



faircurrency.org

# FAIR CURRENCY COALITION

Media Inquiries: Lloyd Wood•202.452.0866•press@faircurrency.org

Other Inquiries: Charles Blum•202.904.2475•execdir@faircurrency.org

---

## FACT OF THE WEEK

(October 27, 2009)

### **How intentionally undervalued foreign currency acts as a hidden tax on U.S. exports and contributes to the destruction of millions of U.S. jobs**

When a foreign country such as China intentionally undervalues its currency, a *de facto* tax/tariff is assessed on U.S. exports. This “hidden tax” hampers U.S. exports, exacerbates the unsustainable U.S. trade deficit, and is responsible for contributing to the destruction of more than 5.5 million middle-class U.S. manufacturing jobs in the last decade.

The loss of jobs resulting from America’s chronic trade deficits with China has severely damaged the U.S. economy in particular. By one estimate, the trade deficit with China has eliminated or displaced 2.3 million jobs in the United States.<sup>1</sup> In 2007 alone, China’s currency policies contributed to the loss of an estimated 365,700 jobs – jobs that either disappeared, or jobs that would have been created were it not for China’s policies.<sup>2</sup> Even where workers who lost their jobs because of China’s policies were able to find new jobs, they lost an average of more than \$8,000 per year in wages and benefits.<sup>3</sup> This trade deficit is not solely the result of subsidized imports; the red ink has been made worse by the loss of export markets due to trade barriers like an artificially undervalued currency.

Using China as an example, here’s how an undervalued currency makes U.S. exports more expensive. By actively intervening in the market, China keeps the value of its currency artificially low, at the exchange rate of approximately 7 RMB to the U.S. dollar. At this exchange rate, a Chinese customer wanting to buy a \$20,000 U.S.-made car would have to pay 140,000 RMB. But if China allowed the free market to set the value of the RMB, its value might fall to 4:1. In that case, the U.S.-made car would cost a Chinese buyer only 80,000 RMB. This difference of 60,000 RMB represents the additional amount – the hidden tax – that an intentionally undervalued currency places on imports from the United States.

---

<sup>1</sup> R. Scott, *The China Trade Toll* at 1, Economic Policy Institute Briefing Paper #219 (2008).

<sup>2</sup> *Id.* at 5.

<sup>3</sup> *Id.* at 1.

The effect of the undervalued currency is exactly the same as that of a tariff imposed on imports. The effective tax rate depends on the extent to which the currency is undervalued. If the Chinese RMB is undervalued by 40 percent (which many economists think is a reasonable estimate), this is exactly equivalent to a 40 percent tax on imports from the United States.

The injurious impact of currency manipulation is evident in the exploding trade imbalance between the United States and China. Between 2000 and 2008, annual U.S. imports from China increased by \$238 billion while annual U.S. exports to China grew by just \$55 billion. As a result, the U.S. trade deficit with China was nearly \$183 billion higher in 2008 than it was in 2000.

Finally, while China is the most obvious “undervaluer” of its currency, other Asian and developing countries have been forced to follow China’s lead and keep the value of their currencies artificially low to maintain their competitiveness in global markets. This phenomenon also works to discourage American exports, costing American workers even more jobs. In the last decade, the United States has run a trade deficit in manufactured goods of more than \$4 trillion, including a deficit of more than \$1.5 trillion with China, while losing nearly 5.6 million jobs in manufacturing. By effectively imposing a huge stealth tax on U.S. exports, undervalued currencies in China and other countries have contributed to the loss of millions of American jobs, destroyed communities, and threatened the prosperity of the United States.

The only way to break down trade barriers to U.S. exports is to stop foreign unfair trade practices like currency manipulation. That’s why the U.S. Congress must pass H.R. 2378 and S. 1027, the Currency Reform for Fair Trade Act, without delay.