Opening Statement of Ranking Member Spencer Bachus at the Hearing on "The State of the International Financial System"

Wednesday, June 20, 2007

Thank you, Mr. Chairman, for holding this hearing, and thank you, Secretary Paulson, for your testimony and your time.

Mr. Chairman, while the overall state of the international economy is healthy - a strong 4.9 percent overall growth is expected this year - this hearing gives us an important opportunity to talk about the hard work we all are going to have to do to sustain that growth in the future.

Just as our own economy encompasses both great wealth and extreme poverty, there are asymmetries in the world's economy. Asia, for example, has the near-double-digit growth of China, and yet nearly half of Asia's residents subsist on less than two dollars a day. China has immense trade surpluses with many of its large trading partners - particularly with the United States-but has a financial services sector that is comparatively primitive.

To keep its economy growing, China has focused on exports. This has resulted in a massive flow of Asian-manufactured products to the developed countries, particularly the U.S., leaving the Chinese with huge pools of cash. The Chinese have used this sea of liquidity to buy our Treasury bonds, helping to fuel our $230 billion trade deficit with China.

This lopsided investment is a double-edged sword. On the one hand, it has the benefit of financing our own growth, keeping interest rates down, and expanding consumers' access to high-quality affordable goods. But continued imbalances in our relationship with China raise the prospect of a global trade war, or that a sudden retreat from Treasuries could trigger an interest-rate spike here. Clearly we need to do more to spur savings among our own citizens, but just as clearly the Chinese need to do more to spur investment and demand at home.

So, Mr. Secretary, I want to take this opportunity to raise with you an issue that we have discussed previously: the need for the U.S. and China to complete negotiations for a Financial Services Agreement by the end of this year. Such an agreement, modeled on Secretary Rubin's 1995 pact with Japan, would be a strong complement to the Strategic Economic Dialogue that you have initiated with the Chinese.

By providing the world-class financial products and services China's citizens and businesses need to save, invest, insure against risk, and consume at higher levels, U.S. financial firms can help activate the Chinese consumer and entrepreneur, better mobilize China's vast savings, create and protect wealth, and provide the operational means for greater currency flexibility. The end result would be what every U.S. manufacturer and service provider wants -- an unleashed Asian tiger hungry for American products.

Mr. Secretary, we all read this week that Chinese banks are launching a new effort to enter the US market, at all levels from retail banking to commercial. The application ought to be treated the same way as one from any other country - do they have adequate banking supervision would be the first question I would ask - but this is the perfect opportunity to press the point that our financial services companies should have full and open access to China's market. What's good for the goose is good for the gander, Mr. Secretary, and I think the Chinese will understand that.

Mr. Secretary, I look forward to your testimony, and I yield back the balance of my time.

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