



FAIR CURRENCY COALITION

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FACT OF THE WEEK

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NATIONAL SECURITY IMPERATIVE TO TAKE STAND AGAINST CHINA'S CURRENCY MISALIGNMENT

There is a strong national security imperative for members of Congress and the Obama Administration to take a strong stand against currency misalignment.

On March 6, China's Central Bank Governor Zhou Xiaochuan said Beijing will eventually move away from its current exchange-rate policies, but played down the idea that the move would come in the near future. He claimed that China's setting of its currency value by fiat was a "temporary response" to the global financial crisis. Yet, the policy was in place long before the crisis, helped to precipitate it, and will apparently continue well after it has passed. Beijing's unrelenting strategy is to gain and maintain a trade advantage for Chinese-produced goods both at home and abroad. There is no end to when this practice will cease to be advantageous to China in the absence of countervailing action by the United States.

The results of Beijing's policy are not just commercially harmful to American-based business firms. The results have created a serious and growing threat to national security. The capital and technology transferred to China and the production capacity built and sustained in China by Beijing's export surplus have been used to expand the size and capabilities of the People's Liberation Army. Over the past decade, annual military expenditures have risen by more than 400 percent.

The Department of Defense issued its Quadrennial Defense Review on February 1, 2010. It reported the following about Beijing.

As part of its long-term, comprehensive military modernization, China is developing and fielding large numbers of advanced medium-range ballistic and cruise missiles, new attack submarines equipped with advanced weapons, increasingly capable long-range air defense systems, electronic warfare and computer network attack capabilities, advanced fighter aircraft, and counter-space systems. China has shared only limited information about the pace, scope, and ultimate aims of its military modernization programs,

raising a number of legitimate questions regarding its long term intentions.

Clearly, every advanced weapon is being designed to challenge and supplant American influence throughout the Pacific region.

Along the same lines, the 2009 report to Congress on the Military Power of the People's Republic of China prepared by the U.S. Secretary of Defense stated, "China's defense-related industries will continue to reap benefits from transfers of technology and skills from foreign joint ventures." According to the report,

Development of innovative dual-use technology and an industrial base that serves both military and civilian needs is among the highest priorities of China's leadership. ...China's defense industry has benefited from integration with China's rapidly expanding civilian economy and science and technology sector, particularly elements that have access to foreign technology.... Progress within individual defense sectors appears to be linked to the relative integration of each – through China's civilian economy – into the global production and R&D chain.

Besides the growth of Chinese strategic industries, trade has given Beijing massive currency reserves estimated at \$2.4 trillion or more, which are also elements of power. China has been buying foreign oil fields and mines, diplomatic influence, and leverage over global financial markets. The Chinese understand as ancient historian Thucydides understood, "War is not so much a matter of weapons as of money, for money furnishes the material for war." So should we.

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