



# FAIR CURRENCY COALITION

Media Inquiries: Lloyd Wood•202.452.0866•press@faircurrency.org

Other Inquiries: Charles Blum•202.904.2475•execdir@faircurrency.org

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## FACT OF THE WEEK (January 12, 2010)

### **Venezuela's Currency Devaluation Illustrates Devastating Magnitude of Impact of China's Currency Manipulation on United States**

This week President Hugo Chavez announced that Venezuela would be devaluing its currency by 50 percent, from 2.15 bolivar to the dollar to 4.3 for non-essential items. For essential items, the exchange was set at 2.6 bolivar to the dollar. The anticipated negative impact of the devaluation on U.S. trade with Venezuela is illustrative of the impact of China's currency manipulation on the U.S. economy.

Reaction to the devaluation in Venezuela was immediate. News reports began pouring out of the country that Venezuelan consumers were flooding retail outlets to buy imported non-essential items before bolivar prices spiked. The *Los Angeles Times* reported, "Chavez said the measures would boost the competitiveness of the country's exports while discouraging Venezuelans from buying all but 'strictly necessary' imports."<sup>1</sup> The *Miami Herald* reported, "The move punishes U.S. exports to Venezuela at a time when South Florida is counting on revived international trade to boost its recovery."<sup>2</sup>

Now use your imagination and substitute "China" for "Venezuela" in the two preceding paragraphs. Do this while remembering that total U.S. trade with China in goods and services (excluding U.S. imports of oil which are priced in dollars) was approximately \$432 billion in 2008 compared to just \$21 billion for Venezuela. This drives home the magnitude of the negative impact of China's currency manipulation on the U.S. economy for more than a decade and a half.

China's cheapening of its exports and discouragement of imports is a major cause of the \$1.9 trillion current account deficit the United States has accumulated with China since 2000. China's predatory currency policy also has been a significant factor in why the United States has more than 1.5 million **FEWER** private sector jobs than it did a decade ago, including more than 5.6 million **FEWER** manufacturing jobs.

Venezuela's devaluation comes on the heels of a smaller, 5-percent devaluation by Vietnam late last year. Together, these moves underscore the threat of competitive devaluation of the sort that contributed to the global depression of the 1930s. It is important to distinguish between devaluations that correct imbalances and those that add to them for a protracted period. The Stabenow/Bunning and Ryan/Murphy Currency Reform for Fair Trade Act of 2009, S. 1027 and H.R. 2378, does just that. Passing this vital legislation would stimulate the U.S. economy almost immediately by offsetting injurious competitive currency depreciation. Now that's real action on jobs.

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<sup>1</sup> *Los Angeles Times*, "Venezuelans throng stores after currency devaluation", by Mery Mogollon and Chris Kraul, January 12, 2010.

<sup>2</sup> *The Miami Herald*, "Changes in Venezuela's currency to impact U.S.", by Jim Wyss, January 12, 2010.