



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Senate Finance Committee Hearing
U.S.-China Economic Relations Revisited
Opening Statement of Senator Chuck Grassley
Wednesday, March 29, 2006

Last June, the committee held a hearing to examine economic relations between the United States and China. Today's hearing provides an opportunity to examine developments since then. Looking ahead, I intend to continue this committee's focus on our trade and economic relations with China. I am committed to vigorous oversight of that relationship, and what it means to the overall economic health and prosperity of the United States.

Because our relationship with China is very important. China is already our fourth-largest export market. Our export growth to China far outpaces U.S. export growth to the rest of the world. That's partly due to the fact that the United States and China have been the engines of the global economy for a number of years now. Other major economies clearly need to do more. But the point is, we derive a great deal of benefit from our economic relationship with China. And China does too. That should not be forgotten in the debate.

On the other hand, we also have some tensions with China. For example, our bilateral trade has become increasingly imbalanced in recent years. That's partly due to the fact that our trade deficits with other Asian countries have migrated to some extent to China. But still it's an area of concern. At some point, the growth in our bilateral trade deficit will be neither politically nor economically sustainable.

That raises the question, what should our policy responses be? As I said last June, we must be thoughtful in our actions and get it right. We cannot afford to act rashly and get it wrong. An important basis for developing our policy responses is the extent to which China fulfills the obligations it assumed as a member of the World Trade Organization and as a major beneficiary of open international trade.

Let's start with currency exchange rates. Last July, China abandoned its currency peg to the U.S. dollar. China announced that its exchange rate would become adjustable, based on market supply and demand. China also announced that its currency would be allowed to fluctuate by 0.3 percent on a daily basis against a basket of currencies. It's clear that latter commitment isn't being met. Since July, China's currency appreciated by about one percent relative to the U.S. dollar. Much of that movement came in the last few weeks. Yet in addition to our growing bilateral trade imbalance, China ran a global trade surplus of over \$100 billion dollars last year. These mounting trade imbalances indicate that China's currency should appreciate further, but something is impeding that adjustment.

That's why I introduced a bill yesterday with Senator Baucus, to improve how we respond

to material currency imbalances. Our bill enhances U.S. engagement on this issue. And it provides for meaningful consequences if countries fail to act. Cooperation is key if we're going to eliminate impediments to normal market adjustments for exchange rates.

Another important issue is the enforcement of intellectual property rights. Last July, China committed to boost its enforcement efforts in a number of ways, such as by ensuring that all levels of the Chinese government use legitimate software products. This comes on top of China's pledge in April 2004 to "significantly reduce" infringement of intellectual property rights. Yet estimated piracy in China continues to be rampant. In addition, China accounted for almost 70 percent of counterfeit goods seized by U.S. customs in fiscal year 2005.

So in addition to more fruitful engagement with China, we need to be prepared to assert our trade rights effectively. That's not to say the measure of our success is the number of cases we bring to the World Trade Organization. I focus on outcomes, and if we can avoid lengthy litigation to settle disputes, so much the better. The Administration has achieved important successes taking that approach. But we also need to be prepared to litigate if need be. That's why the bill that Senator Baucus and I introduced yesterday strengthens the Administration's ability to enforce our rights under trade agreements, and enhances congressional oversight of such efforts.

This hearing also gives us an opportunity to review our objectives for the planned meeting of the U.S.-China Joint Commission on Commerce and Trade and the planned visit to Washington, DC by Chinese President Hu Jintao in April. We have a number of important issues to address in addition to currency exchange rates and intellectual property rights. I look forward to hearing from our Administration witnesses on that agenda.