



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

---

Senate Finance Committee Hearing on U.S.-China Economic Relations  
Opening Statement (Unabridged for Hearing Record) of Senator Chuck Grassley  
Thursday, June 23, 2005

Today's hearing will explore economic relations between the United States and China. Before we turn to witness statements, I want to offer some comments on that relationship. After that I'll turn to Senator Baucus for his comments, and then we'll hear from our first panel. The fact that we're holding this hearing today demonstrates the importance of our trade with China. Consider where we were just 20 years ago. In 1985, we had \$3.8 billion in exports to China, and we imported the same amount from China. Our two-way trade of \$7.6 billion was equivalent to less than two-tenths of 1 percent of U.S. gross domestic product (GDP) that year.

In contrast, last year we had \$34.7 billion in exports to China, and \$196.6 billion in imports from China. Our two-way trade of \$231.3 billion was equivalent to about 2 percent of U.S. GDP last year. And this growth in bilateral trade is only projected to continue. Some say that by 2010, China will surpass Canada as our largest single trading partner. The way we approach this developing relationship with China has vast implications for both our futures. We must be thoughtful in our actions and get it right. We cannot afford to act rashly, and get it wrong.

Now, there are a number of policy prescriptions floating around. Some say China's currency is a problem, so we need to slap 27 percent duties on Chinese imports as soon as possible. Some say Chinese subsidies are a problem, so we have to apply our countervailing duty laws to China as soon as possible. Some say we should call for more cases to be brought against China in the World Trade Organization as soon as possible. And those are just a few of the ideas out there. Maybe those folks are right. But before I rush to any conclusions, I think we need to take stock of the problems that exist and the efforts of the Administration to address those problems, and then consider whether there are any appropriate legislative measures to complement those efforts. This hearing is a step in that direction.

Senator Baucus and I are taking another step by requesting that Ambassador Portman appear before the committee after he completes his top-to-bottom review of the Administration's trade policy toward China. Our letter requesting that meeting is being sent to Ambassador Portman today. The fact is, we've had some important successes in securing China's compliance with its trade obligations. I want to further those efforts, not undermine them. Therefore, I intend to wait to hear from Ambassador Portman before I consider supporting any new legislation.

The Administration has a responsibility to keep this committee informed about developments in its trade policy toward China. And we also have a responsibility to ensure that USTR has the resources it needs to effectively administer that policy. Earlier this year, I joined some of my colleagues in trying to get an additional \$2 million appropriation to fund 16 new positions at USTR

and to cover unplanned security costs. But I was stymied in that effort. I hope my colleagues will join me to see that those funds are in fact appropriated by the end of the year.

China's economic integration and commitment to the rule of law was formalized with its accession to the World Trade Organization in December 2001. Since then, our bilateral trade has almost doubled. I supported China's accession to the WTO because that offered the dual benefits of opening China's market to U.S. exports and also committing China to respect the rule of law in our international trade relations. And we've reaped those benefits to some extent. Exports from my home state of Iowa almost tripled from 2000 to 2004. Pennsylvania and New York saw their exports to China more than double over the same period. And exports from Tennessee to China increased more than seven-fold.

But that doesn't mean we can be complacent. China's commitments on paper must be matched by actions that demonstrate full adherence to its obligations. And the fact is, China's compliance record has been spotty. I've been vigilant in monitoring our trade relations with China. I've fought to ensure that Iowa's exporters enjoy the market access they expect from China's accession to the WTO. In September 2003, I wrote an article highlighting concerns about China's use of non-tariff barriers to trade and China's failure to adhere fully to its WTO commitments. In October 2003, I followed up with a lengthy letter to China's Minister of Commerce, in which I pressed for action on a number of deficiencies in China's implementation of its WTO obligations. I encouraged the Administration to address these issues with China as well. One of the issues I raised was how China failed to provide the full market access for our soybean exports that was promised in China's accession agreement. Today, U.S. soybean exports to China are expected to reach a record of almost \$3 billion for the full year, and China is our number one export destination for U.S. soybeans. I look forward to hearing more on this from Neal Bredehoeft, President of the American Soybean Association, later today.

In November 2004, I joined Senator Baucus in writing to the Chinese Ambassador and China's Minister of Industry and Information regarding draft regulations on government procurement of software that would shut U.S. companies out of the Chinese market. As China prepares its final regulations, we must insist that discriminatory regulations that distort trade are simply not acceptable. I note that China has yet to sign the WTO Government Procurement Agreement. China should do so without delay. More recently, in April I joined every other member of this committee in writing to President Bush to express our concerns over China's deficient enforcement of laws to protect intellectual property rights. We stressed that China must fully live up to its commitments in joining the WTO. That's the bottom line, and I will remain vigilant in demanding no less from the Chinese. I will not stop until our exporters in Iowa and across the United States enjoy the access to China's market that they were promised – and, once in the Chinese market, that they enjoy the legal protections that our international agreements require.

Now, the bilateral trade issues I've discussed are all vitally important. But they are not primary purpose of today's hearing. Today's hearing is primarily meant to explore the macroeconomics of our trade relations with China. The Committee will hear from some distinguished witnesses, and it's my hope that their testimony will help inform the development of appropriate policy to improve our trade relations. Right now the United States and China are the engines of global economic growth. We need to ensure that growth occurs in a positive, sustainable manner.

Which brings me to our bilateral trade deficit with China. Some argue that our bilateral trade deficit means jobs are migrating from the United States to China. But I understand that according to the Congressional Budget Office, the primary factor driving the increase in U.S. imports of goods from China is that manufacturers have shifted the final assembly of many of their products from other countries in Asia to China. Much of the value of Chinese exports consists of parts made elsewhere in Asia. The U.S. bilateral trade deficit with China reflects the net balance of trade in goods with many Asian countries that are channeled through China.

For example, between 2000 and 2002, the U.S. trade deficit with China grew 33 percent from \$84.3 billion to \$104.2 billion. But while U.S. imports from China increased by \$25.2 billion over this period, imports from other East Asian countries decreased by \$48.8 billion. The net result was an overall \$23 billion decrease in imports into the United States from all East Asian countries in the period of 2000-2002.

It seems to me that this changing pattern of trade has broad policy implications. A policy designed to reduce our trade deficit with China could simply have the effect of redistributing a portion of that deficit to other countries in Asia. And that would not help reduce any potential instability associated with our overall trade deficit. Nor would it help retain and grow jobs here in the United States. I look forward to hearing the views of our witnesses on this issue.

Another issue to be explored today is China's currency valuation policy. China has maintained a fixed exchange rate for its currency of about 8.3 to the dollar since 1995. I believe a flexible, market-based valuation of China's currency is necessary for China's long-term economic growth and prosperity. And it's important for ours, too. I've stressed that to the Chinese, and to our Administration as well. Without a floating exchange rate policy, China runs the risk of impeding its economic competitiveness and fostering inefficient economic decision-making. That could make an eventual currency adjustment that much more painful, for China and for China's trading partners. Those risks only loom larger as China becomes a more important participant in the global economy.

Finally, this hearing is also intended to provide Senator Collins and Senator Bayh the opportunity to discuss a bill they are cosponsoring that would extend our countervailing duty law to non-market economies such as China. I'm still not persuaded of the need for this legislation. Just this week, GAO released a report that raises legal and administrative concerns that need to be addressed if this concept is to be developed legislatively. At a minimum, I would need to feel certain that those concerns are allayed before I could consider supporting such legislation. With that framework in mind, I will now turn to Senator Baucus for his opening remarks.