

REMARKS OF THE HON. ROSA L. DELAURO
TESTIMONY FOR THE U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION
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Thank you. It is an honor to join you this morning.

First, I want to thank Vice Chairman Daniel Slane and the Commissioners for holding this important hearing on “Chinese State-Owned Enterprises and U.S.-China Bilateral Investment,” and for inviting me to testify.

I particularly want to thank my good friend Commissioner Michael Wessel, who has been a very helpful advisor and a great resource for me on a range of issues for many years.

The work you do here at the Commission, and particularly the in-depth annual report you put out, is critically important. We count on your expertise and insights to inform our work in Congress as we seek to meet the economic and national security challenges posed by China. I hope to return the favor in a limited way with today’s testimony.

I know today’s hearing will examine a broad range of issues. I want to focus on one deep concern of mine, and one that could have a real impact on both Connecticut and the nation at large – China’s advancements in the aerospace industry.

According to a report published last year by the Economic Policy Institute, between 2001, when China joined the World Trade Organization, and 2008, 2.4 million jobs were lost or displaced as a result of our trade deficit with China. This cost 27,200 jobs in Connecticut alone.

In 1990, our trade deficit with China stood at just \$10 billion. In the two decades since, it has risen astronomically, and is now estimated at \$273 billion. That trade deficit is a large driver of the crisis in domestic manufacturing we now face here at home.

The erosion of our manufacturing base has, in fact, risen to such dangerous proportions that the Director of National Intelligence has reportedly launched a National Intelligence Estimate to examine the implications of the U.S. decline in manufacturing for our national security.

I believe the most direct cause for concern is clear. The more that well-subsidized foreign entities are allowed to take advantage of our open market-oriented procurement policies, the greater the likelihood that our Defense Department will one day find that no domestic manufacturer exists for a critical piece of material. In other words, as our vital defense jobs and technology continue to be outsourced, our very national security is put at risk.

This is not a concern directed solely at China. Ansonia, Copper and Brass of Waterbury, Connecticut in my District, for example, is the sole domestic producer of

wide diameter copper nickel tubing used by the Defense Department, but it has been detrimentally impacted by the apparent price manipulation of a European firm, and is now struggling to stay afloat.

Nonetheless, the practices of China's state-owned enterprises are of paramount concern to us. These heavily subsidized entities are decimating critical manufacturing sectors here in America, such as steel and electronic equipment parts.

When it comes to aerospace, China's advancement in recent years can be attributed to Government support for its aircraft manufacturers, namely Aviation Industry Corporation of China (AVIC) and Commercial Aircraft Corporation of China (COMAC), and its cooperative ventures with the world's leading aerospace firms.

In these ventures, China selects a foreign aircraft manufacturer to supply China with commercial aircraft – with the condition that the supplier establish a local production facility. China's intent is to gain technology transfers to its own manufacturing industry through such agreements, while the supplier gains access to low-cost Chinese labor.

As China develops its civilian capabilities, the dual use nature of these capabilities allows it to then develop its military capabilities.

Today, with help from multinational corporations, AVIC is producing civilian and military aircraft to compete in foreign markets including the C-919 passenger jet, which will compete with the Boeing 737. It is developing the J-20 stealth fighter, a rival of the F-22, which conducted its first public test flight earlier this year while Secretary Gates was visiting China.

Most recently it was reported that AVIC may team with a California-based aerospace company to offer its AC-313 helicopter, the largest developed in China to date, to bid on the new presidential helicopter program.

While some may consider the possibility of AVIC getting this contract remote, we need to be cognizant of the fact that others may see contracts involving Chinese firms as a way to improve ties with Beijing and lower DoD costs at a time when cutting spending is front and center in Washington.

In response to these reports, I introduced a bipartisan resolution with my colleague Frank Wolf – and supported by Maurice Hinchey, who will be testifying in front of the Commission later this morning – that argues that the Defense Department should not consider a bid on the Marine One involving any entity controlled, directed or influenced by China.

The resolution also states that Congress will not fund this or any other defense system if the contract award involves any entity controlled, directed or influenced by the Chinese Government. And, recognizing the vital role of our aerospace industry, it urges the Defense Department to limit its procurement of the new presidential helicopter and

any other system to products manufactured in the United States primarily with US-made parts.

In Stratford, Connecticut, in my district, the Sikorsky facility has approximately 9,000 employees manufacturing the best commercial and military helicopters in the world, including Black Hawks and the Marine One, which has safely transported presidents for decades.

Sikorsky has been cooperating with China on helicopter development since 1995. It is not necessarily clear that the answer to this challenge is to curtail that cooperation, or the cooperation occurring with U.S. aerospace firms across the industry – including Pratt and Whitney which is also a major employer in Connecticut and which is in fact supplying the engines for the AC-313.

But it is clear that we cannot allow a Chinese state-owned enterprise to take advantage of our open procurement process to compete for military contracts. And I believe we should be wary of the implications of China's advancements on the commercial side on U.S. manufacturing as well. This trend is exemplified by AVIC's current attempt to buy Minnesota-based private-aircraft maker Cirrus Industries' line of four-seat propeller aircraft.

When we outsource our manufacturing jobs and technology it severely hurts or economic and national security. We cannot rely on other countries, regardless of whether they are allies or adversaries, to supply defense-related materials. And we certainly cannot allow Chinese companies that do not play by global trade rules to compete for these government contracts.

As I said, the deleterious effects of these policies are being felt in Connecticut right now. From the days of Eli Whitney, Connecticut has always been known as a vital center of industrial and manufacturing innovation in America – That is how we came by the name “Arsenal of the Republic” – and companies like Ansonia Copper & Brass, Pratt & Whitney, and Sikorsky are proud inheritors of this fine Connecticut tradition.

But right now, we are the canary in the coalmine. If these trends in defense outsourcing continue, we will not only continue to lose high-skilled defense manufacturing jobs in Connecticut and all across America. Our very security will be put at risk.

Thank you.