

***For Immediate Release***

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**REID, IN LETTER, CALLS ON CHINESE PRESIDENT TO ADDRESS IMBALANCES  
IN U.S.-CHINA ECONOMIC RELATIONSHIP**

**Washington, D.C.** – Senate Majority Leader Harry Reid, in a letter sent on December 9, urged President Hu Jintao of China to give his personal attention to addressing the one-way imbalances in the U.S.-China economic relationship, which contributed to the global financial crisis. In Reid's letter, he urged President Hu to support the ongoing bilateral dialogues with the United States, and to ensure that these lead to concrete results and are part of a process of making "continual progress in resolving conflicts." Senator Reid raised two issues in particular – China's currency policy, which causes a major distortion to the U.S.-China economic relationship and to the world. He also raised the issue of China's inadequate intellectual property protection, and the need for China to comply with the letter and spirit of WTO obligations and with recent specific commitments China has made to improve protection for intellectual property.

## Senate Leader Pens Solo Letter To Press China On Currency, IPR Issues

Date: December 16, 2009

China must revalue its currency while maintaining a managed float of the exchange rate versus the dollar, and must show serious effort to address outstanding intellectual property rights (IPR) issues at the World Trade Organization (WTO), Senate Majority Leader Harry Reid (D-NV) says in a letter sent last week to Chinese President Hu Jintao.

In a Dec. 9 letter, Reid called on President Hu to give his “personal attention” to these issues, calling for “strict compliance.” Reid argued for a revaluation of the Chinese currency, fast action on several IPR issues, and the completion of several deliverables that emerged from the October meeting of the Joint Commission on Commerce and Trade (JCCT).

While one Senate source familiar with the letter said Reid was attempting to push long-standing policy goals independently of the Obama administration, a Republican senate aide said he believed the letter could have been done at the request of the Obama administration in order to create a good-cop, bad-cop dynamic that gives the U.S. more negotiating leverage. This source noted that Republican offices would do that at times at the request of the Bush administration to provide negotiating leverage with the Chinese.

These and other Senate sources were in agreement that a letter such as this from the Majority Leader is uncommon. However, the source familiar with the creation of the letter outlined Reid’s motivations firmly in policy terms.

The letter was written “to ratchet up pressure and show a broader range of concern” from Reid, said the Senate source, who denied that Reid had coordinated with the administration prior to penning it. Business groups were also surprised by the release of the letter, sources confirmed this week.

One motivation was that China’s undervalued currency, the renminbi (RMB), had been pushed to the background, said the Senate source familiar with the letter, in part due to the financial crisis and in part due to China’s steps last year toward a gradual revaluation.

“There was a ‘let’s see what happens’ attitude, and nothing really changed in the real exchange rate” despite a modest nominal appreciation, this source said. “The bottom line is we’re at a point where we need to think about the long term recovery [of the world economy]. This is the time to start fixing [China’s currency].”

This source added that while having many senators on a letter can be an effective way to show the importance of an issue, having the Majority Leader write a letter “inherently shows interest.”

A Republican source agreed that the letter identifies “reasonably valid concerns,” but said he thought the letter would accomplish little.

The letter “doesn’t help, but I’m not sure it hurts” ongoing work to create changes in China’s policies, this source said. “It’s the musings of someone not in a position to do much because of the [Senate] floor dynamics and the economics” of the relationship.

There is “no vehicle” to bring any of these issues up for a vote, the Republican aide said. First, the ongoing debate on health care reform and other issues already in line for consideration prevents any other substantive work for the short term. Second, the Democratic leadership would be very hesitant to bring up any legislation containing anything aimed at Chinese trade issues because Republicans would look to expand the debate to other areas the Democratic leadership would not want in an open floor fight, such as pending free trade agreements with South Korea, Colombia and Panama and Buy America.

“It would be a big interest group fight,” this source predicted, offering likely demands from automakers on South Korea

and unions on Buy America as examples.

Instead, the letter is an “attempt to do something without doing something,” this source said. “It highlights ... the fact that our ability to hector the Chinese is at an all-time low.”

This is because the U.S. economy’s recovery is “utterly dependent on China for purchasing U.S. Treasury debt,” the Republican aide said. The lack of any leverage on trade “highlights the collateral harm” of being dependent on China for this financing.

“Regardless of how bad they are on IPR or currency, all this takes a back seat to the debt,” this source explained.

In his letter, Reid argued that the currency issue is “one of the most serious economic problems in the world today” and that China’s “de facto” peg against the dollar “has not reflected economic reality” for years and has “significantly distorted trade and investment” bilaterally. The peg also puts downward pressure on other Asian countries to keep currency values low and puts pressure on the economies outside of Asia which absorb these distortions, Reid wrote.

To remedy that, Reid called for a “significant revaluation” to bring the value of the RMB “in line with economic fundamentals” and to return to a more “robust” version of the managed float that would allow for great flexibility in the exchange rate.

The Senate source explained that Reid would consider a double-digit revaluation of the RMB “significant” and said that a single-digit revaluation would fall short of his vision of the needed action on currency. Reid based his double-digit estimate on the five percent revaluation China carried out prior to moving to the current regime. Given that there is still “widespread agreement” that China’s currency remains between twenty and forty percent undervalued, a double-digit revaluation is necessary, according to a Senate source familiar with the letter.

However, the Senate source added that Reid did not have a “specific number” in mind regarding the currency rate. Instead, Reid hopes to get to a proper exchange rate in “the medium term” of eighteen months to two years.

One group working on the currency issue, Fair Currency Coalition, was supportive of the letter’s ability to help exert leverage on China.

The coalition “appreciates Reid raising the critical issue with the highest levels of government,” according to coalition spokesman Lloyd Wood. Both China and the U.S. need to take action to make sure currencies are “valued properly,” he said.

To that end, Wood argued that Congress should exert all the pressure it can to create leverage to help with currency revaluation, including acting aggressively to pass legislation supported by the coalition. The coalition supports the Currency Reform for Fair Trade Act of 2009. The bill was introduced in the House as H.R. 2378 and in the Senate as S. 1027.

On IPR, Reid argued that, accurate or not, there is a widespread belief that China obstructs access to U.S. goods as part of a policy “to undermine American competitiveness in sectors where we are strong” while benefiting from open access to U.S. markets.

As examples, Reid cites restrictions on U.S. cultural goods and mandatory technology transfer by U.S. manufacturers investing in China.

Reid also urges China to move quickly on two ongoing WTO disputes focused on intellectual property protection.

“It is difficult to credit China’s commitment to improving protection for intellectual property when it is moving slowly on implementation in one case and fighting hard to maintain the status quo in the other,” Reid wrote.

However, in the WTO dispute case DS362, which targets enforcement policies, China has until March 2010 to

implement the panel and appellate body findings. In DS363, which focuses on market access, the WTO's Appellate Body is not due to release its response to cross appeals by both China and the U.S. until Dec. 21.

The Senate source insisted that Reid believes that, if China is serious about bolstering IPR protection, there is no need to wait the maximum period of time to come into compliance. On DS363, this source argued that "if you're fighting [the WTO ruling] tooth and nail, it doesn't suggest the right attitude toward the letter and spirit of the WTO."

To that end, Reid wrote to Hu to "encourage you to ensure rapid and full compliance throughout China with both the letter and the spirit of WTO rules in these cases."

On the JCCT, Reid identified three short-term deliverables that China should look to accomplish quickly. China should carry out its promised special enforcement period on Internet piracy, agree to use administrative measures against IPR violated "to their maximum extent," and agree to "resolve concerns" about a recent Chinese regulation on digital music. China agreed to work closely with the U.S. "to resolve U.S. concerns about a new Ministry of Culture circular relating to online music distribution that is creating serious problems for the U.S. music industry," according to the U.S. fact sheet released after the Oct. 28-29 JCCT (Inside US-China Trade, Nov. 4). -- Dan Neumann

CHINATRADE-9-49-2

December 9, 2009

His Excellency Hu Jintao

President of the People's Republic of China

Beijing

Dear Mr. President:

To many Americans, including many members of Congress, our relationship with China defines and symbolizes whether our trade policy is working. Unfortunately, the one-way nature of the imbalances in our economic relationship is a major factor causing Americans to question the efficacy of our trade policy. Further, these imbalances helped contribute to the financial crisis and have implications for the global economic recovery. It is therefore among each of our country's highest priorities to address factors that drive the imbalances in our relationship.

While it is important for each country to promote internal economic development, our growing interconnectedness requires us to work together to resolve economic problems. At a time when there is significant pressure for unilateral responses, it is a matter of great importance that we continue our high levels of engagement like the Strategic and Economic Dialogue (S&ED) and Joint Commission on Commerce and Trade (JCCT) initiatives.

High-level engagement is not an end in itself, however. It is equally important that this engagement lead to concrete results – particularly where there is wide agreement about longstanding problems. Those results need not await the next major meeting; we should seek every opportunity to expand understanding of our common interests and make continual progress in resolving conflicts. Of course, as we tackle the tough problems, we must ensure mutual respect and enhance and strengthen our relationship.

I would like to call your attention in particular to two issues that have long troubled our economic relationship. First, there is widespread agreement that China's currency policy is a major source of imbalance in our relationship-- indeed, in the global economy. The *de facto* peg is set at a level that for many years has not reflected economic reality. It has significantly

distorted trade and investment between our countries in a way that favors production in China and hurts U.S. manufacturers and exporters. Further, it puts pressure on other Asian countries to follow suit, and it puts pressure on the economies of countries outside of Asia, the currencies of which absorb the distortion. Finally, your currency policy is not in the long-term interest of China: it creates inflationary pressure, promotes over-investment, and feeds asset bubbles within China. In short, it is one of the most serious economic problems in the world today.

Mr. President, the financial crisis confirmed the saying, "if something cannot go on forever, it will stop." Whether it comes to an end in a managed and orderly way or by precipitating a crisis depends upon choices made years before the end comes. I know China is committed to moving to a free floating currency eventually. But China's currency policy has been causing major distortions in the world economy for too many years already, and is continuing to do so now. In the mean time, I hope you would consider a significant revaluation to bring the value of the RMB in line with economic fundamentals, and after that, to return to a more robust version of the "managed float" that your government previously maintained.

Another issue that has long troubled the U.S.-China relationship is intellectual property theft. The creation of works protected by intellectual property -- from music, movies, and software, to auto parts, clean energy products, and pharmaceuticals -- is one of the hallmarks of the US economy. High levels of intellectual property piracy in China have led many in the United States to believe that there may be a Chinese policy to undermine American competitiveness in sectors where we are strong, while simultaneously benefiting from open access to the U.S. market. This belief is bolstered by policies that specifically restrict access of U.S. cultural goods and that require technology transfer by U.S. manufacturing companies as the price of entry to the market. Whether or not this belief fairly characterizes official Chinese government policy, there is no doubt that continuing high levels of piracy, and the maintenance of restrictions on the access of U.S. companies and products to the Chinese market, contribute to imbalances that are not politically sustainable.

Rampant intellectual property theft in China will not be resolved merely by a press release or a new policy pronouncement. China needs to take steps and make progress on a continuous basis. Improved IP protection in China is in China's long-term economic interest. If China hopes to move up the value chain, it must end rampant theft from those who create value.

There are currently two WTO cases between the U.S. and China involving intellectual property protection. It is difficult to credit China's commitment to improving protection for intellectual property when it is moving slowly on implementation in one case and fighting hard to maintain the status quo in the other. I encourage you to ensure rapid and full compliance throughout China with both the letter and the spirit of WTO rules in these cases.

Further, there is a unique opportunity to make concrete progress on discrete issues in the short-term. Just a few weeks ago in the JCCT, your representatives made a number of important intellectual property related commitments. These include the initiation of a special Internet Enforcement Period, agreement to use administrative measures to their maximum extent, and agreement to resolve concerns about a recent Ministry of Culture Circular that would, if implemented, essentially place a bureaucratic stranglehold on an emerging digital music market. These are not three separate initiatives, and are in fact closely inter-related. Success in addressing Internet piracy—in the music sector primarily fueled by companies such as Baidu that operate music services based entirely on providing access to infringing materials -- can be achieved by levying maximum administrative penalties for each day that a company continues to operate a business based on infringement. And removal of the regulatory burdens contemplated by the Ministry of Culture Circular will allow music creators, both Chinese and American, to expand their legal offerings to the Chinese public. Your leadership can help to advance our shared economic and cultural interests in achieving more effective copyright protection in China to the benefit of both Chinese and American content producers.

I urge you to give these matters your personal attention. More broadly, I hope you will make strict compliance with China's WTO commitments, and continuous progress toward a more open market, a hallmark of your tenure. This letter covers only two issues, but many more need attention at the highest levels of the Chinese government in order to ensure our economic relationship is on a sound, balanced foundation for growth. Not only will success produce concrete economic and cultural advantages for each of our societies, but it will have larger implications for our continuing political relationship and will help to demonstrate the value of engagement.

Sincerely,

/s/

HARRY REID

Senate Majority Leader

Copy: Premier Wen Jiabao

Vice Premier Wang Qishan

The Honorable Zhou Wenzhong

Secretary of Treasury Timothy Geithner

Secretary of Commerce Gary Locke

United States Trade Representative Ron Kirk

The Honorable Jon Huntsman, Jr.