CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

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PRESS RELEASE

For Immediate Attention *May 25, 2005*

New JEC Study Examines Global Imbalances Caused by the Chinese Currency Peg to the Dollar

WASHINGTON, D.C. - China should take steps to revalue its currency, according to a new Joint Economic Committee (JEC) study released today by Chairman Jim Saxton, and fellow JEC members Congressman Phil English and Congressman Thaddeus McCotter. The new JEC study, *PRC's Pegged Exchange Rate Contributes to Global Imbalances*, examines the operation of the Chinese currency peg, its economic effects, and its relationship to economic distortions in China as well as other countries.

"This study shows how the Chinese currency peg operates as a key element of Chinese economic development strategy," Saxton said. "However, this strategy has led to serious imbalances in the international economy. The undervaluation of the yuan not only lowers real wages in China, but also contorts trade and investment flows. The study demonstrates that the Chinese should move to revalue the yuan," Saxton concluded.

"This report again confirms that the massive interventions undertaken by China to maintain the yuan's peg to the dollar, and subsequently by all other major Asian currencies as a result of China's intervention, cause great distortions to the economies of China, the United States and the rest of the world," said U.S. Rep. Phil English (R-PA), a member of the JEC. "China must take immediate steps to allow the value of the yuan to be determined by market forces."

Congressman McCotter (R-MI) of the JEC stated, "Communist China is strategically manipulating its currency to exacerbate our trade deficit and singularly eroding our manufacturing base. This must immediately end."

According to the new JEC study, the undervalued peg is a key part of the PRC's export- led economic development strategy. Among the findings of the new study:

- The peg is maintained by massive intervention by the Chinese central bank. Essentially, Chinese firms must surrender dollars earned from exports to the Chinese central bank in return for yuan at an artificially low exchange rate.
- Other Asian countries, in order to maintain their competitiveness vis-a-vis China, also intervene to absorb dollars to prevent their domestic currency from rising in the foreign exchange market.

- The undervalued Chinese policy distorts price signals, and thus is contributing to international imbalances in investment and trade flows.
- The Chinese should significantly increase the value of the yuan now.
- China must solve its severe bad debt problems in China's banks. Ultimately, China should float its currency and allow the free movement of capital across its borders.

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