The following column by Congressman Bachus on international trade appeared in the Journal of Commerce on February 26.

In the 21st Century, China will be the most important and challenging U.S. trading partner. Recently, Treasury Secretary Henry M. Paulson faced strong questioning from U.S. Senators whose constituents are sometimes injured or insecure with the inevitable economic dislocations (as well as opportunities) of a rapidly growing trade relationship.

The most bipartisan point of consensus among all Senate Banking Committee members was that mere talk has failed to resolve the growing trade imbalance, and that China needs to take steps towards market reforms and currency liberation.

At the end of the 20th Century, the U.S. Treasury was faced with similar challenges related to the decade-long surge in Japanese exports and subsequent capital investment in many U.S. companies. Then-Treasury Secretary Robert Rubin's decision to negotiate a financial services agreement with Japan in 1995 offers a blueprint of at least one concrete, measurable step that would allow for market conditions to determine exchange rates and drive the structural changes necessary within China to create consumer demand-led economic growth.

Our trade deficit with China has reached historic levels, escalating from $83 billion in 2000 to more than $200 billion in 2006. This is emblematic of and a main contributor to the overall U.S. current account deficit, which now totals nearly 7 percent of the U.S. gross domestic product.

In December, Secretary Paulson and China's Vice Premier Wu Yi chaired the first Strategic Economic Dialogue in Beijing and took a bold step in the right direction when they agreed that growth policies should be pursued without large imbalances. Global competitiveness, exchange rate flexibility and increasing the role of consumption in China’s economy were recognized as key steps toward the goal of mutual growth without potentially dangerous imbalances.

The focus of most U.S. observers has been for the Chinese government to reduce its trade imbalance with the U.S. by eliminating its managed float exchange policy and allowing its currency to float freely on the market. However, Chinese officials have resisted more than superficial movement to a more flexible currency, saying they need time to prepare their financial system for such an adjustment.

In my opinion, the quickest way for China to strengthen its own domestic financial markets is to bring in foreign financial service experts with the advanced talents, technology, and know-how that China would need decades to develop on its own. Allowi ng U.S. financial firms market access would strengthen the

Chinese financial sector through the introduction of the best risk-management practices, creation of credit-risk products that would spread risk and boost market stability, and increase transparency and corporate accountability.

By providing world class financial products and services that China’s citizens and businesses need to save, invest, insure against risk and consume at higher levels, U.S. financial firms could 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 result would be what every U.S. manufacturer and service provider wants – an unleashed Asian tiger hungry for U.S. products.

Modernization of China’s financial system through greater access by U.S. financial institutions is the key to a more flexible and fair exchange rate and the elimination of the trade imbalance.

I call upon the U.S. and China to complete negotiations for a financial services agreement by the end of 2006. These negotiations could begin at the second meeting of the Strategic Economic Dialogue in May.

Such an agreement – similar to one forged between the U.S. and Japan in 1995 – would establish commitments to allow complete market access in the banking, securities, and insurance sectors, along with concomitant commitments of transparency and nondiscriminatory regulation necessary to allow U.S. financial firms to transform China's financial sector into a modern success story.

Two centuries ago, Napoleon is said to have likened China to a sleeping giant that, once awakened, would “astonish the world.”

That the giant is now awake is obvious.

Now we need to determine how and on what terms we want to engage.

With America’s competitiveness in global financial services facing new challenges from

Europe and Asia, tapping into the imposing Chinese financial services market offers us remarkable opportunities we cannot ignore.