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# FAIR CURRENCY COALITION

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## FACT OF THE WEEK

### **Still No Meaningful Rise in RMB's Value After Nearly Six Months;**

### **Time for U.S. Senate to Pass H.R. 2378, the House-Passed Currency Bill**

December 3, 2010

Shortly before the G-20 last June, the People's Republic of China's (PRC) announced that it would further reform its currency regime and enhance the flexibility of the renminbi (RMB). The People's Bank of China ("PBC") explained that this step was being taken "{i}n view of the recent economic situation and financial market developments at home and abroad, and the balance of payments (BOP) situation in China...."

Since then, the value of the RMB has barely risen in real terms relative to the dollar. On June 21, the PRC-set value of the RMB was 6.8275 to the dollar. This morning, the value was reset at 6.6605 to the dollar, a rise of less than 17 one-hundredths of one RMB -- a modest 2.3 percent. Indeed, over the past six weeks, there has been no net appreciation at all. This is another case of actions speaking louder than words.

Ironically, the suspension of RMB appreciation coincides with rising concern in China over inflationary pressures. The Chinese consumer price index is up by 4.4 percent year on year, with food prices soaring by more than 10 percent. Hot money continues to flow into China, feeding asset bubbles in sectors such as real estate. The Chinese government sees the connection between its inflation problem and its currency policy. Hu Xiaolian, deputy governor of the central bank, said in a speech last month: "In a situation when expectations of renminbi appreciation continue strengthening, international liquidity will continue to flow in, adding to upward pressure on prices of goods and assets and making liquidity management more difficult."

In a functioning market economy, a stronger currency would be a normal response to these conditions. In China's system of state capitalism, however, that is not permitted. The record makes that abundantly clear: as concerns in China about inflation rise, the rate of RMB appreciation falls to zero. The Chinese system will continue to defend their interests without regard for market forces. Thus, there is little reason to expect that the undervaluation of the RMB will resolve itself. Instead, the United States must take steps to defend its own interests.

Adding to the urgency of the situation, the Obama administration, led by U.S. Treasury Secretary Timothy Geithner, has made it clear that global imbalances must be reduced for the United States to accelerate economic growth and jumpstart the creation of the millions jobs lost in the last decade. The administration's self-proclaimed linchpin to achieving this goal has been negotiations to revalue the dollar fairly relative to the undervalued currencies of trading partners, like China, that are running excessive current account surpluses with the United States. This morning's hugely disappointing jobs data, including the **loss** of another 13,000 manufacturing jobs, underscore Geithner's concern.

Senate passage of H.R. 2378 would arm Secretary Geithner with the negotiating leverage he needs to persuade the PRC that allowing the RMB to rise in value is in its best interest. H.R. 2378's countervailing duty remedy allows the United States to combat prohibited export subsidies like illegal currency undervaluation through WTO-consistent means. Since actions speak louder than words, legislative action to demonstrate American seriousness to resolve the undervalued RMB problem would give China far more incentive to negotiate an orderly rise to the RMB in good faith. That's action that really would stimulate economic growth and job creation in the United States.

The Fair Currency Coalition is an alliance of industry, agriculture, and worker organizations whose mission is to support production in and export from the United States by seeking an end to the practice of currency misalignment by any trading partner. See the list of trade associations, labor organizations, and companies that support enactment of H.R. 2378 by visiting [www.faircurrency.org](http://www.faircurrency.org).

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