



For Immediate Release
March 28, 2007

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**Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding the Role of Currency in the U.S.-China Relationship**

Welcome to the Finance Committee's second hearing on China. Today, we examine China's currency exchange regime. I am pleased to welcome some of the world's sharpest minds to discuss this issue.

During World War II, when Mike Mansfield was a young Congressman, he had an encounter with China's currency exchange regime.

President Roosevelt had asked Mansfield to travel to China as his emissary. Before Mansfield departed, American officials briefed him on China's exchange rate. They advised him to bring a thousand dollars in 50- and 100-dollar-bills. They counseled him to exchange those dollars on the black market in China. At all costs, they told him, he should avoid the "unrealistic" government-imposed exchange rate.

Sixty years later, China's exchange rate still draws criticism. But today, the value of China's currency affects every American.

Currency markets are global. Financial markets are international. No country can insulate itself from global markets. But countries can seize the opportunities that those markets create.

Yesterday, we discussed how some tell us what we cannot expect about China. This is especially true of China's exchange rate.

Some say that we cannot expect China to increase the value of its currency. Some say that we cannot expect the Treasury Department to cite China as a currency manipulator. Some say that we cannot expect China to accelerate financial market reforms. And some say that we cannot expect America to pressure China's reformers.

But Americans are tired of hearing this litany of impossibilities. We want to know what China can do. We want to know what America can do. And we want to know what both countries can do together.

Let us ask: How can China make the reforms that it needs to? How can China take the actions that are in the interests of China, America, and the world? And how can America help China to do so?

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China can, and must, do more to let its currency appreciate and begin to allow market forces to determine its exchange rate. Some will say that China's currency has appreciated against the dollar. But overall, on a trade-weighted basis, the value of China's currency remains largely unchanged since 2005 levels.

China can, and must, do more to liberalize capital flows and strengthen its financial sector. We know that China is nervous about the risks associated with these reforms. But China cannot learn to manage such risks in a vacuum. America – its public and private sectors – stand ready to help China develop the tools it needs to embrace flexible markets.

And China can, and must, give its citizens and companies greater flexibility to participate in global markets and in all of the opportunities they present. China has shown some creativity – such as its newly established \$200 billion reserve fund.

But it must use such new tools in a way that brings stability, rather than uncertainty, to the global economy.

At the same time, America can do more to help China to deal with the potential pitfalls of reforms. America can do more to share our vast financial expertise. And most importantly, America can do more to strengthen a relationship that holds so much promise for our own future.

China and America need to act on the possible. Postponing reform imperils China's growth and stability. Postponing reform carries deep risks for the world economy. And postponing reform will needlessly cloud the Sino-American relationship.

Senators Grassley, Schumer, Graham, and I are working together to reform America's approach to global exchange rates. Last fall, we pledged to work together to find a solution that is firm but fair, and consistent with our World Trade Organization obligations. We are continuing that work.

Back during World War II, we don't know whether Senator Mansfield exchanged his dollars on the Chinese black market. The notes from his trip don't say.

We do know, however, that Mike Mansfield went to China. And we do know that Mike Mansfield saw the possibilities. During World War II, Congressman Mike Mansfield said:

“We must awaken from our lethargy about the Orient . . . We must not forget our future lies, in large part, in the Pacific. A friendly . . . China will be a safeguard for us in that area.”

Senator Mansfield saw the possibility for a strong relationship between China and America. And he worked to realize that possibility.

Let us not forget that our future lies, in large part, in the Pacific. Let us deal firmly and fairly, to advance Chinese currency reform. And let us work to develop the strong relationship with China that will be a safeguard to both our countries' futures.

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