

**Statement for the Record**  
**U.S.-China Security Review Commission**  
**Senator Charles Schumer**  
**February 3, 2005**

I want to thank you for the opportunity to address this distinguished Commission on an issue that is vital to our economic security. While I am happy to be here with you all, I am not happy that a year and a half has passed and we are still battling this issue. I would like to recognize two individuals for their tremendous leadership on the issue of currency manipulation. They are Senator Lindsey Graham and Congressman Sander Levin (who I know spoke on the earlier panel.) Both of these members have been great partners in this fight for fairness and I look forward to working with them on this issue in the 109<sup>th</sup> Congress. I am also delighted to be joined here today by my esteemed colleagues in the Senate, Robert Byrd, Mike Dewine, Mary Landrieu and Byron Dorgan, and my colleagues in the House, Congressmen Bob Ney and Sherrod Brown.

We are all here today because we continue to be concerned about China's many misdeeds. The list is long. China manipulates its currency, violates intellectual property laws, limits access to their markets, subsidizes Chinese companies – all of which leads them to fail to comply with many WTO rules. But, today I will not focus on all of these issues. Just one. Currency Manipulation.

The impact of China's undervalued currency in our home states and the toll it is taking on our workers and businesses are not improving. Actually, the toll it is taking on our nation is simply detrimental to our economic vitality. All of us here today represent a broad cross section of the country and our presence at this hearing illustrates the importance of this issue and this hearing to the United States and the future of our economic security.

**As this Commission knows, China's currency, the Yuan or renminbi, has been tightly pegged to the U.S. dollar since 1994 at a rate of approximately 8.28 Yuan to the dollar. During the past ten years, China's economy has grown dramatically. In 2004, China's GDP growth was approximately 9.5%, averaging over 8% per annually for the past two decades.**

**Because China continues to peg its currency, in 2004 we saw record trade deficits with China. As of November of last year our trade deficit with China grew by almost 25 percent. This number represents one quarter of our national trade deficit. Today, China's foreign reserves are estimated to be over \$609 billion. On Monday, February 7<sup>th</sup> we get the full picture when the trade deficit numbers are released. If there is anything I can be certain of it is that the situation has gotten dramatically worse since 2003 when China's official reserves rose from \$154.7 billion to \$403.3 billion.**

China has enjoyed unparalleled economic success, but only by flaunting the rules of international trade. While China continues to enjoy its questionable success, American workers are fighting for their livelihoods.

**Our job losses have been devastating. The United States has lost close to 3 million manufacturing jobs - 90 percent of all the jobs lost in the last five years. In my state of New York we have lost approximately 100,000 manufacturing jobs and it continues to grow every day. The most discerning part is that the manufacturing sector is less than 14 percent of the American workforce.**

Three million jobs lost clearly shows that millions of America's hardest working people find themselves unjustly in the ranks of the unemployed in part because of unfair Chinese trade practices. When these jobs and skills leave this country they are not coming back.

**Last year, we saw a huge deficit in the area of advanced technology products – an area of strategic importance to our country. Losses in this particular field raises the question of whether, in the world we live in, the United States can afford to not have expertise in the techniques and technologies that are used to manufacture the tools and sometimes weapons we must use to defend ourselves. I would say, “we can't afford to.”**

Many experts believe that we are witnessing a rapid shift of manufacturing capability from the United States to China. Mostly because both Chinese companies and some U.S. companies are drawn not only by the low cost of quality labor, but also by the added benefit of a 15 to 40 percent purchasing power advantage. China's emergence as a manufacturing powerhouse at the expense of the United States raises significant economic security concerns and the question of

whether a country that loses its ability to produce tangible products will long remain an economic power.

**While manufacturing has been hardest hit, manufacturing jobs are not the only ones at risk. When manufacturing jobs are lost, so are jobs in trucking, warehousing, banking and insurance. There is a chain effect that reduces the overall productivity of the U.S. as a location of economic activity. Some studies indicate that each manufacturing job generates over four other jobs, the highest multiplier of any industrial sector.**

**We are also witnessing the loss of jobs much higher up the value chain. These were the very jobs that people displaced by manufacturing were supposed to move into. In fact the new economy was supposed to be based in information technology and services - jobs like engineers, designers, radiologists, stock analysts, accountants, and researchers, in addition to clerical, customer service and telemarketing workers.**

**But now those jobs are also leaving the U.S. at a rapid rate. What jobs will be left for American workers when all these jobs move overseas?**

My colleagues and I hear the real life impact of these losses countless times in our home states. A local business works hard to succeed in the world market. They know it is tough under the new rules of globalization. But they are ready, willing and able to compete.

But when they face a competing good or service coming here from China, which gets a 40% price break, it makes it impossible to make a profit or stay in business.

I have watched plant after plant close in upstate New York over the past few years because China's unfair advantage allows them to sell their products lower than the cost of the materials used to produce them. Month after month we have watched our largest export industry – the manufacturing sector – take it on the chin.

**Don't get me wrong - I am fully aware that there are other factors responsible for the pain in our manufacturing industries. But this problem is**

**a serious one and one we can address. It is important we do so - as President Bush himself has acknowledged - the state of our manufacturing sector is clearly one of the driving factors in our nation's current and prolonged economic difficulties.**

**The Administration has made clear that our country's manufacturing capability is a matter of national security. Yet they have taken no definitive action to address this problem. This brings me to another area of grave concern.**

**The Administration has engaged in quiet diplomacy for years now and it continues to fail. Over the past several months President Bush, Secretary Snow, Secretary Evans and Ambassador Zoellick have all attempted to convince China's leaders to revalue their currency. And, every time the Chinese government has made it clear they are working on their own schedule. And what does the Administration do? Continue to talk.**

**China continues to thumb their nose at us because the Administration lets them. The Administration continues to use diplomatic measures that clearly do not work.**

**The Treasury Department in their bi-annual reports to Congress continues to refuse to acknowledge that the Chinese are even manipulating their currency.**

**When we call China's misdeeds to the attention of the Administration they choose to ignore us. In the fall of last year the US Trade Representative rejected the section 301 petitions filed by the Fair Currency Alliance and the Congressional Currency Coalition led by Congressman Levin and me. Many groups such as ours have utilized the tools in place to protect against the injury caused by China's under-valued exchange rate have, but repeatedly have been unable to find support in an Administration that claims to understand the importance of an industry that is vital to our nation's economic success.**

**Teddy Roosevelt once advised that the best negotiating strategy was to, "speak softly and carry a big stick." Taking that advice we had hoped quiet encouragement could get China's leadership to see the light. It has not worked.**

**In late September of last year the Treasury issued a joint statement with China in which it "reaffirmed" China's promises to "push ahead firmly and steadily" to end its currency manipulation practices. Two days later, the Deputy Governor of the People's Bank of China made clear that China had no intention of addressing this issue in a meaningful timeframe, stating: "We have already said, time and again, that we are moving towards more market-based, supply-and-demand based, exchange rates. How long it takes, I don't know.... Because China has an 8,000-year history, a decade is truly a short period. I have been asked numerous times, 'What is the time frame?' I tell them, 'No time frame.'"**

**More recently, on January 12, 2005 China's Commerce Minister Bo Xilai told Former Secretary of Commerce Donald Evans: "Judging from the view of friends and judging from the achievements of your work, I should say that 70 percent of what you have done has been pretty good."**

**While it is certain that this statement was not intended as flattery, a brief look at Chinese history reveals that it was probably more insulting than it even appeared. An expert in Chinese history explained to me that after Mao Zedong died in 1976, Deng Xiaoping took over as supreme leader of China. Deng, who had been purged by Mao 3 times before taking power after his death, famously declared that Mao's role in history was "70 percent positive and 30 percent negative." This would later come to be known as the seven-three formula. Many China experts believe that Deng had really believed that Mao's contribution had been the opposite, 30 percent good and 70 percent bad. As such, although there is no way to know for sure, Bo Xilai's claiming Sec. Evans was 70 percent "pretty good" was, in fact, a way of saying he has done more harm than good.**

**So, because China has given us no other choice and our Administration has given us no other choice, it's time now to bring out the big stick.**

**Today, Senator Graham and I are introducing a straightforward bill that we feel will level the playing field. We are joined by 10 of our colleagues – this is a bi-partisan effort. Senators Reid, Durbin, Kohl, Dole, Bunning, Stabenow, Dodd, Levin, Clinton and Bayh have joined us today to introduce a bill that allows for a 180 day negotiation period between the US and China, if**

**the negotiations are not successful, a temporary across the board penalty will be applied to all Chinese products entering the United States – a penalty that corresponds to their estimated currency advantage.**

**Since economists estimate China undervalues its currency between 15 percent and 40 percent, our bill institutes a stiff 27.5% tariff, the mid-point of those figures. If China ends its unfair play, this tariff will never have to be levied. I have always said that this is not my first choice of action. The Chinese government can easily avoid all of this action by taking the responsible steps to revalue its currency to reflect its fair market value.**

**Our bill is compatible with the rules governing international trade set by the World Trade Organization. The Chinese government's trade practices are deeply harming a vital U.S. industrial sector. They are damaging the manufacturing industry almost beyond repair.**

China's trade status has long been debated. It has at times been a very contentious debate in this very body. Over the years members have been deeply concerned about China's human rights policies, its commitment to democracy and basic freedoms, its military intentions, and its trade practices.

But, China had long sought the status of full membership in the world trading community and formally entered the WTO on December 11, 2001, nearly four years ago. And many of us supported them by voting in favor of China's permanent most favored nation trade status.

But we did it with an understanding that - as U.S. trade negotiators had argued - the Chinese Government was fully committed to eliminate many of its trade distorting practices within a short period of time. As we know, one of the major areas of focus and concern was China's currency practices. Yet on the one-year anniversary of China's entry into the WTO, the United States Trade Representative issued a report that raised serious concerns over China's compliance with its WTO commitments. Today we are still talking about those same concerns.

**We think there is no more broad based and serious violation of the spirit and rules of international trade than a purposefully undervalued currency. When those conditions are violated, the system must respond or**

**else the actions of one nation will upset the whole global balance.**

**China's undervalued currency is not simply a United States issue or problem. China's manipulation has become a real threat to our global economic system. With the Yuan pegged to the dollar, and as the dollar weakens against the euro – China's currency also falls against the euro. This evolution, if not corrected immediately, threatens to cause weakness in the European economy, thus, threatening the entire global economy. Our international partners are deeply impacted as well, and the strength of our international trading system is called into question when one of the largest trading nations in the world does not abide by the rules and spirit of international trade agreements.**

So it is in the interests of free trade - in defense of free trade - that we are urging action. We cannot turn our backs and allow one major nation to engage in mercantilist policies.

China's continued flaunting of the rules and spirit of international trade undermines the validity and authority of our international agreements. And the failure of the U.S. to hold China accountable demonstrates an absence of traditional U.S. leadership on world trade issues.

As their economic data vividly illustrates, China has benefited greatly from membership in the world economic community. Their economic growth has been enormous. We feel strongly that it is only fair that they abide by the terms and spirit of the community's rules and responsibilities.

Our bill serves to support the very foundation of free trade. As we know, free trade is a delicate balance. It rests on certain conditions - multiple nations both weak and strong abiding by a common set of rules.

For all these reasons, my colleagues in Congress and I feel we must take legislative action to hold China accountable to the commitments it has made to the United States and the international community.

For the good of American workers, and for the sake of our international trading partners and free trade systems, it is time to hold the Chinese Government accountable for its unfair and illegal currency practices

Thank you for allowing me to speak today at this very important hearing.