Congressman Tim Ryan (D-OH)

Hearing on "Evaluating China's Past and Future Role in the World Trade Organization"

Wednesday, June 9, 2010

China has made some progress in meeting its WTO obligations, but it is clear that in some areas China has yet to fully implement important commitments. These problems frequently can be traced to China's pursuit of industrial policies that rely on government intervention and are intended to promote or protect China's domestic industries. This intervention most likely reflects China's transition from a centrally planned economy to a free-market economy governed by rule of law. Several years ago, progress toward further market liberalization began to slow and it became clear that some parts of the Chinese government did not yet fully embrace key WTO principles. Differences in views and approaches between China's central government and China's provincial and local governments have frustrated economic reform efforts, while China's difficulties in fully implementing the rule of law has exacerbated this situation.

China also continues to lack transparency in its international trade practices, a key WTO requirement. WTO members remained concerned over certain aspects of China's export regime, notably restrictions, licensing, quotas, export taxes and partial VAT rebates. China claims it has opened up its internal market to foreign trade, but this claim is questionable. US companies have noted that China is more restrictive in its use of export quotas and export duties on a large number of raw material inputs.

A key indicator of China's lack of openness is its undervalued currency, the yuan. Many economists consider that the yuan is undervalued by as much as 40 percent, which allows the Chinese to sell their products at reduced prices on world markets. Maintaining its currency at a devalued exchange rate provides a subsidy to Chinese companies and unfairly disadvantages foreign competitors, which translates into a tariff for US manufacturers. The yuan devaluation exacerbates the US-China trade deficit, since US exports cannot compete with low-priced Chinese equivalents. Statistics show that between January 2000 and May 2009, China's share of the US trade deficit for non-oil goods grew from 26 percent to 83 percent, an untenable pattern for US manufacturers.

In May of last year, Congressman Tim Murphy and I introduced HR 2378: the **Currency Reform for Fair Trade Act**. The bill gives our nation the tools to combat the unfair protectionism of currency misalignment and refines and streamlines earlier proposals made in the 109th and 110th Congresses to establish an effective trade law remedy to neutralize currency misalignment. Great care has been taken to make the provisions of this currency bill consistent with the rights and obligations of the United States in accordance with the WTO's relevant agreements and provisions. Our bill has received bipartisan support and currently has 119 co-sponsors. The bill intends to:

- Direct the U.S. Department of Commerce to measure whether a country's currency is fundamentally misaligned.
- Direct the U.S. Department of Commerce, consistent with WTO rules, to treat currency undervaluation as a prohibited export-contingent subsidy.
- Clarify that any foreign government's undervaluation of its currency can be offset by means of either countervailing duties or antidumping duties. Consistent with WTO rules, these remedies are imposed only when the U.S. International Trade Commission determines that the unfair practice has caused or threatens to cause material injury to U.S. companies and workers.