

**BEFORE THE SUBCOMMITTEE ON ECONOMIC POLICY
U.S. SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS**

**ORAL STATEMENT OF CHARLES H. BLUM
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**HEARING REGARDING
CHINA'S EXCHANGE RATE POLICY AND TRADE IMBALANCES
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The Fair Currency Coalition appreciates this opportunity to testify on what action can and should be taken to remedy currency undervaluation by China and others. Almost six years ago, we sought a solution through multilateral dispute settlement by filing a well researched and argued Section 301 petition. It was summarily rejected by the last administration. Only then did we turn to legislation, developing and refining what is now known as the Currency Reform for Fair Trade Act, introduced by Senators Stabenow and Bunning and by Reps. Tim Ryan and Tim Murphy. We will continue to work on this problem until it has been resolved on an effective and lasting basis.

Had the government acted on the Section 301 complaint in 2004 or had any version of our legislation passed the Congress, the damage to American workers and industries would have been reduced. Had the IMF or the WTO been up to the task, the problem we face today would be less difficult to manage. Unfortunately, none of that happened. Instead, China's trade surplus with the U.S. and with the world as well as its foreign exchange reserves have mushroomed while US manufacturing employment has plummeted by one-third.

A remedy delayed is a remedy denied. The longer it is denied, the greater the injustice.

The logical approach is to deal with currency undervaluation as a subsidy, using the WTO-sanctioned remedy – countervailing duties – to offset the unfair advantage on an industry-by-industry basis. Undervalued currencies meet the three legal tests for a subsidy finding: the government-established exchange rate – price fixing on a broad scale – forces banks to pay to the seller of an internationally traded good or service extra units of the home currency compared to the fair market value of that currency. That’s a government-mandated financial contribution. The extra units of currency constitute the benefit. That benefit creates an incentive to export. Currency undervaluation thus seems to be a classic example of an export subsidy, a practice prohibited under GATT rules.

Passage of legislation such as S. 1027 would distinguish actionable from non-actionable forms of currency undervaluation. It would also provide clarity regarding the method of calculating the subsidy, the source of data to be used in that calculation, and other procedural matters. Clear guidance from the Congress would facilitate the application of existing law to a new area of economic activity, reduce the scope for controversy, strengthen the hand of the government in the ensuing litigation and negotiations, and provide helpful guidance to trade practitioners – importers, exporters and foreign governments – about the rules that will govern their trade.

A new bill, the Currency Exchange Rate Oversight Act of 2010 (S. 3134), now has 18 cosponsors, including the chairman of this subcommittee and Senator Graham. It seeks to strengthen the Treasury Department’s negotiating leverage in its oversight of foreign government

currency practices in part by explicitly authorizing the use of trade law remedies in response to currency undervaluation. The FCC welcomes this legislation and is working with the chief cosponsors, Senators Schumer and Stabenow, to strengthen it as much as possible.

In closing, let me invoke no less a free trader than Ronald Reagan. In the wake of the 1985-6 realignment of currencies following the Plaza Accord, he explained his trade policy in three simple concepts: first, trade must be reciprocal. “Free and fair trade with free and fair traders” was his motto; second, trade must be based on a mutual respect for the rules; and third, trade policy must produce results. Persistent currency undervaluation surely is a protectionist practice. Tolerating such protectionism undermines the global economy. Confronting it cannot be deemed as protectionism so long as it’s done within agreed rules.

Martin Wolf recently wrote in his column in the Financial Times: “The U.S. was right to give talking a chance. But talk must lead to action.” A sound trade remedy is the best approach to action. It provides negotiating leverage without overkill. Once it has accomplished its objective, each countervailing duty remedy can be adjusted according to the degree of revaluation. It is a carrot as well as a stick.

Legislation is the right thing to do. It is the only thing we can do. It is the one thing we must do. It’s high time for the Congress to act by passing S. 1027 or equivalent legislation.

Thank you very much.