



Commissioner Patrick A. Mulloy
Opening Statement

Hearing on “*China’s Financial System and Monetary Policies: The Impact on U.S. Exchange Rates, Capital Markets, and Interest Rates*”

August 22, 2006

**Russell Senate Office Building, Room 385
Washington, D.C.**

I am very pleased to have the opportunity to co-chair today’s important hearing with Larry Wortzel, the Chairman of our Commission. In this hearing, we will seek to assess the condition of the Chinese financial system, the status of China’s compliance with its WTO obligations in financial services, and the relationship between China’s financial system and its one party political system, which is run by the Communist party.

The Commission will also explore in this hearing the nature of capital flows in and out of China, China’s exchange rate policies, and how such capital flows and exchange rate policies impact the U.S. economy and the lives of our citizens.

The Chinese policy of keeping its currency undervalued has contributed to our nation’s vast and growing trade deficits with that country. Last year our trade deficit with China exceeded \$200 billion. This year it will likely be around \$240 billion. These large and growing trade deficits have in turn helped China accumulate foreign currency reserves that will this year exceed \$1 trillion.

China invests much of its foreign currency reserves in U.S. treasury bills and other U.S. government debt instruments. This helps China manage the undervaluation of its currency and also permits our country to have lower interest rates. Among other things this permits Americans to take out home equity loans to continue buying Chinese goods. It also encourages distortions in the U.S. economy such as an over investment in housing, a lack of savings, and under investment in manufacturing firms affected by Chinese imports. In addition, China earns new dollars as Americans pay China dollar interest on the increasing amounts of our government debt they hold. Our nation, in the words of Tennessee Ernie Ford’s 1955 song entitled Sixteen Tons, is “another day older and deeper in debt.”

The Commission invited the Treasury Department, which has expertise on these matters, to testify today, but unfortunately that Department declined our invitation. Over the five-year life of this Commission many members of Congress including Committee Chairmen, and many Departments and Agencies of the Executive Branch such as the U.S. Trade Representative, and the Departments of State, Commerce, Energy, Agriculture, and

Defense have testified before this Commission a number of times. This has helped the Commission capture their views in our reports to Congress. The Treasury Department, despite a number of invitations, has never appeared. It seems that Department has not wanted to explain and be questioned on how it is exercising its enormous responsibilities regarding U.S.-China economic and trade relations. We are hopeful that this situation will change under Secretary Paulson's leadership.

We are very fortunate to have a number of other top experts as witnesses. I thank them for their presence and look forward to their testimony.

Let me now turn the hearing back to Chairman Wortzel who will introduce our first panel of witnesses.