



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.

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.

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.

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.

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,

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.

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