



# Committee On Finance

Max Baucus, Ranking Member

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**Statement of U.S. Senator Max Baucus  
United States Senate Finance Committee Hearing  
"U.S. - China Economic Relations"**

Thank you, Mr. Chairman, for calling this hearing. It is difficult to overstate the importance of our economic relationship with China.

China has been an economic power for 5,000 years. From ancient times, merchants traveled the Silk Road carrying grapes, cotton, and pomegranates from Europe to trade for silk from China. Marco Polo took that road and wrote of a China whose economy dwarfed that of Europe. And China literally invented paper money, making modern economies possible.

China has become a main driver of the world economy again. The last century of economic isolation and turmoil – a century of foreign occupation, civil war, the disastrous Great Leap Forward, and the Cultural Revolution – now seems to have been a relatively short blip in China's long history.

Some in the United States fear China, and seek to close off U.S.-China trade in response. Others see opportunity in China, and advocate increasing U.S.-China trade at almost any cost.

I have long believed that we should engage China with our eyes wide open. That is why I led the charge to grant China permanent normal trade relations. That is why I strongly supported China's accession to the World Trade Organization. And that is why I continue to support an active and robust economic relationship with China.

Engagement with China has largely been a success. Between 1999 and 2004, U.S. exports to China increased nearly 10 times faster than U.S. exports to the rest of the world. Montana's exports to China were 15 times greater at the end of that period than they were at the start.

That is good news. But a rising China poses a competitive challenge. Chinese companies are becoming world players. Just yesterday, a Chinese state-owned oil company, CNOOC, launched an unsolicited bid to acquire Unocal. CNOOC is challenging Chevron for control of Unocal, a 115-year old California-based oil and gas company.

China's competitive challenge makes Americans nervous — from Wall Street to Main Street. Americans are nervous about China's effect on the American economy, on American jobs, and on the American way of life.

Yet, in the face of this challenge, the administration has no plan. They have no plan to make sure that China plays by the rules. They have no plan to deal with countries that play around with currency values. They have no plan to address our gaping trade deficit. And they have no plan to maintain America's role as the most competitive economy on earth.

Is it any wonder why America's mood on trade and globalization has soured? Since the administration has not offered solutions on how to deal with a rising China, let me give you some of mine.

First, we have to make sure that China lives up to its trade commitments. That should be at the heart of our trade policy. There are many enforcement problems in China. Piracy rates for

intellectual property like movies and software top 90 percent. That translates into an estimated loss of \$2.5 to \$3.8 billion to U.S. innovators. Agricultural trade continues to face opaque and discriminatory barriers that keep out quality products from states like Montana and Iowa.

So is the administration using all its resources to tackle these problems? No. It's too busy negotiating economically meaningless free trade agreements with tiny economies.

We need to refocus USTR on enforcement. To do so, I intend to introduce a bill that will create a new Trade Prosecutor at USTR. This bill will also give Congress a far greater role in shaping USTR's trade enforcement priorities with China and other countries.

Second, we must reduce our huge trade and current account deficits. Our 2004 current account deficit was \$665 billion — 6.4 percent of our economy. And we are on track to post a \$780 billion current account deficit this year.

Why is this important? A current account deficit means that we spend more than we earn. Because our deficit is so big, we have to borrow \$2.1 billion a day to cover our shortfall. \$2.1 billion a day. And until we act, that number will just keep growing.

What is the administration's plan? Again, they have none. They call borrowing \$2.1 billion a day as a "sign of strength." "Strength" is not the first word that comes to mind. Our current account deficit is a problem. We must address it.

China is part of the problem. It keeps its currency — the RMB — pegged to the dollar. The undervalued RMB, keeps China's exports cheap, and, as a consequence, exacerbates our current account deficit. An undervalued RMB is bad for our economy and bad for the world economy.

But I believe focusing so heavily only on Chinese currency revaluation is a mistake. Revaluation by China alone will not make our trade or current account deficit vanish. Japan, Korea, and other Asian countries also depress the value of their currencies. And there are deeper domestic problems that fuel our current account deficit than currency valuations.

So what do we do? First, we should get our trading partners to the table to forge a solution that gets China — as well as Japan, Korea, and other Asian economies — to end currency interventions. A large, diversified economy like China should not be playing games with currency values. We also need to help foster growth in the sluggish economies of Europe and Japan.

Second, we have to recognize that our economic problems begin at home. Our problems are not simply that Europe grows too little or that Asians save too much, as the administration likes to claim.

In truth, our economy has become less able to handle the challenge posed by a rising China. We need to get our national house in order, and we need to do so now. It is time to stop talking about reducing our budget deficit. We need to take steps to do so now.

I'm tired of just talking about how we're losing our competitive edge. We need to take steps now to improve basic education, train more scientists and engineers, increase research, and rein in health care costs.

There's not a CEO I meet with who doesn't say that rising health care costs is a top concern. And I'd be surprised if that's not true of every member of this committee. What is the administration's plan? Again, they have none.

These are things that America must do to confront that challenge of a rising China. And these are things that America must do for its own sake. We should continue to deepen our trade relationship with a growing and more competitive China. But we should ensure that China plays by the rules. And we should also ensure that America's economy and America's workers are the best that they can be.

I look forward to hearing from the witnesses on these important issues.

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