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OPENING STATEMENT

SENATE FINANCE COMMITTEE HEARING ON CHINA CURRENCY POLICY

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Chairman Baucus and Ranking Member Grassley, thank you for holding these two days of hearings on our economic relationship with China, and for allowing Senator Graham and I to make a statement as a team.

I know it is unusual for a member of the Finance Committee to address the Committee as a witness, but I felt it was important for me to sit here with my policy partner on this issue for almost five years now. We have been a trade tag-team for a long time, and we look forward to developing a new currency bill with both of you over the next two months.

Last Congress, as you know, Senator Graham and I ruffled a few feathers with our tariff bill, which we set aside at the very end of the Congressional session because we wanted to work with the Chairman and Ranking Member on a new currency bill that was WTO compliant. Senator Graham and I were both surprised when our bill received 67 votes on the Senate floor in April of 2005 – yet we are convinced that the support for strong legislation on

Chinese currency manipulation and other illegal trade practices has grown significantly in the two years since.

We never intended for that bill to become law. It was a shot across the bow. But now the possibility for legislation in the 110th Congress is real, because the number of people who will vote for strong legislation exceeds the number of people who would have voted for a tariff. In other words, well-crafted legislation – WTO compliant and strong and effective – is likely to pass with a veto-proof margin during this Congress.

That's the message I hope that the Chinese and the Bush Administration take away from these hearings: The desire to pass tough legislation that is WTO compliant is very strong on this Committee and in this Congress. Our goal in the 110th Congress should be to find a tough but fair bill that can pass the House and Senate and be presented to the president. Senators Baucus and Grassley, we look forward to working with you to craft such a bill.

Let me say that there is no doubt that China is making some progress in various areas. China has recently decided to permit foreign banks greater access to its domestic market for credit cards and other everyday services. Also, China is making efforts to administratively reduce the trade deficit; for example, by changing export tax incentives.

What the Chinese should recognize, however, is that taking these steps only reinforces the notion that the pace of currency appreciation could be faster without harming their domestic economy. In other words, the same economic effect that these government policies are designed to achieve could be attained by merely revaluing the yuan. Why they refuse to do so is beyond me.

Although the pace of appreciation quickened slightly at the end of 2006, it has frozen to a standstill over the past month or so. Nearly all experts still agree that the Chinese yuan remains significantly undervalued; that this undervaluation is the result of deliberate intervention by the Chinese government in world currency markets; and that this policy gives Chinese products a tremendous advantage in the United States market.

In fact, even though the currency has appreciated by about 6.6 percent since Senator Graham and I started our crusade, some would argue that the currency is even more undervalued now than it was when we started, since the Chinese economy has grown so quickly over that time, and our trade deficit with them continues to explode – over $232 billion in 2006 alone.

The Treasury Department has repeatedly used a technical and legalistic dodge to determine that China does not manipulate its currency. We all know that they intervene on the order of $200 billion a year to keep the yuan’s value artificially low, yet our government can’t call a spade a spade. And the President wonders why the bipartisan consensus for free trade has eroded.

But let's leave aside for a moment what word we want to use to describe what the Chinese are doing, and focus instead on its effects. In a few minutes, I will be chairing a Joint Economic Committee hearing with Fed Chairman Ben Bernanke. He has said that Chinese currency practices amount to an export subsidy. I think there is an emerging consensus that this is simply a fact, regardless of what our official government reports may say, and regardless of how Administration officials and other China apologists might parse their words to dance around the real issue. The Chinese continue to flout the rules, and all we do is talk.

I know that Secretary Paulson and others are trying hard, but there have not been enough tangible results after several years of tough talk – and we have not been willing to really push or threaten serious action.

Let me be perfectly clear: The real protectionists in the debate over China's trade practices are those who argue that we should do nothing, or that we should continue to wait, or that rapid change would upset their so-called "harmonious society." These apologists are protectionists in a different sense: They are protecting China. Those of us that care deeply about American workers, who care about upward mobility for middle-class families, who care about our economic future, who understand that free trade benefits Americans when our major trading partners follow the rules – we know that pushing China is the right thing to do.

When I talk about this issue now, I feel a little bit like former Vice President Gore must feel when he talks about global climate change: When he first started, he was regarded as a little bit out of the mainstream – but over time, public opinion has evolved, and now the overwhelming majority of the public is with him. The currency issue is very similar. Senator Graham and I were focused on it before most other people thought it was a real issue. Nearly five years later, every senator might not agree on how to address it, but I think there is an overwhelming consensus that something needs to be done, and soon.

To those who argue for more patience, my response is: How much longer can we wait? According to many experts, allowing the yuan to rise more quickly would require some adjustments by Chinese state-owned enterprises and further stress the balance sheets of Chinese banks. However, these adjustments will only be larger if the yuan is revalued years from now. During the interim, China will have to purchase ever-larger amounts of dollars, and transfer larger amounts of what it makes to world markets. How long can that be sustained?

Some say that we should not push on currency, but rather let the current trade enforcement and diplomacy mechanisms be used more effectively. Well, in my view, the Bush Administration cannot be counted on to protect American industry and American workers from China's unfair trade practices.

Consider their track record. The President has four times rejected recommendations from the U.S. International Trade Commission under Section 421 of the Trade Act to grant import relief to U.S. industries facing market disruption from Chinese imports. USTR has three times rejected Section 302 petitions to take action against China's currency manipulation. The Treasury Secretary has refused to cite China for manipulation in Treasury's semi-annual report to Congress. Proceedings before the WTO are time consuming and expectations of impartial review are naïve at best, while IMF officials have simply looked the other way where currency is concerned. Simply put, the current options are not yielding real results.

Plus – and let's not underestimate this effect – the longer we wait, the more U.S. companies will have invested in China, and it will be in the interest of corporate America to preserve the status quo. It's not as if the political will to confront the Chinese is going to hit a sweet spot anytime soon.

Economists such as Peter Morici of the University of Maryland estimate that the trade deficit has cost the United States two million manufacturing jobs since 2000. If China stopped intervening in currency markets, or slowed it appreciably, other Asian countries would have to follow suit. This would not eliminate our trade deficit, of course – we need to make major adjustments in our domestic policies for that to happen – but it could be reduced significantly. While some may be concerned about how the price of Chinese imports might go up, our trade performance would be more balanced, U.S. R&D would increase, more jobs would be created here, and GDP would likely rise.

We all know the old jobs aren't coming back – but speeding up the pace of reform in China can help create new high-wage jobs in export industries here at home and allay some real concerns about wage stagnation among middle-class workers. What's more, if the American people see that our major trading partners are abiding by the rules of free trade, they are much more likely to support expanded trade, which is in the long term interests of our country.

Thank you again, Chairman Baucus and Ranking Member Grassley, for inviting us to testify. I now yield to my colleague from South Carolina.