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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

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China All Talk and Little Action on Renminbi Revaluation

Imperative for the U.S. House and Senate to Act Quickly on Currency Legislation

“China is all talk and little action with respect to ending the persistent undervaluation of the renminbi (RMB),” said Fair Currency Coalition (FCC) Executive Director Charles Blum in response to the June 19 statement, “*Further Reform the RMB Exchange Rate Regime and Enhance the RMB Exchange Rate Flexibility*” released by the People’s Bank of China (PBC).

“The PBC’s statement is too little too late. The FCC agrees with U.S. Senator Charles Schumer (D-NY) and Congressman Tim Ryan (D-OH) that the U.S. Congress must pass legislation to make prolonged currency misalignment actionable under U.S. countervailing duty (CVD) and anti-dumping law as soon as possible. China’s predatory currency policy has destroyed too many U.S. jobs and discouraged too much investment in the United States for Congress to delay action any longer,” Blum continued.

A deeper analysis of the PBC’s statement shows that Congress should be skeptical of what the Chinese authorities claim to be saying.

Blum stressed, “Even if China allows the RMB to rise by 3 to 5 percent over the next few months, it would come nowhere close to eliminating the RMB’s estimated 35 to 40 percent undervaluation relative to the U.S. dollar. As long as the RMB is substantially undervalued, producers in the United States must have access to an effective U.S. trade remedy law to counter China’s unfair export subsidies. It is a jobs and investment issue pure and simple.” That is why the FCC takes issue with China’s position of “flexibility” for the RMB. Enhanced “flexibility” is not the goal of the FCC. Bringing the RMB’s value into line with market forces is. Flexibility can be a means to that end, but it is not a substitute for a properly valued RMB.

Moreover, it is disingenuous for China to assert that it has been “making steady progress, producing the anticipated results and playing a positive role” with respect to the reform of the RMB’s exchange rate regime. China undermined the revaluation and gradual appreciation of the RMB in the July 2005 to July 2008 period with other measures, including a massive expansion of credit and a host of domestic subsidies. Consequently, China’s trade surpluses with the world and with the United States grew in that period while its official reserves soared to unprecedented levels. Since July 2008, the RMB has been pegged de facto against the dollar, producing no sustained, meaningful correction in the imbalances. Thus, the “stability of the renminbi” has not contributed to global stability, as the PBC asserts; in fact, it is a source of instability and a threat to the continued economic recovery.

China cannot be expected to begin the process of reducing its cumulative current account surplus unless it affects a substantial immediate revaluation RMB combined with a further sustained period of rapid appreciation. Furthermore, this must be done in conjunction with the scaling back of other Chinese subsidies and import barriers. Even the most optimistic reading of the PBC's statement indicates that China has failed to commit to that sort of meaningful process of currency reform. The PBC itself made that clear in a subsequent statement on June 20 as reported by the *Financial Times*, "China's central bank said on Sunday there would be no significant appreciation in the renminbi against the US dollar and that the exchange rate would remain 'basically stable'."

That is why it would be wise for Congress to pass, without further delay, legislation like H.R. 2378, the Currency Reform for Fair Trade Act, and S. 3134, the Currency Exchange Rate Oversight Reform Act, which addresses the subsidy effects of currency undervaluation in a manner consistent with U.S. international rights and obligations.

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