

Alliance for American Manufacturing
727 Fifteenth St. NW Suite 700
Washington, DC 20005
202-393-3430
Fax 202-628-1864
www.americanmanufacturing.org



September 22, 2011

Honorable Sherrod Brown
United States Senate
713 Hart Senate Office Building
Washington, DC

Dear Senator Brown:

On behalf of the Alliance for American Manufacturing – a labor-management partnership forged between some of America’s leading manufacturing companies and the United Steelworkers – I am writing to lend our endorsement for the bipartisan *Currency Exchange Rate Oversight Reform Act of 2011*. We commend you as well as Senators Chuck Schumer (NY), Lindsey Graham (SC), Olympia Snowe (ME), Debbie Stabenow (MI), Jeff Sessions (AL), Robert Casey (PA), and Richard Burr (NC) for working together as a bipartisan group to address China’s market-distorting, job-killing currency manipulation.

The recent announcement by Majority Leader Harry Reid that the Senate will soon be voting on your legislation is encouraging. The decimation of our middle-class, our manufacturing sector, and the American economy as a whole has come in large part because developing nations like China have used illegal currency manipulation and other aggressive, mercantilist tactics to tilt the playing field in their favor. Your common-sense legislation would utilize our existing trade laws to provide a remedy for China’s market-distorting practice of currency manipulation.

There is broad consensus among economists that the yuan is severely undervalued and there is a wealth of economic research demonstrating that addressing the issue would boost our gross domestic product (GDP), create and preserve U.S. jobs, lower our trade deficit, and reduce budget deficits. Yet, as the Senate moves closer to a vote, some importers have made unsupported allegations about the dangers of enforcing our rights in international trade. Frankly, we are stunned that any organization would want to tie our hands behind our backs when faced with a mercantilist trade policy of a communist government that inflates dangerous global imbalances.

Please allow me to highlight some of the myths that being perpetuated by outsourcers and others who have a financial interest in maintaining the status quo with respect to China’s currency rigging. We believe that it is important to provide factual information to allow for an honest discussion about what is best for American workers and companies. Outlined below are the *myths* and *facts* associated with taking action to address currency manipulation:

- ***Myth: Legislation to address currency manipulation “would threaten job creation and economic growth at a time when the United States dearly needs both.”***

Fact: Robert Scott of the Economic Policy Institute (EPI) calculates that [2.8 million American jobs were lost or displaced over the last decade due to the growing U.S. trade deficit with China](#) – fueled by currency manipulation. Since Beijing’s entered the World Trade Organization in 2001, our trade deficit with China has increased from \$83 billion to a record \$273 billion in 2010. Please visit [AAM’s interactive map](#) for data on the job losses that have occurred in every state and congressional district.

Addressing currency manipulation would create jobs and reduce the deficit. Robert Scott of EPI calculates that bringing the yuan to its equilibrium level – a 28.5 percent appreciation – would result in significant economic benefits for our economy, including:

- The creation of up to 2.25 million American jobs;
- An increase in U.S. GDP of \$285.7 billion (1.9%);
- A \$190.5 billion reduction in our annual trade deficit; and
- Annual deficit reduction of \$71.4 billion, or between \$621 to \$857 billion over ten years, if sustained.

These estimates are backed by a range of economists. C. Fred Bergsten of the Peterson Institute for International Economics has projected a reduction in our trade deficit between \$100 billion and \$150 billion per year, adding 750,000 to one million American jobs. Meanwhile, Nobel Laureate Paul Krugman estimates that the net export gains would amount to a 1.5 percent improvement in our GDP, increasing the U.S. economy by \$220 billion.

The bottom line is that there are no other policy options that would yield economic benefits on the same scale while also significantly reducing the deficit. None.

- ***Myth: Addressing currency manipulation should only be done through “coordinated and enhanced multilateral pressure through international organizations such as the G-20 and APEC” and not through action by Congress.***

Fact: President Obama and world leaders from Brazil, India, Mexico and elsewhere have pressured Chinese leaders at international forums about the need for China to let the yuan’s value be determined by market forces rather than government interventions. However, these efforts have yielded little progress because they have not been backed by the threat of real consequences.

For example, in response to intense pressure from the international community leading up to the June 2010 G-20 meeting, China announced that it would allow “flexibility” in its exchange rate policy. A year has passed and the Peterson Institute for International Economics [reports that the yuan is even more undervalued](#) against the dollar today (28.5%) than it was a year ago (24.2%) and is also more undervalued against a basket of currencies (the “effective” exchange rate) than it was a year ago (17.6% vs. 15.3%).

Meanwhile, the Obama administration has refused to take the most step of simply labeling China as a currency manipulator in its required semiannual submissions to Congress on trading partners that manipulate their currency. President Obama has taken a pass in his first five submissions and the Treasury Department’s next submission is due

on October 15th. Your bill would create a new framework, based on objective criteria, which will require the Administration to identify misaligned currencies and require action if countries fail to correct the misalignment.

In the absence of action by the administration, Congress has a vital role in protecting the interests of American workers and companies. If the United States took a leadership position by imposing defined, but reasonable remedies to remove such market distortions, the world would undoubtedly follow. The United States has more leverage than any of China's trading partners, as China is overly dependent on access to the U.S. market to maintain its own exports and jobs.

- ***Myth: Legislation to address currency manipulation would ignore “the many and growing challenges that we face in China.”***

Fact: China employs a host of market-distorting practices to gain an upper-hand on American workers and companies, including currency manipulation, inadequate protection of intellectual property, limits on the export of rare earth elements, restrictions on market access such as discriminatory indigenous innovation requirements, and illegal subsidies for state-owned enterprises.

Congress and the administration are working to address many of these issues, but it is absurd to suggest that action on currency somehow dilutes our efforts to combat other unfair trade practices. There is no reason to delay congressional action on currency manipulation, which acts as a massive tax on U.S. exports and as an illegal subsidy on China's exports. The result has been a bilateral trade deficit that has grown from \$83 billion in 2001 to a record \$273 billion in 2010.

- ***Myth: Action by Congress would not “create any incentive for China to move expeditiously to modify its exchange rate policies.”***

Fact: History shows that China only acts when presented with the threat of real consequences. Faced with a similar situation in 2005, the U.S. Senate acted decisively and passed bipartisan legislation introduced by Senators Charles Schumer (NY) and Lindsey Graham (SC) by a vote of 67-33. This action prompted China to steadily appreciate its currency by 21 percent until it again resumed its peg to the dollar in July 2008.

- ***Myth: Action by Congress would violate international trade obligations. China would react with “retaliation” and start a “trade war.”***

Fact: Taking action to remove protectionist market distortions would not result in a “trade war,” but failing to act will mean that the U.S. has accepted “trade surrender.”

Your bill provides consequences for countries that fail to adopt appropriate policies to eliminate currency misalignment and includes tools to address the impact of currency misalignment on U.S. industries. One portion of your bill clarifies existing U.S. trade law to specify that illegal currency rigging should be treated as an actionable subsidy if and when trade cases are brought forward, investigated by the Department of Commerce, and

approved by the independent International Trade Commission. Doing so does not mandate sanctions against China or any other nation without proper cause.

When the House of Representatives considered and passed currency legislation last September, Rep. Dave Camp, the Republican Chairman of the House Ways and Means Committee, said that the bill did not “presuppose an outcome,” but rather would send “a clear signal to China that Congress’ patience is running out, without giving China an excuse to take it out on U.S. companies and their workers.”

- ***Myth: Passing currency manipulation legislation would jeopardize access to the “fastest-growing market for U.S. exports” and any cost increases in China “will shift production to other low-cost manufacturing countries, not back to the United States.”***

Fact: China’s currency manipulation acts as a massive tax on U.S. exports to China and removing this market distortion would make our goods more competitive in China and in other markets. American manufacturing can successfully compete against Chinese competition in our own market, in China, and in other markets, but only if the playing field is level.

Research by the Economic Policy Institute shows that exports to China and the rest of the world would increase and create jobs. “This is because China is the most important competitor for the United States in all other third country markets, even more important than Germany and all other members of the European Union combined. The effect of revaluation on exports will dominate, and is likely to generate most of the new job growth estimated above.”

- ***Myth: Legislation to address currency manipulation is being pushed by special interests in Washington, DC.***

Fact: Legislation to address currency manipulation is, and has always been, advocated by a bipartisan mix of members – with the backing of a broad range of economists, domestic firms, and workers.

The Senate approved currency legislation offered by Senators Schumer and Graham in 2005 by a vote of 67-23 – with the support of 29 Republicans. Meanwhile, pending legislation in the House enjoys the overwhelming bipartisan support of over 200 members, including nearly 60 Republicans. Identical legislation passed in the House of Representatives in September 2010 by a margin of 348-79 with support from nearly all Democrats and 99 Republicans.

Perhaps most important is the vast support of the American public. A new national, bipartisan poll conducted by Whit Ayres and Mark Mellman shows that 86 percent of voters favor penalizing nations like China that manipulate exchange rates and implement trade barriers to gain an unfair trade advantage. And 95 percent favor keeping “America’s trade laws strong and strictly enforced to provide a level playing field for our workers and businesses.”

The Alliance for American Manufacturing strongly supports prompt passage of effective legislation to curb the market-distorting, job-killing practice of currency manipulation by China and other trading partners. Left unchecked, the U.S. will continue to experience massive and growing trade deficits, reduced wages, high unemployment, and larger budget deficits. We thank you for introducing the *Currency Exchange Rate Oversight Reform Act of 2011* and look forward to working with you and others to ensure passage in the Senate.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott N. Paul". The signature is fluid and cursive, with the first name "Scott" being the most prominent.

Scott N. Paul
Executive Director

Cc: Members of the United States Senate