

CHINA'S UNDERVALUED EXCHANGE RATE HURTS THE US ECONOMY, WORKERS

House Democrats have made a firm commitment to the U.S. manufacturing industry through our “Make it in America” agenda, and evaluating the effects of China’s undervalued currency is essential to reviving this sector of our economy and to create good-paying manufacturing jobs.

China’s undervalued Renminbi (RMB) contributes to global economic imbalances and impedes economic recovery and job creation. Six years ago, the Treasury Department expressed concern when China’s foreign exchange reserves (accumulated as a result of its currency market interventions) rose to \$346 billion. Today those reserves exceed \$2.4 trillion. According to some recent estimates, the RMB may be undervalued by 25% to 40% against the dollar, making China’s exports substantially cheaper than they would be if China allowed its currency to appreciate, and makes U.S. and other countries’ exports to China substantially more expensive. **On June 19, more than a month ago, China decided to allow exchange rate flexibility. However, since then they have allowed the RMB to appreciate less than one percent.**

WHY IT MATTERS TO OUR ECONOMY & MANUFACTURING:

- It contributes to trade deficits, putting a drag on economic growth and job creation. Over the past 10 years, the United States has experienced its largest trade deficits in recorded history, and our trade deficit with China is by far the largest contributor to the overall U.S. trade deficit.
- It may have a negative impact on trade policies, as some countries either will be reluctant to open their economies further to imports or will even close their markets to imports.
- It artificially depresses interest rates and may have contributed to the financial crisis.
- It may distort investment patterns, as the Government of China looks to invest overseas the hundreds of billions of dollars that it accumulated to keep the RMB undervalued.

WHAT EXPERTS SAY:

[Resolving this issue] would generate an additional 600,000 to 1,200,000 US jobs. Correction of the Chinese/Asian currency misalignment is by far the most important component of the President’s new National Export Initiative. As its budget cost is zero, it is also by far the most cost-effective step that can be taken to reduce the unemployment rate in the United States.”

- C. Fred Bergsten, Director, Peterson Institute for International Economics, [3/24/10](#)

“China’s trading partners have to engage with the rising giant. They must explain that they cannot – and will not – absorb the surplus capacity its heavily distorted model of development is creating.”

-Financial Times, 11/29/09

“This is the most distortionary exchange rate policy any major nation has ever followed... And it’s a policy that seriously damages the rest of the world. China, by engineering an unwarranted trade surplus, is in effect imposing an anti-stimulus on [most of the world’s large] economies, which they can’t offset.”

-Paul Krugman, The New York Times, [3/14/10](#)

HOUSE WAYS AND MEANS COMMITTEE TO HOLD HEARING:

- Ways and Means Chairman Sander M. Levin announced a full committee hearing to consider whether China’s June decision to allow exchange rate flexibility has led to material appreciation of the RMB.
- The Committee will hear testimony as to whether Congress or the Administration should take action to address China’s unfair currency policy and its impact on U.S. businesses and workers.
- Actions to be discussed include legislation and the initiation of formal dispute settlement consultations with China within the World Trade Organization.

Prepared by the Office of Majority Leader Steny Hoyer and House Ways and Means Committee, 08/04/10