

Dick Lugar

U.S. Senator for Indiana

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Statement on China by Sen. Lugar

U.S. Senate Foreign Relations Committee Ranking Member Dick Lugar made the following statement on China at today's committee hearing:

I join the Chairman in welcoming our distinguished witnesses for this important hearing. China's rising financial and strategic power is a crucial factor in our approach to global economic, energy, and security problems. The United States must come to grips with the incredibly complex set of choices and opportunities that China represents.

China is demanding a greater say in the management of the world economy through the G-20 and other mechanisms. Its global leverage has increased as it has positioned itself as the leading creditor nation with more than 20 percent of the world's current account balance surplus.

According to the most recent data, China is the U.S. government's largest foreign creditor, holding approximately 23 percent of the \$4 trillion we owe to other countries. The Chinese continue to buy U.S. bonds at a rapid pace, but we cannot count on this continuing indefinitely. Some thought must be given to how we work with China to establish a more sensible global balance that depends less on Chinese credit and demand by American consumers.

The Treasury Department decided to delay publication of the Congressionally-mandated report on China's international economic and exchange rate policies until after the May 27 Strategic and Economic Dialogue with China and the June 5th G-20 meetings. Now that these meetings have concluded, Congress is eager to receive Treasury's assessment. I look forward to our witness's comments on China's recent decision to increase the flexibility of its exchange rate, which the Obama Administration has welcomed. Is this a significant step, and can it have a positive impact on the U.S. economy?

China remains an extremely important market for U.S. exports. Currently, China is our second largest goods trading partner with more than \$407 billion in two-way trade in 2008.

Since being admitted to the World Trade Organization in 2001, China has become the United States' third largest export market, accounting for 5.4% of total U.S. exports.

But this expansion of trade has not reached its full potential, in part because of impediments to American business activity in China. American businesses and agricultural exporters report that operating in China is becoming more difficult, not less. We are hearing increasingly frequent complaints about inconsistent application of rules, requirements for "indigenous innovation," rising non-tariff barriers to trade, inconsistent market access, and lack of enforcement of intellectual property rights. Civil society within China continues to face immense challenges in promoting rule of law and human rights reform.

While the Administration and the Congress have been focusing on matters related to currency reform and the China-U.S. trade imbalance, other issues also warrant concern. On the military front, since announcement of the Taiwan arms sales, the United States has made attempts to re-engage Beijing, including a recent overture by Secretary of Defense Gates on a reciprocal visit to China this June that was rebuffed by China's military.

In East Asia, the United States continues economic sanctions against Burma, while China increases its economic engagement with the military junta. China has been helpful in encouraging Pyongyang to participate in the Six Party Talks. But at the same time, Beijing is apparently strengthening its assistance to North Korea, even after the sinking of South Korea's ship and the loss of 46 sailors.

China's global advances to secure energy assets and increase its influence are perhaps most intense in its own backyard. China is dedicating massive financial and cultural resources to its neighbors in the region, with implications for traditional U.S. relations with Asian countries.

Energy security is a strategic interest for both China and the United States. As the New York Times said on June 18, 2010, ".....as China counts on more years of global leadership in economic growth, global warming remains a secondary concern. Secure sources of energy to fuel that growth are what matter most." I welcome the Obama Administration's high-level attention to energy cooperation with China, which could benefit price stability and may enhance Sino-American cooperation on other international security issues.

While all of this is underway, we must not lose sight of our strategic and economic relationship with Japan. As Administration officials pursue new avenues to improve the U.S.-China relationship, we must maintain and strengthen our ties with Tokyo.

I look forward to hearing the testimony of our distinguished witnesses.

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