



FAIR CURRENCY COALITION

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FACT OF THE WEEK

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UNITED STATES HAS LEVERAGE TO END CHINA CURRENCY PROBLEM

In any negotiation, leverage is a measure of which side, at any given moment, has a greater ability to influence the other side. Even in the face of the loss of 5.6 million manufacturing jobs in the last decade, the United States has been a “paper tiger” in negotiating with mercantilist Asian export tigers like China. With rare exceptions, America has been unwilling to use its leverage of limiting access to the U.S. market under international trade rules and has not been able otherwise to persuade countries like China to desist from currency manipulation and other illegal trade practices that destroy U.S. jobs.

Why is this leverage indispensable? Endless discussion and sophisticated economic argument are not enough to convince the Chinese leadership to make the changes they know they must. Since 2003, China’s economic reformers have consistently failed to win over the currency hardliners. In a system that operates by consensus, such a stalemate ensures no big policy changes can be made. To break that deadlock, the only thing we as Americans can do is to employ the leverage of our marketplace. China cannot afford to lose its access to the U.S. market. Last year, China ran a \$308 billion current account surplus with the United States. China exported \$329 billion in manufactured goods to the United States while importing only \$50 billion in return. Because Chinese workers are far less productive than their U.S. counterparts, any significant reduction in exports to the United States would cause millions of job losses in China. With no other foreign market willing and able to absorb that amount of Chinese exports, the pressure on the Chinese leadership would ratchet up sharply. Only when China’s leadership realizes that moving to a Chinese consumer-led growth policy will create more internal political stability than clinging to an unsustainable mercantilist export-led growth policy, will China realize the merits of revaluing the RMB.

How can the United States apply such leverage to the Chinese leadership? Allow injured U.S. producers to file anti-dumping or countervailing duty (CVD) suits against illegally priced imports from China. In either case, the remedy is to charge a duty that offsets the subsidy. Once the duties are applied, at least those imports will be fairly traded. Once the Chinese government allows the renminbi to be valued by the market and not by government fiat, those remedies will cease to be applied.

Some will argue that China will resist any outside pressure. On the contrary, the record shows that when the United States has the facts and the law on its side and has the political will to act in its own best interests, China will respond pragmatically. The two dozen safeguard cases filed by U.S. textile producers and the labor union representing their workers on sensitive textile and apparel products are proof that China will respond to an America willing to use access to its market as leverage. The safeguard cases, authorized under U.S. and international law, disrupted business planning with China to such a degree that U.S. importers started placing fewer orders with Chinese exporters. Chinese exporters responded to the loss of orders by pressuring the Chinese government to negotiate a bilateral agreement to eliminate the uncertainty. With political pressure so acute, China negotiated a three-year comprehensive bilateral agreement with the United States that limited the growth of Chinese exports and restored order to a disrupted market.

President Obama has stated correctly that the imbalanced U.S. trading relationship with China is unsustainable. The United States has the leverage to encourage China to abide by its international legal obligations and change its policies that are wrecking the global economy. But if the United States does not stand up for its interest and use its negotiating leverage to level the playing field, U.S. job losses will continue unabated right through the 2010 and 2012 elections, creating political instability in Washington.

The Currency Reform for Fair Trade Act of 2009, H.R. 2378/S. 1027 should be passed immediately by Congress because it would greatly increase U.S. negotiating leverage by making prolonged currency misalignment actionable under U.S. anti-dumping and countervailing duty (CVD) law.

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