

## **Levin Opening Statement at Hearing on China's Exchange Rate Policy**

WASHINGTON - Ways and Means Committee Chairman Sander M. Levin (D-MI) issued the following opening statement at today's full Committee hearing on China's exchange rate policy:

"China's exchange rate policy is one of China's many mercantilist policies that distorts trade and investment flows and places a drag on U.S. economic growth and job creation. This Committee examined many of those policies - such as China's 'indigenous innovation' program and its trade-distorting subsidies, such as those in the renewable energy sector -- at a recent hearing in June.

"These policies, combined, undoubtedly contribute to our staggering trade deficit with China, which, prior to the global financial crisis, had reached \$268 billion in 2008 - 33 percent of our total merchandise trade deficit. Remarkably, that 33 percent share grew to 45 percent in 2009.

"Recent reports suggest that the Government of China may be mounting an even more aggressive campaign to capture key industries of the future, such as green technologies, and all the jobs that go along with them. All of this, of course, is an outgrowth of a model of what the Chinese call 'state capitalism' - which is really more about "state" control than it is about anything we would recognize as 'capitalism.' For example, according to a recent report, a group of 16 big state-owned companies have formed an alliance to do research and development, and create product standards, for electric and hybrid vehicles.

"The headline of a recent and detailed New York Times article says it all: *On Clean Energy, China Skirts Rules*. That article noted that, in one particular case, a municipal government transferred to one solar panel company 22 acres of valuable urban land at a 'bargain-basement price.' On top of that, a state-owned bank is preparing to lend to the company at a low interest rate, while the provincial government is sweetening the deal further by reimbursing the company for most of the interest payments.

"Some of these issues are covered in the recent 'section 301' petition that addresses a broad array of China's mercantilist policies relating to these 'green' technologies. I urge the Administration to take expeditious and comprehensive action on the basis of the practices identified in the petition.

"This hearing, and our hearing tomorrow with Secretary Geithner, confronts the need to address directly China's exchange rate policy and its effect on American businesses and workers - that means jobs - and various options for doing so.

"As mentioned earlier, there are many issues we face with China. China's exchange rate policy is one of the most commercially significant. Some economists have estimated that addressing this single issue alone could add half a percentage point to U.S. GDP, could

generate about one million U.S. jobs, and could reduce the U.S. trade deficit by \$100 billion to \$150 billion.

"It is also important to add a word about our trade deficits today. Recent data indicates that an increase in the U.S. trade deficit in the second quarter of 2010 deducted 3.4 percentage points from GDP growth - the largest subtraction since 1947. And a former ITC economist recently estimated that the U.S. trade deficit with China will reduce U.S. GDP in 2010 by more than \$400 billion, or nearly three percent. Over the past decade, the United States has experienced its largest trade deficits in our history - but those deficits in former years received little attention or action.

"And the issue is not peculiar to the United States: China over the past several years has experienced unprecedented global trade surpluses, surpluses that are likely to persist - and even to grow - in the future in the absence of corrective action.

"There are several options to address this important issue.

"One option would be to redouble our efforts to address the issue through multilateral dialogue and negotiations.

"I believe a multilateral approach would be the most likely to yield the broadest results. Many nations are harmed by mercantilist exchange rate policies, not only the United States, and it is important to hear the voice of those other nations.

*"And China is not the only country with a predatory exchange rate policy. In fact, according to press reports this morning, Japan today intervened in the currency markets for the first time since 2004. (This comes at the same time that the Government of Japan has become increasingly critical of China's exchange rate policy - questioning China's intentions in purchasing Japanese Government Bonds.) The Associated Press reports that, 'after the Bank of Japan sold yen on Wednesday morning, the dollar jumped above 85 yen from its earlier low of 82.87 yen.' The report also notes that 'Toyota estimates that every 1-yen climb versus the dollar saps 30 billion yen (\$351 million) from Toyota's earnings' because a strong yen makes Japanese automakers less competitive against U.S. and other automakers. This is a deeply disturbing development, and we will follow it closely.*

"The problem is the lack of significant, concrete results from multilateral dialogue and negotiations. The IMF has repeatedly failed to enforce rules against currency manipulation - rules that are central to its very mandate. And, while some progress has been made to place 'global imbalances' on the agenda of the G-20 - thanks largely to this Administration - today there does not appear to be anything remotely approaching an international agreement to end predatory exchange rate policies.

"While international pressure in advance of the most recent G-20 meeting apparently caused China to announce that it would allow greater flexibility, the RMB has appreciated by only about one percent in the past three months.

**"A second option, 'multilateral' in nature, is to file a WTO case. Many of us in Congress believe that China's exchange rate policy violates China's WTO commitments. Many of us filed petitions in 2004, 2005, and 2007, calling for the filing of a WTO case. The last Administration rejected all three petitions almost immediately after they were filed. Congress cannot file such a case on behalf of our country.**

**"A third option is legislation clarifying that U.S. trade remedy laws can be applied to address undervalued currencies. And, in my view, just as I believe China's policy can be successfully challenged as a prohibited export subsidy under WTO rules, I believe the application of 'countervailing duties' would be a WTO-consistent response.**

**"In any event, and I emphasize this, the status quo with currency imbalances is unacceptable and unsustainable.**

**"Today we will hear testimony about specific administrative and legislative actions. In the best traditions of this Committee, we will be able to listen to the testimony and evaluate the strengths and weaknesses in the testimony and proposals of each of the witnesses, today and tomorrow.**

**"With this nation, its businesses and workers facing an historic recession, it is our obligation on this Committee to search vigorously and constructively for answers on all of the significant issues impacting our economic well-being. I hope we can meet this challenge in these hearings, no matter how difficult.**

**"Fortunately, we have with us today a number of witnesses that can help shed light on these issues, and will hear tomorrow from Secretary Geithner. I look forward to the testimony."**