Appendix 3.1 pg.39

States Affected by trade imbalance

Net job loss due to growing trade deficits with China ranked by total jobs lost, 2001-06 State Net jobs lost

<table>
<thead>
<tr>
<th>State</th>
<th>Jobs Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>269,300</td>
</tr>
<tr>
<td>New York</td>
<td>105,900</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>78,200</td>
</tr>
<tr>
<td>Florida</td>
<td>71,900</td>
</tr>
<tr>
<td>Georgia</td>
<td>60,400</td>
</tr>
<tr>
<td>Michigan</td>
<td>54,900</td>
</tr>
<tr>
<td>Indiana</td>
<td>45,200</td>
</tr>
<tr>
<td>Tennessee</td>
<td>38,000</td>
</tr>
<tr>
<td>Virginia</td>
<td>37,800</td>
</tr>
<tr>
<td>Colorado</td>
<td>30,700</td>
</tr>
<tr>
<td>Alabama</td>
<td>27,900</td>
</tr>
<tr>
<td>Washington</td>
<td>27,000</td>
</tr>
<tr>
<td>Maryland</td>
<td>22,900</td>
</tr>
<tr>
<td>Connecticut</td>
<td>19,000</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>16,200</td>
</tr>
<tr>
<td>Mississippi</td>
<td>14,300</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>13,000</td>
</tr>
<tr>
<td>Kansas</td>
<td>10,600</td>
</tr>
<tr>
<td>Idaho</td>
<td>8,500</td>
</tr>
<tr>
<td>West Virginia</td>
<td>8,400</td>
</tr>
<tr>
<td>Nebraska</td>
<td>6,200</td>
</tr>
<tr>
<td>Vermont</td>
<td>4,900</td>
</tr>
<tr>
<td>Delaware</td>
<td>3,400</td>
</tr>
<tr>
<td>Montana</td>
<td>2,500</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>2,100</td>
</tr>
<tr>
<td>Wyoming</td>
<td>1,700</td>
</tr>
</tbody>
</table>

**National total** 1,763,000

* Totals do not add due to rounding error.

**Source:** EPI analysis of Census Bureau and BLS data.
A Baffling Trade Imbalance

By Barbara Rudolph

When the value of the dollar began falling early last year, American manufacturers were confident that their competitive powers would be rejuvenated. As the currency weakened, they reasoned, U.S. exports would become cheaper, while foreign imports would grow more expensive for American consumers. The trade deficit would begin its long-awaited decline. Economists cautioned that it would take time—twelve months, a year and a half at the most. But it would happen. This was no idle daydream, after all, but a proven tenet of modern economic policy.

Things have not turned out that way. Since March 1985 the dollar has fallen in value by about 30% against an average of major currencies, and yet the trade gap—economic theory be damned—keeps right on growing. Last week the Government reported that the trade deficit hit a record six-month level of $83.9 billion. June's trade imbalance was almost identical to the one posted in May. If the deficit keeps expanding at the current pace, it will total $168 billion by year's end, a 13% increase over 1985's record level. Plainly, the widely expected turnaround in the balance of trade is now overdue. Says Walter Heller, chief economic adviser to Presidents Kennedy and Johnson and one of many economists who had predicted that the trade deficit would surely be shrinking by now: "This is a staggering surprise. We have to admit we were off base on timing."

If the trade deficit does not soon diminish, some economists fear, its effects could help push the U.S. into a recession. In testimony before the House Banking Committee, Federal Reserve Chairman Paul Volcker said that the trade deficit had placed the economy in "difficult and dangerous" circumstances. It has undoubtedly caused much of the recent slowdown in growth: the economy expanded at a 1.1% annual rate between April and June, down from a 3.8% rate the previous quarter. The Commerce Department reported last week that the index of leading economic indicators, a barometer of future growth, increased by a modest 1.3% in June. The unemployment picture, though, improved somewhat. The number of jobless Americans fell from 7.1% to 6.9% of the population.

The seemingly intractable trade deficit is reviving pleas for protectionism. This week the House of Representatives will reconsider legislation to assist the ailing textile industry by drastically reducing imports. President Reagan has vetoed this bill, but the House will now vote on a proposal to override that veto. Supporting textile protection has become a cause celebre for critics of Reagan's free-trade policies. Said
House Speaker Tip O'Neill at a Washington rally for textile workers: "It is time, Mr. President . . . to take off your STAY THE COURSE button and start wearing a MADE IN THE U.S.A. button."

The President last week reaffirmed his opposition to the bill. Said he: "This protectionist legislation would impose tremendous costs on consumers . . . and U.S. business. It must not become law." He met with 35 Congressmen to ask for support to sustain his veto. One danger of such a bill is that American import restrictions would provoke its trading partners to take similar actions, hurting U.S. exports. The Administration is not ignoring the industry, however. Last week the U.S. Government agreed to renew for five years an important international pact that governs trade in textiles. The so-called Multi-Fiber Agreement expands import controls to popular fibers such as linen and silk blends. The pact, said a White House statement, stands "in sharp contrast to the sledgehammer approach" of the congressional bill.

Many American businessmen argue that the U.S. trade gap could be narrowed if foreign countries were to dismantle barriers to trade, such as quotas and stringent customs regulations, which effectively block sales of American products. The Administration has tried, not too successfully, to combat these practices through trade negotiations. But last week the U.S. could claim that real progress had been made. After a year of often heated talks about the semiconductor trade, Japan finally agreed to boost prices of the computer chips it sells in the U.S. The Commerce Department had charged that Japan was "dumping" chips at money-losing prices to gain market share. Japan also promised to open its semiconductor market to U.S. companies, although no precise sales goals were set. Said President Reagan: "This agreement represents an important step toward freer and more equitable world trade."

The Administration, though, is prepared to offer some extra protection to the beleaguered American farmer. Last week President Reagan authorized the sale of Government-subsidized wheat to the Soviet Union. The Soviets have been buying little of the costly American grain, but the federal subsidies will bring the price down. Senate Majority Leader Robert Dole of Kansas, along with several Midwestern Republican Senators who are up for re-election this year, had lobbied the President to take the action.

No one expected that the trade deficit would vanish the moment the dollar began its descent. To begin with, the greenback fell only modestly at first, down about 9% between February and July of last year. During the next eight months, however, it fell a more dramatic 19%. Indeed, it is still falling. Last week the dollar bought only 153.6 yen at one point, the greenback's lowest level since the late 1940s. The dollar has fallen some 39% against the yen since early 1985.

But, economists point out, the dollar is in some ways stronger than it appears. While it has fallen against major currencies, when it is valued against a broader measure of 25 currencies, it has hardly dropped at all. It has decreased less than 4% against the Taiwan yuan since March 1985 and actually risen nearly 4% against the South Korean won.

The unexpectedly high level of imports is another reason that the trade deficit has not yet shrunk. A sharp fall in the dollar normally sparks a comparable increase in the price of foreign goods sold in the U.S. Foreign manufacturers usually raise their prices because the money they pocket from American consumers is worth less when converted into their own currencies. So far, though, imports have remained a relative bargain for American consumers and businesses. The average price of Japanese automobiles, for example, has climbed
no more than 14% since last September, less than half the appreciation of the yen. The Japanese manufacturer Komatsu has raised the prices of its construction equipment in the U.S. by just 18% since last October. Japanese manufacturers are pocketing lower profits to avoid huge price hikes. Says Nissan's Yukihito Eguchi: "We have to maintain our competitive edge on exports to the U.S. from such countries as Yugoslavia and South Korea. It's as simple as that."

Finally, the deficit continues to swell because the economies of Japan and Western Europe are not expanding rapidly enough to absorb as many U.S. exports as American manufacturers would like to sell. For the first quarter of this year, Japan's gross national product fell .5%, while GNP in West Germany was off 1.5% from the previous three months.

The U.S. has been running trade deficits for all but two of the past 14 years, but the levels rose dramatically just after the dollar temporarily surged in value beginning in 1980. The trade gap widened by 311% between 1980 and 1985. Exports fell by 3%, but imports increased by 41% as American demand was fanned by the huge federal budget deficit.

For the past ten years, the U.S. has been running its steepest trade deficit with Japan (1985 total: $49.7 billion). In June, for the first time ever, Western Europe had a higher surplus with the U.S. than Japan did: $3.8 billion vs. $3.7 billion. But that was only because June's U.S. exports to Japan were bolstered by a sale of $2 billion worth of gold. Japan will use the bullion to manufacture commemorative coins to celebrate the 60th year of Emperor Hirohito's reign. Without that unusual sale, the U.S. deficit with Japan would have reached a record high in June.

Japan's neighbors in the Pacific Rim are also responsible for much of the U.S. trade problem. For the first six months of this year, South Korea's trade surplus with the U.S. increased by 20%, to an annual rate of $6 billion, while Taiwan's surplus grew by 5%, to a rate of $14 billion.

Latin American nations have traditionally been eager customers for American products, but since 1982 they have been so burdened by foreign debt that they have had little spare money for imports. U.S. trade with Latin America deteriorated from a surplus of $1.9 billion in 1981 to a deficit of $17.2 billion in 1985. When they splurge on imports, Latin American consumers are increasingly choosing products from other sources besides the U.S. In Colombia, for example, U.S. goods accounted for 44% of all imports in 1981. Four years later, that ratio had fallen to 32%. One reason: the growing popularity of Japanese products. The share of imports from Japanese firms jumped from 5% to 13%. Says Oscar Bradford, head of the Colombian-American Chamber of Commerce: "The Japanese came in here with marketing studies and plenty of capital."

As the U.S. trade deficit has grown, some American industries have been all but destroyed by low-cost foreign producers. Imports of leather shoes rose from 33% of the market in 1981 to 58% in 1985. Machine-tool imports have nearly doubled since 1981. Even within industries that are still dominated by American firms, foreign manufacturers have made significant gains. Example: computer imports claim 18% of the U.S. market.

Still, no recent change in American trade has been more alarming than the withering of U.S. farm exports. During May and June, for the first time since 1971, the U.S. was a net importer of agricultural products, with
a deficit of $348 million in May and $71 million in June. The U.S. is importing coffee, fish and fruits, among other foods. "Think of it!" exclaimed Senate Minority Leader Robert Byrd last week. "The greatest food basket in the world is running an agricultural deficit." The Government expects the U.S. will post a $5 billion agricultural surplus by the end of fiscal 1986. Reason: beginning this year, the U.S. will drop price supports, forcing farmers to sell their crops for less. To compensate for the loss in income, Washington will increase cash subsidies to farmers. The lower crop prices, the Administration hopes, will make American agricultural products more competitive in world markets. The U.S. would again be a net agricultural exporter, but the cost to taxpayers is high. The Government will spend more than $25 billion on farm-support programs this fiscal year, a 42% increase over 1985.

Reducing the overall trade deficit will not come any easier. U.S. Treasury officials have repeatedly pressured America's major trading partners, especially Japan and Germany, to stimulate their economies. This would bolster demand for American products and thus reduce the U.S. trade gap. But both nations are wary of taking this step. One reason is their leaders' reluctance to fuel growth for fear of igniting inflation.

Some businessmen and economists argue that American companies must assume considerable blame for their failure to sell more of their products abroad. Says Charles Nevill, president of the Meridian Group, a Los Angeles-based export-management firm: "American firms have a basic indifference to exports. The hard dollar wasn't the cancer, and the soft dollar isn't the cure" for the deficit. If American exports are to grow, companies must become more adept at satisfying the needs and tastes of foreign consumers.

How much the dollar's fall will do for U.S. trade remains to be seen. Lester Thurow, a professor of economics at M.I.T., cautions that the weakened currency is no panacea. Says he: "The dollar is nowhere near a low enough level to solve the trade-deficit problem." Allan Meltzer, a professor of political economy at Carnegie-Mellon University, is more sanguine. He comments, "I have no problem believing that the export surge is coming." Not surprisingly, neither Meltzer nor anyone else is willing to predict the precise timetable for a turnaround in the balance of trade.

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With reporting by Gisela Bolte and Barrett Seaman/Washington, with other bureaus
Economics and politics often make strange bedfellows. Such is the case with America's increasingly contentious relationship with China, which has taken a sudden turn for the worse on the trade front. This poses a major risk for the global economy.

Politicians in Washington are getting nervous because of two pernicious problems facing the U.S. economy: a lackluster job market, and America's massive foreign-trade deficit. Despite a modest improvement in job creation over the past year, the U.S. remains mired in the weakest hiring cycle on record. At the same time, salaries have barely kept up with inflation astonishing in an era of rapid productivity growth, which is normally thought to boost real wages. As a result, there is a palpable discontent in the U.S. work force that politicians do not take lightly.

To complicate matters, America's foreign-trade deficit is veering out of control. The trade gap surged to $666 billion in 2004, a record 5.7% of U.S. gross domestic product. China accounted for the largest chunk of the shortfall U.S. imports of Chinese goods exceeded exports to China by $162 billion, accounting for about a quarter of the total trade gap.

In political circles, this is irrefutable evidence of cause and effect and China is being blamed for the tough conditions facing American workers. The Washington consensus is that Beijing's currency policy a fixed peg of 8.3 renminbi per dollar has given China an unfair competitive advantage that is robbing Americans of market share and jobs. Pressure is mounting for China to revalue its currency. If it doesn't do so, Congress is threatening to impose stiff tariffs on all Chinese goods sold in the U.S. The drumbeat of protectionism is growing louder by the day.

Yet the economics of China bashing are not nearly as compelling as Washington believes. That's because the politicians themselves are central to this problem. America's gaping trade deficit didn't appear out of thin air. It is a direct outgrowth of an unprecedented shrinkage in overall U.S. savings, with the personal-savings rate having fallen nearly to zero and the federal government's budget having swung perilously from surplus to deficit. Lacking in domestic savings, the U.S. has had to import surplus capital from abroad in order to grow thereby running up massive current-account and trade deficits. Were it not for a profligate Washington, America's savings rate would be higher and the trade deficit would be lower.
The politics of China bashing is misplaced for two other reasons: as long as the U.S. must trade with someone to make up for its own savings shortfall, it is to the advantage of American consumers to have access to low-cost, high-quality Chinese products. Moreover, China's export juggernaut is not what it appears to be. Fully 62% of the country's export growth over the past decade came from Chinese subsidiaries of multinationals headquartered elsewhere in the world in Asia, Europe, and America. The West may be surprised at the damage it inflicts on itself if it restricts trade with China.

U.S. politicians have no patience for these macroeconomic arguments. In their minds, it's all about pinning the distress of beleaguered American workers on China. The recent surge of Chinese textile products into U.S. and European markets has only fueled the flames of protectionism. A mid-April procedural vote on a bill that would impose 27.5% tariffs on all Chinese goods sold in the U.S. passed the Senate by a stunning 67-33 votes, with final deliberation slated for the end of the summer. It will take deft political maneuvering to avoid a further escalation of these trade tensions between Washington and Beijing. Always in search of a scapegoat to deflect attention from its own reckless fiscal policies, Washington is not about to blink. Neither does China want to be put in the position of having to tamper with its stability anchor the currency peg especially if its financial system and economy would be put at risk.

Compromise is critical. Some adjustments in Chinese trade and currency policy, along with efforts to stimulate its anemic private consumption, would go a long way toward defusing the political tensions in Washington. Similarly, if U.S. fiscal authorities were to adopt a credible program of budgetary restraint, America's savings would improve and its excess spending would be tempered allowing the trade deficit to begin receding.

Seventy years ago, protectionism marked one of the darkest periods in contemporary economic history: the Great Depression. Memories are dim of how destructive the endgame can be. This slippery slope must be avoided at all costs.

With reporting by Stephen Roach is chief economist and director of global economic analysis at Morgan Stanley
Dear Colleague:

The Department of Commerce announced March 30th its preliminary determination to apply the countervailing duty (anti-subsidy) law to non-market economy countries such as China. The agency's preliminary calculations show Chinese subsidies of 10%-20% on exports to the United States of coated paper. We welcome this provisional decision, which if sustained, is long overdue. However, this decision in no way lessens the need for legislation on Chinese subsidies, including exchange-rate misalignment.

In its petition filed last year, NewPage Corporation of Ohio alleged exchange-rate manipulation by the Chinese government. Twenty days later, Commerce refused to even begin investigating the claim. In the November 27th, 2006 Federal Register notice, Commerce stated:

"Petitioner has not sufficiently alleged the elements necessary for the imposition of a countervailing duty and did not support the allegation with reasonably available information. Therefore, we do not plan to investigate the currency manipulation program."

H.R. 782 clarifies the elements necessary for the imposition of countervailing duties in U.S. law, in a manner consistent with Articles 1, 2, and 3 of the WTO's Subsidies and Countervailing Measures (SCM) Agreement. Specifically, Section 103(a) provides that exchange-rate misalignment satisfies the SCM Agreement's three criteria for WTO-prohibited countervailable export subsidies: (1) a financial contribution by the exporter's government; (2) a benefit conferred on the exporters; and (3) export-contingency.

The Commerce Department's failure to act underscores the need for Congress to clarify the status of exchange-rate misalignment by any country as a prohibited countervailable export subsidy.

Under Article I, Section 8, Clause 3 of the U.S. Constitution, Congress has the power to regulate commerce with foreign nations. Unless Congress exercises its constitutional authority to express statutorily that exchange-rate misalignment is a prohibited countervailable export subsidy, there will be confusion, delay or denial of a remedy to
U.S. industries. H.R. 782 is the only bill that adequately clarifies Congressional intent in favor of U.S. producers on this pressing issue.

To cosponsor H.R. 782 or request additional information, please contact Philip Fawcett (philip.fawcett@mail.house.gov) in Congressman Tim Ryan's office or Lorissa Bounds (lorissa.bounds@mail.house.gov) in Congressman Duncan Hunter's office.

Sincerely,

Tim Ryan
Member of Congress

Duncan Hunter
Member of Congress
Appendix 5.2 pg.84

Ryan-Hunter Dear Colleague

February 15, 2008
Protect US Industries from Foreign Currency Misalignment

COSPONSOR THE CURRENCY REFORM FOR FAIR TRADE ACT OF 2007,
H.R. 2942

Dear Colleague:

Last year, as many of you know, we updated our Fair Currency Trade Act (H.R. 782), which many of you cosponsored, and reintroduced it as the Currency Reform for Trade Act of 2007 (H.R. 2942). We hope you will take this opportunity to join us in cosponsoring this new legislation and continue to support American industries being harmed by misaligned foreign currencies. China's undervalued yuan is, effectively, a 40 percent tax on all U.S. agriculture and manufacturing exports, and contributing greatly to our soaring trade deficit.

With respect to that deficit, things are getting worse, not better. On February 14, 2008, the Bureau of Economic Analysis released its Trades in Goods and Services Report which showed that trade in goods with China in 2007 ballooned to an all-time annual high of $256 billion, up from $233 billion in 2006. These huge deficits, which go back many years, represent the loss of US-produced goods, and US jobs. According to the Bureau of Labor Statistics, the US lost 3,280,000 manufacturing jobs since 2000, when Congress ratified China's bid for WTO membership. That represents a decrease of over 19 percent of all manufacturing jobs since 2000.

Now, with most economic indicators showing a notable downturn, and growth in the fourth quarter of 2007 at an anemic 0.6 percent, it is more important than ever that we take action to level the playing field with foreign countries that do not abide by existing law.

The Currency Reform for Fair Trade Act would provide trade remedies that are consistent with international law and would enable injured U.S. companies and workers to defend themselves against the damaging effects of currency undervaluation.

If you would like to cosponsor this bipartisan legislation, please contact Stephen Cerny (steve.cerny@mail.house.gov) in Congressman Ryan's office at 5-5261 or Lorissa Bounds (lorissa.bounds@mail.house.gov) in Congressman Hunter's office at 5-5672.

Sincerely,

/s/

Tim Ryan
Member of Congress

/s/

Duncan Hunter
Member of Congress