel production technologies and information regarding American national security infrastructure projects.

As a leader of the Congressional Steel Caucus, and as a Member of Congress representing generations of steelworkers in Northwest Indiana, I have seen the devastation that Chinese currency manipulation and unfair trading practices have wrought on our manufacturing base, and I have fought tirelessly against their unfair actions for the past decade. I have no reason to believe that Chinese actions through state-owned enterprises will be any less unfair.

The only course of action we could take to express our concerns about this investment was to request to Secretary of the Treasury Timothy Geithner that CFIUS fully investigate this joint venture. To that end, on July 2, 2010, we sent this request in a letter to Secretary Geithner with 50 signatures from Members of the Congressional Steel Caucus. Subsequently, on September 15, 2010, the Steel Development Company announced that they executed a joint venture agreement, where Anshan would invest in and become a fourteen percent partner of the Steel Development Company and become a member of the Board of Directors.

Members of the Commission, we must ensure that American workers are able to compete on a level playing field. China has consistently demonstrated that they are not adhering to fair trading rules, that they are providing illegal subsidies to their industries, and that they are dumping their products on our shores. They have repeatedly shown their neglect in enforcing environmental and labor standards. They have blatantly ignored patent and copyright protections.

Again, I do not believe that we should reward state-owned enterprises that have demonstrated such actions, and I assure you that I am committed to working to develop a way to transparently and fairly assess their investments. The American worker deserves no less.

I deeply appreciate your attention and serious thought into this matter. I thank you for the opportunity to come before you today to share my views on this issue, and I would be happy to take any questions that you may have at this time.