



CHINA'S UNDERVALUED CURRENCY: **KNOW THE FACTS**

FACT: There is no serious debate about whether China's currency is undervalued against the U.S. dollar. There is a general consensus among economists that the Chinese yuan is undervalued by as much as 40% against U.S. dollar.

FACT: China's currency remains substantially undervalued. The reforms adopted by China in July 2005 have resulted in only an approximately 3% increase in the yuan value vis-à-vis the U.S. dollar. China still keeps the yuan value from rising to levels that reflect a market-based value.

FACT: China's undervalued yuan has serious implications for the global economy. Recognizing this global impact, leaders in the major world economies as well as the International Monetary Fund and the Asian Development Bank have all urged China to infuse greater flexibility in its exchange-rate system.

FACT: China's undervalued yuan has a demonstrable trade effect on U.S. manufactured goods. The low value of the yuan makes Chinese exports cheaper in the U.S. and U.S. exports more expensive in China than they otherwise would be absent the distorted yuan-dollar relationship. For the U.S. plastics industry, this trade effect is real.

- The plastics industry has an industry-wide \$5.1 billion deficit with China, driven by the large and growing deficit in plastics product trade, which peaked to \$6.4 billion in 2005. When trade in "contained goods" is accounted for, the deficit in plastics product trade rises to more than \$24 billion.

FACT: A broad cross-section of U.S. manufacturers have cited overwhelming evidence of job losses, plant closures, bankruptcies, and weakened financial performance due to price constraints influenced by the large influx of low-priced Chinese imports into their markets.

- Plastics processors have been particularly hard hit. Rising costs coupled with intense price pressure have placed many in a difficult cost-price squeeze. The loss of 200,000 jobs in industry during the past five years is evidence of these financial difficulties.

FACT: Existing U.S. trade laws do not provide an effective remedy for the adverse impact of China's undervalued currency on U.S. manufacturers. Claims that the U.S. antidumping law addresses the price impact of China's undervalued currency are inaccurate. The antidumping statute does not measure the degree to which Chinese products are under-priced in the U.S. market due to the distorted yuan-dollar relationship.

FACT: The Bush Administration, U.S. lawmakers, and even the Chinese government agree that China's existing exchange-rate system is not sustainable and systemic reforms are needed to fix the problem. The Treasury Department recently stressed that "{t}he delay in introducing additional exchange rate flexibility is unjustified given the strength of the Chinese economy and the progress in China's transition. China needs to move quickly to introduce exchange rate flexibility at a far faster pace than it has done to date."