



FAIR CURRENCY COALITION

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FACT OF THE WEEK

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RMB Still Pegged to Dollar Despite \$264B U.S. Current Account Deficit with China in 2009

U.S. Current Account Deficit with China in Last Decade is \$1.935 Trillion

The U.S. current account balance with another trading partner country is the amount of total assets (money, exports, etc.) we sent to the other country compared to what they send to us. In the case of China, the year-end (Q4) figures released by the U.S. Bureau of Economic Analysis today shows that the United States ran a \$264 billion current account deficit (CAD) with China in 2009. They also show a \$1.935 trillion cumulative U.S. CAD with China for the last decade (2000-2009).

These figures make the Chinese renminbi's (RMB) hard peg to the dollar since mid-2008 even more troubling. If country A runs a large current account surplus with country B in a given year, economic theory holds that the value of country A's currency should appreciate against country B's currency – absent government intervention. Thus the RMB's failure to appreciate against the U.S. dollar despite the \$264 billion U.S. CAD with China in 2009 is further proof of China's undervalued currency illegal export subsidy.

As can be seen, the negative impact of China's illegal currency undervaluation on U.S. CADs has been increasing throughout the decade. (Figures in the table below are rounded, but totals and percentages are calculated on figures not rounded.)

YEAR	U.S. CAD with World	U.S. CAD with China	Percent of U.S. CAD Accounted for by China
2000	-\$417 billion	-\$88 billion	21 percent
2001	-\$398 billion	-\$89 billion	22 percent
2002	-\$459 billion	-\$110 billion	24 percent
2003	-\$522 billion	-\$132 billion	25 percent
2004	-\$631 billion	-\$172 billion	27 percent
2005	-\$749 billion	-\$219 billion	29 percent
2006	-\$804 billion	-\$259 billion	32 percent
2007	-\$727 billion	-\$293 billion	40 percent
2008	-\$706 billion	-\$308 billion	44 percent
2009	-\$420 billion	-\$264 billion	63 percent
Total	-\$5.832 trillion	-\$1.935 trillion	33 percent

These dollars flowing to China, due in significant part because of their policy of protracted undervaluation of the RMB, could be used to lighten the U.S. debt load or invested to help regain some of the 8.4 million jobs lost during the current recession.

That is why it would be wise for Congress to pass without further delay legislation like H.R. 2378 and S. 1027, the Currency Reform for Fair Trade Act, and S. 3134, the Currency Exchange Rate Oversight Reform Act, that addresses the subsidy effects of currency undervaluation.

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