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April 8, 2010

Is China Trading Fair? CAF V. CATO On CNBC

-- by Dave Johnson

This post originally appeared at Campaign for America's Future (CAF) at their Blog for OurFuture as part of the Making It In America project. I am a Fellow with CAF.



I appeared on CNBC's Power Lunch today to discuss the trade imbalance with China. I was taking the position that we should be pushing for China to bring its currency into balance, and start following the trade rules, so that we can have a balanced and mutually beneficial relationship. Dan Ikenson, associate director of the Cato Institute's Center for Trade Policy Studies was on the show to argue the opposing view.

I was only on for about a minute, but here are the notes I had prepared:

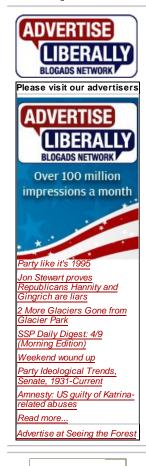
The trade imbalance with China is huge. This imbalance is the result of rulebreaking that has created a bubble that is expanding beyond all safe margins. If we let it get worse it could lead to another worldwide economic

ABOUT

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A study by the Alliance for American Manufacturing and the Economic Policy Institute found that 2.4 million (oops I said 2.8 on the show) American manufacturing jobs were lost between 2001 and 2008 due to

unfair trade with China. The biggest share of those job losses was in technology by the way.

The solution – the way to bring the trade relationship back into balance – is actual free trade. That is trade that follows and enforces the rules and is not manipulated and is not exploitative. Actual free and fair trade lets companies and countries compete in a free, unmanipulated market that is on a level playing field with clear rules that benefit everyone.

But right now China is manipulating its currency to bring themselves a pricing advantage, some say by as much as 40%. This is NOT a level playing field, is NOT free trade, and is not following the rules of a FREE market! If they adjust their currtency by 5% over the next year, as rumored, they will start up and end up about 40% undervalued.

Some say we should be afraid to confront China. But China needs our market and they should be worried about taking this too far and the American public demanding action. And if China dumps their dollar holdings they would do it by selling dollars instead of buying them. Since buying dollars is how they have been forcing their currency down, selling them accomplishes the rebalancing we need. The dollar would drop against theirs, and our goods would be competitive. This is what we want to happen, not something to be afraid of.

Free Trade economists are also complaining about this manipulation. Here is Fred Bergsten, director of the Peterson Institute for International

"They clearly are manipulating. They're keeping their currency undervalued, somewhere between 25 to 40 percent. That has huge effects on the world economy, huge adverse effects on lots of other countries."

Paul Krugman says it's knocking 1.5% off our GDP, and "This is the most distortionary exchange rate policy any major nation has ever followed."

We want a level playing field, not manipulation of the rules. True free trade works for everyone and lifts everyone.

The main unfair and manipulated tactics China uses to its advantage are:

- 1) Currency manipulation. China "pegs" its currency at a very low, or "weak" rate, so goods from China cost up to 40% less than they otherwise should.
- 2) Labor-rights suppression has lowered manufacturing wages of Chinese workers by 47% to 86%.
- 3) There is massive direct government subsidization of export production in many key industries.
- 4) China allows environmental degradation that ends up affecting all of us.
- 5) Intellectual property theft and piracy mean that American products that could be sold are stolen instead.
- 6) China has a number of policies that block U.S. firms from market access.

The mission of Campaign for America's Future is to build an economy that works for everyone. An unbalanced trade relationship creates an unsustainable global economy that works for the few.

Here is the segment. Let's see how those notes translate into a live segment:

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So, I guess I told them a thing or two!

Well, at least they used a low-def camera for me. Things are generally better for everyone when they do that.

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Posted by Dave Johnson at April 8, 2010 1:19 PM



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