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April 7, 2010

VIA E-MAIL & FACSIMILE

The Honorable Sander Levin
Chairman, Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Re: Public comments for The American Iron and Steel Institute on the full Committee hearing March 24, 2010, on the exchange rate policy of the Government of the People's Republic of China, and its impact on the U.S. and global economies.

Dear Mr. Chairman,

These comments are filed by The American Iron and Steel Institute (AISI) on behalf of its U.S. member companies, pursuant to the March 15, 2010 advisory requesting written statement for consideration by the three Subcommittees and for inclusion in the printed record of the hearing. AISI's U.S. member companies account for over 75 percent of the raw steel produced annually in the United States.

I. China's Undervalued Exchange Rate: The Single Largest Subsidy to Chinese Manufacturers and the Key to China's Export-Led Growth Strategy

Over the past 16 years, China's currency (the "RMB") has been pegged to the U.S. dollar, severely undervalued and a key element in the Chinese government's successive 5-year plans to transform China into "the world's factory." This fundamental exchange rate misalignment -- maintained through strict currency controls and massive government intervention -- has been central to a Chinese economy that has been geared to, and remains overly dependent on, export-led growth.

It has not been China's only subsidy or protectionist measure in its "strategic" industrial policies to promote economic development and preserve social stability. However, with the RMB undervalued by as much as 50 percent according to some economists, it is the single largest government subsidy to manufacturers in China, and it was a major cause of the global structural imbalances that contributed significantly to the world financial meltdown and to the Great Recession of 2008-2009.

From behind a "currency wall of protection," China has promoted its own jobs, investment, production, R&D and exports at the expense of the manufacturers in the U.S. and elsewhere. This mercantilist currency policy has carried with it certain costs for the Chinese economy (e.g., asset bubbles and inflation) and for Chinese manufacturing industries (e.g., higher costs for dollar-

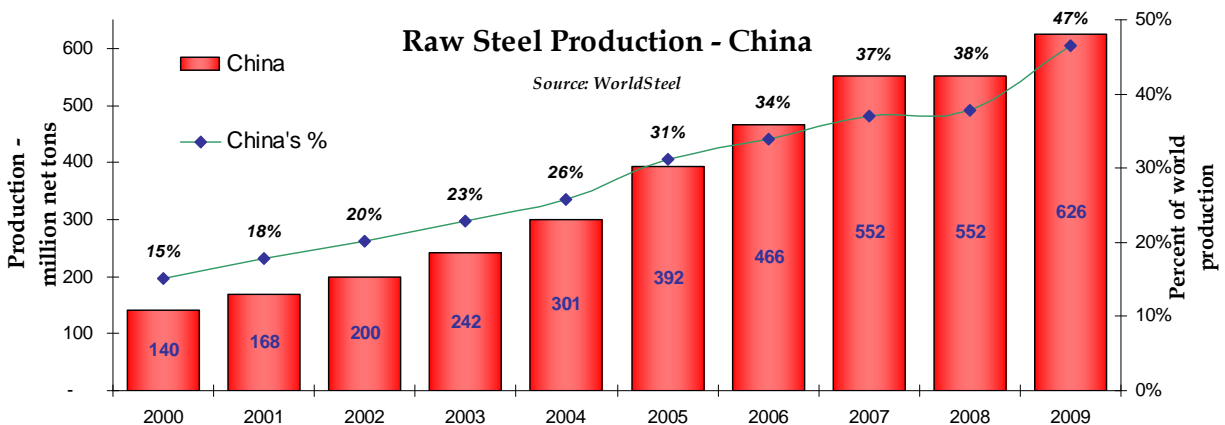
denominated raw material imports). However, its main effect has been to help build up China's "strategic" industrial sectors – including steel and steel-related industries – into global powerhouses capable of dominating world markets irrespective of genuine cost-competitiveness.

II. China's Currency Mercantilism: The Case of Steel

Steel provides a "window" on the "China Inc." economic development model.

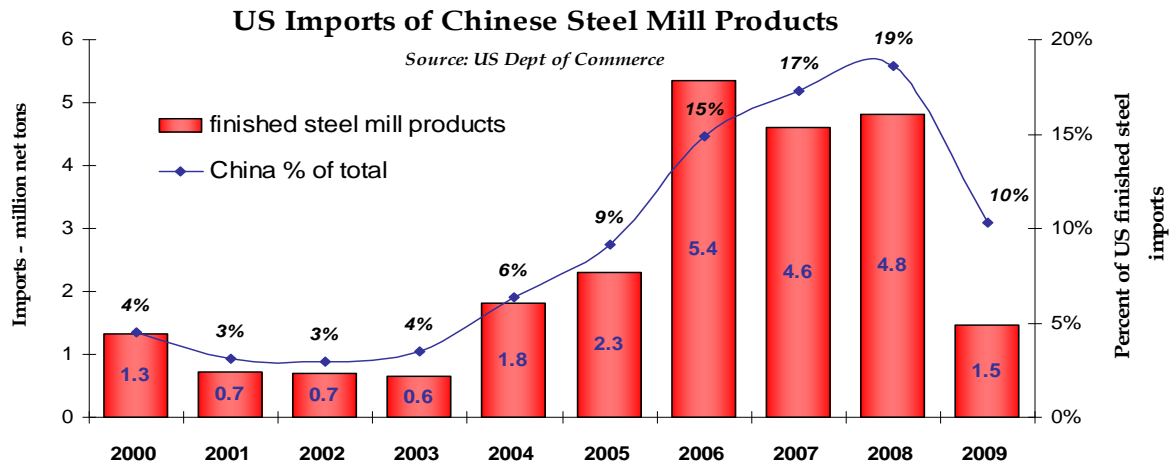
- As many outside analysts have correctly noted, China's steel industry is not low-cost. It faces numerous internal structural challenges, such as industry fragmentation and water and energy shortages; and it must import enormous amounts of iron ore at very high world prices.
- Yet, because of import barriers, raw material export restrictions, border tax manipulations, intellectual property rights violations, dumping, Customs fraud and massive subsidies -- including currency manipulation to keep the RMB severely undervalued -- China has been able to build the world's largest steel industry by far.

From 2000 to 2009, China went from having 15 percent to 47 percent of world steel production. Even more spectacularly, by 2012 -- China's steel capacity, in spite of its high cost status, is projected to grow to an astounding 840 million metric tons or roughly seven times that of the United States.



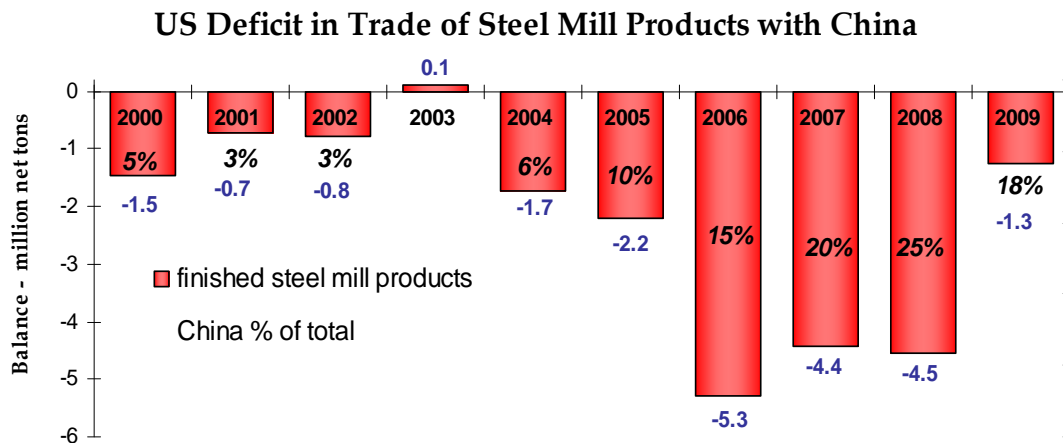
Not surprisingly, as the government of China was building and directing the world's largest steel industry (which remains over 90 percent government-owned), there was an inevitable and unprecedented surge of unfairly traded steel exports to the U.S. and other world markets.

- Thanks to pervasive dumping and tens of billions of dollars in local, provincial and central government subsidies (including the huge currency subsidy), China went from being 3 percent to 19 percent of total U.S. finished steel imports (between 2002 and 2008).
- In the process, as steel imports from China rose from only 600,000 tons a year (in 2003) to nearly 5 million tons a year (by 2008), America's steel companies, employees and communities all suffered significant and long-lasting injury.



Source: U.S. Department of Commerce

Meanwhile, the U.S. steel trade balance with China went from being a slight surplus for the United States (in 2003) to China accounting for 25 percent of the total U.S. trade deficit in finished steel mill products (by 2008). The recent decline in China's direct steel exports to the United States is the result of two main factors: (1) U.S. trade law enforcement vs. dumped and subsidized imports from China; and (2) the global economic crisis (which produced a Great Recession in the U.S. and a massive domestic infrastructure-focused stimulus program in China). However, the effects of the crisis are temporary and, as conditions unwind, and unless trade laws are strengthened and strictly enforced, we can expect China to return to a practice of exporting huge quantities of steel – and unemployment.

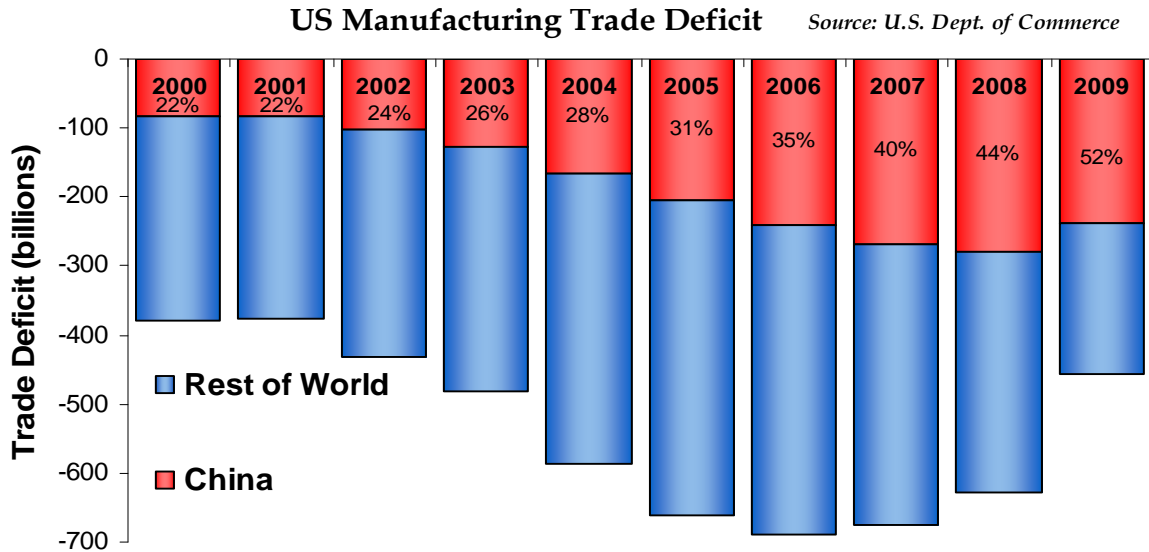


Source: U.S. Department of Commerce

III. China's Currency Mercantilism: The Case of Steel-Intensive Industries

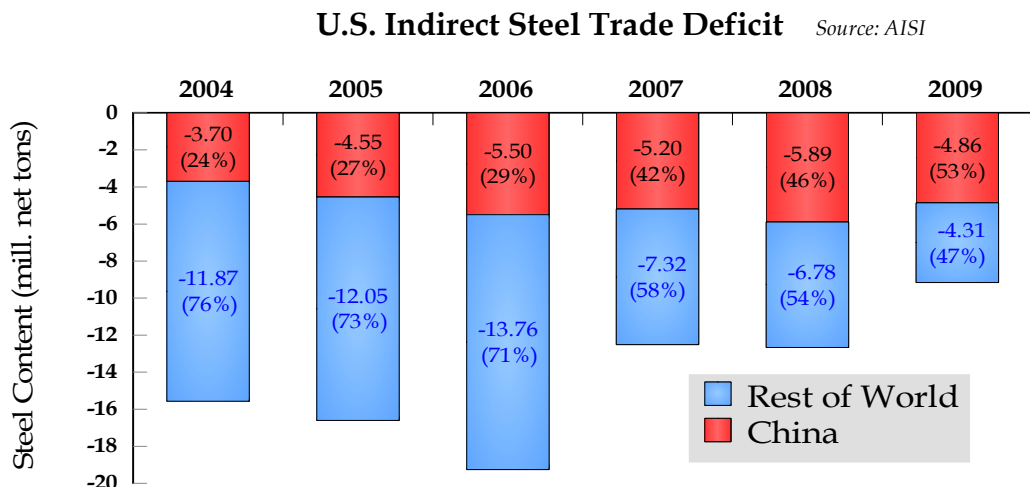
The subsidy and trade protection effects of China's currency undervaluation are a problem not only for steel but for our domestic customers and the entire U.S. manufacturing base. According to a recent study by the Economic Policy Institute (EPI), in the years between 2001 and 2008,

when the U.S. experienced nearly \$1.5 trillion in cumulative manufacturing trade deficits with China, the U.S. lost 2.4 million manufacturing jobs due to China trade, including 150,000 jobs in the metals industry. Between 2000 and 2009, China went from being 22 percent to 52 percent of the total U.S. manufacturing trade deficit. For a single country to account for 52 percent of America’s manufacturing trade deficit is unsustainable both politically and economically.

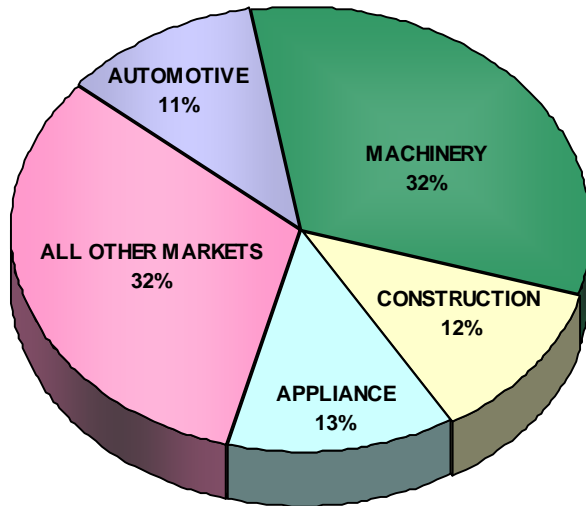


Since roughly 75 percent of manufactured products contain some steel, we see much the same trends in U.S. “indirect” steel trade, which is basically our manufacturing trade balance expressed in tons of steel.

Aided by currency undervaluation and other unfair trade practices, the U.S. indirect steel trade deficit with China grew from 3.7 to 5.9 million tons between 2004 and 2008, during which time China went from being 24 percent to 46 percent of the total U.S. indirect steel trade deficit. Indeed, even in the Great Recession year of 2009, as America’s total indirect steel trade deficit with the world declined significantly, China’s share of this deficit increased again -- to 53 percent.



China currently is shipping approximately six million tons of steel a year to the United States in the form of steel-intensive manufactured goods such as automotive, machinery, construction and appliance products.



Indirect Steel Imports from China by End-Use Market

In 2009, imports of manufactured goods from China contained about 6 million tons of steel

Assisted by numerous types of industrial subsidies, as well as by the huge subsidy of currency undervaluation, these indirect Chinese steel exports to the U.S. are currently running at a rate that is roughly triple that of China's direct steel exports to the United States.

IV. The U.S. National Interest in the Post-Crisis Period: A Significant Rebalancing of World Trade Flows and Real Solutions to Address China's Currency Mercantilism

Global structural imbalances (with excessive savings, investment and exports by China, and excessive consumption/imports and inadequate savings/investment by the U.S.) were a major cause of the global financial meltdown and the worst recession since the Great Depression. There is now a stated desire on the part of both countries for "rebalancing," i.e., more domestic consumption-led growth in China and more export-led growth by the United States.

AISI strongly supports such global rebalancing (which will take time) and, for the U.S., we also endorse the President's National Export Initiative (NIE) with its goal of doubling U.S. exports over the next five years. The economic reality we are facing, however, is that approximately 70 percent of U.S. exports are manufactured goods and, in China -- the country with which we have the largest bilateral trade deficit by far -- mercantilist and market-distorting practices continue to proliferate.

At the same time, China has just turned the challenge of a global economic crisis into an opportunity to further enhance its world economic and manufacturing clout. In the crisis year of 2009, China both (1) poured hundreds of billions of dollars into upgrading its domestic infrastructure and (2) increased its foreign reserve holdings by more than \$450 billion (to over \$2.4 trillion and counting).

Accordingly, we have stressed to U.S. policy makers that, if we are really serious about the goal of doubling U.S. exports over the next five years, the U.S. government will need to:

- Address Chinese currency manipulation;
- Enforce trade agreements;
- Negotiate better trade agreements;
- Enforce trade laws;
- Obtain greater market access in China and other big emerging markets; and
- Promote a pro-manufacturing agenda for the United States, with no unilateral U.S. regulation of manufacturers' greenhouse gasses.

On the issue of Chinese government currency manipulation in particular, we have said that, unless this problem is effectively addressed, our goal of doubling exports over the next five years will never be achieved. In our recommendations to U.S. policy makers, we have stressed that, *“By undervaluing its currency, China effectively provides an export subsidy to its manufactured goods, giving Chinese producers an unfair advantage in their home market and in third country markets. The U.S. government must press China to end this trade-distorting practice.”*

AISI supports a two-pronged approach to China trade of both dialogue and enforcement but, on the issue of Chinese government currency manipulation, it should be clear to everyone by now that the time for dialogue is over and the time for trade enforcement is here.

It is likely correct to conclude that the government of China will act on the currency issue only when it feels that it is in its own economic and political interest to do so. However -- regardless of whether, how and when China acts on this issue -- the U.S. government has a responsibility to act in our national economic interest, which is to defend against China's currency mercantilism, so that we can make more things in America, promote more manufacturing in the United States and reverse the manufacturing jobs loss in our country.

We must never forget that, just as Chinese government currency manipulation and other unfair Chinese trade practices have cost millions of good jobs in traditional U.S. manufacturing industries, so too will these policies – if left unaddressed – cost millions of good, future “green collar” U.S. manufacturing jobs.

In January 2009, at the height of the economic crisis, Treasury Department Secretary Timothy Geithner told the Congress in writing that, *“President Obama – backed by the conclusions of a broad range of economists – believes that China is manipulating its currency ... [and that the President has pledged] to use aggressively all the diplomatic avenues open to him to seek change in China's currency practices.”* The time for aggressive action is long past due.

The evidence is overwhelming that the government of China has been manipulating its currency and, in recent weeks, Members of Congress have been ramping up the pressure for action on the China currency front. As the Congress is now recognizing: the problem of Chinese government currency manipulation is a “core” structural problem in the world trading system and it poses a continuing threat to U.S. jobs and to the still very fragile U.S. economic recovery.

At the same time, there is increasing recognition internationally that the government of China's currency manipulation is not just a problem for the U.S. alone. China's ongoing manipulation of

its currency is harming manufacturing competitors from North America to South America and from Europe to Africa. In recent weeks, the international pressure has been building, and the call for significant change in China's currency practices has been echoed by the Heads of both the International Monetary Fund (IMF) and the World Bank.

In consideration of all of these factors, the AISI urges the following course of action:

- The Treasury Department, in its next report, should at long last cite the government of China as a "currency manipulator";
- The U.S. government should make currency manipulation of the type practices by China actionable under U.S. trade remedy laws, and the Commerce Department should apply countervailing duty (CVD) law to currency subsidies;
- The Congress should pass urgently, and the Administration should sign promptly into law, H.R. 2378, the bipartisan "Currency Reform for Fair Trade Act";
- The Administration should use every other available tool, including coordinated and aggressive diplomatic pressure, to persuade the government of China to correct the fundamental misalignment of the RMB; and, if necessary,
- The Administration should pursue legal action in the WTO to protect U.S. rights.

V. Conclusions

The government of China is manipulating its currency, and has been doing so for many years. This currency manipulation has been devastating not just to the American steel industry, but to the entire U.S. manufacturing base. While the government of China continues to do what it believes is in its national interest, the U.S. government has an urgent responsibility to defend U.S. national economic interests in this matter.

To correct global structural imbalances, promote U.S. jobs and exports, foster a robust and sustainable recovery and defend and rebuild our manufacturing base, it is absolutely essential to address the problem of Chinese government currency manipulation. To deal effectively with this problem will take more than dialogue. The time for aggressive U.S. government action is long past due. It is time to cite China as a currency manipulator, enact an effective trade law remedy (H.R. 2378), increase international diplomatic pressure and pursue WTO action if necessary.

The recent announcement by Treasury Secretary Geithner that the United States will delay its semi-annual report on currency to allow multilateral diplomacy, over the next three months, more time to work with the government of China should lead the Congress to expedite its enactment of an effective U.S. trade law remedy provision to address fundamental currency misalignment. The historical record of relying on dialogue and diplomacy alone to address the problem of Chinese government currency manipulation gives no cause for optimism. We need U.S. trade remedy tools now to defend ourselves against currency manipulation and the domestic job losses it causes.

The AISI, on behalf of its U.S. member companies, appreciates this opportunity to provide written comments to the Ways and Means Committee on the exchange rate policy of the Chinese government and on the impact this policy has had on the U.S. and global economies.