Statement of Senator Charles E. Schumer

U.S.-China Economic and Security Review Commission

Hearing on "The Impact of Trade with China on New York State and Opportunities for Economic Growth"

Rochester, New York
July 23, 2009

I applaud the U.S.-China Economic and Security Review Commission for convening this important public hearing today at the Rochester Institute of Technology. New York State, and Rochester in particular, has a long and rich history of industrial and technological innovation. I cannot think of a better setting for a discussion of the complex role Chinese trade plays in our economy and the impact it has on our communities.

China and the United States have a deeply symbiotic and, in many ways, troublesome trade relationship. To understand the sheer magnitude of this relationship, consider this: Last year, China sold $338 billion worth of goods to American consumers—more than any other country in the world. That is more than the combined annual revenue of Microsoft, Apple, Pepsi, Boeing, Johnson & Johnson, and Goldman Sachs. American businesses, however, sold only $71 billion worth of goods to the Chinese. There are many factors that have contributed to this imbalance, but let me be clear: One of my top priorities is to fight for trade policies that ensure that free trade is also fair trade, and that our workers have a fair chance to compete.

Our massive trade deficit with China is a relatively recent phenomenon. As late as 2001, China's current account surplus—the value of exports minus the value of imports—was only 1.3 percent of its GDP. Last year, it was a whopping 10 percent, according to the World Bank. One reason China's surplus has soared is increased American demand for Chinese goods, such as inexpensive shoes, toys and electronics. There's no doubt that the American consumer is price-sensitive, and there is nothing inherently wrong with this fact. However, the policies of the Chinese central government have the effect of giving their goods a 30 to 40 percent price advantage over ours, which makes it harder for U.S. firms to compete. I remember touring upstate New York several years ago and hearing from numerous CEOs, "We can compete with the labor cost differential because our workers are more productive and better-trained. But it's hard to compete with the built-in price advantage that the currency differential gives the Chinese." Well, we have not done a good job as a nation over the past decade of ensuring that our largest and fastest-growing competitors – countries like China – follow the agreed-upon rules of the international trading community. I am working hard with the Obama Administration and new United States Trade Representative Ron Kirk to make sure that happens now, and I think the new Administration is off to a good start when it comes to trade enforcement.

When it comes to trade with China, my main focus has been on the currency issue. China's manipulation of its currency undermines U.S. businesses at home and abroad. The central government's actions keep China's exports to the U.S. cheap while raising the prices on U.S. exports to China. Partially as a result of these currency practices, the United States has lost over 5.3 million manufacturing jobs in the last decade. New York has lost approximately 275,000 manufacturing jobs over the same time period. I have been working on the issue of China's currency manipulation with my colleague Lindsay Graham of South Carolina for more than five years, and while we have had some successes, there is much more work to be done.

Since China originally de-pegged the renminbi in July 2005, the currency has appreciated by about 17 percent against the dollar (8.28 renminbi to the dollar in July 2005, compared to 6.83 today). But during that time, China's current account surplus has not appreciably declined. The IMF reports that China's current account surplus will remain at least 10 percent of GDP as far as the eye can see. Moreover, China's currency has barely appreciated this year at all. According to a new study by William Cline and John Williamson of the Peterson Institute for International Economics, China's currency remains between 21 and 40 percent undervalued against the dollar. This is fundamentally the same level of undervaluation that existed in 2005, even considering the movements in the currency since then.

These realities make the legislation that I am pursuing with Senator Graham no less important today than it was three years ago. Our bill, *The Currency Exchange Rate Oversight Reform Act of 2009* would create a new, objective rubric by which currency manipulation is measured, eliminating the need to prove that currencies are misaligned due to clear government intent to manipulate. Instead, the bill would create a new category for "fundamentally misaligned currencies," referring to currencies that are misaligned for any reason, including government manipulation. The bill also provides Treasury with a specific set of tools and penalties to use to go after and eliminate misaligned currencies. China's “undervalued” renminbi, as labeled by Treasury in last month’s report, would likely fall into the new category of “currencies in fundamental misalignment.” Plus, I am advised that our bill is likely to be compliant with WTO rules.

The bill, identical to the bill that was reported out of the Finance Committee on a 20-1 vote in 2007, would:

- Create a new overall approach to identifying currency manipulators by requiring that the Treasury Department develop a biannual report that identifies “fundamentally misaligned currencies, including those that are caused by clear policy actions by the relevant government;

- Require the Treasury Department to engage in immediate consultations with all countries cited in the report. For “priority” currencies, Treasury would seek advice from the International Monetary Fund (IMF), as well as key trading partners; and

- Establish important consequences immediately upon designation, moderately severe consequences if consultations have not resulted in appropriate policies and identifiable actions to eliminate misalignment after 90 days, and more severe consequences if consultations have not resulted in appropriate policies and identifiable actions to eliminate misalignment after 360 days.

This is a strong, aggressive bill that will rectify the actions of countries that refuse to play by the rules. I recognize, however, that some of my colleagues favor a different approach to addressing China’s currency manipulation, and I have committed to supporting the strongest possible currency reform bill that reaches the Senate floor. I will push hard for currency reform legislation to be considered during the 111th Congress.

To be sure, creating a stable, win-win trading relationship with China over the long term will require more than just currency reform. The economic prosperity of both countries is inextricably linked and cooperation in pursuit of free and fair trade is the path forward.