**CHINA CURRENCY COALITION**
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**HEARING BEFORE THE**
**U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION**
**REGARDING CHINA'S WORLD TRADE ORGANIZATION COMPLIANCE: INDUSTRIAL SUBSIDIES AND THE IMPACT ON U.S. AND WORLD MARKETS**
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**Oral Presentation by David A. Hartquist**
**On Behalf of the China Currency Coalition**

Mr. Chairman, Commissioners, good afternoon. I am David A. Hartquist of the law firm Collier Shannon Scott. Thank you for allowing me to appear before you again as counsel to the China Currency Coalition regarding China's subsidization of its undervalued currency. My remarks today will highlight the basic points in my submitted written statement.

With regard to the Commission's questions, first, it is evident that China's undervaluation of its currency is playing a significant role in a series of worrisome developments for the United States. Shutting down companies and letting go workers in critical industries, selling assets, relocating to China, and investing in China rather than in the United States while borrowing excessively to consume low-priced, dollar-denominated imports from China are not sustainable or desirable actions. This short-sightedness already has been very costly and, if allowed to continue, almost certainly will exact a greater and greater toll on the economy and security of the United States. The yuan's undervaluation has been a driving factor underlying these dangerous trends. Commercially realistic revaluation, however accomplished, should encourage a healthier engagement by China with the United States for everyone's sake. China continues to "hide the ball," issuing false official government trade data. U.S. and IMF officials appear to continue using this phony data without challenging it.

Second, very little progress has been made on this issue over the past year. The three-percent revaluation since last July is no substitute for the forty-percent revaluation that is so desperately called for here in the China Currency Coalition's judgment. If China's system were truly market-driven, the daily trading band of +/- 0.3 percent could already have resulted in a forty-percent revaluation of the yuan as of late March.

The problem is that China's leadership evidently remains convinced that the policy of enforced undervaluation is advantageous for China. China has been very clear to the International Monetary Fund ("IMF") and the World Trade Organization ("WTO") that the Chinese government places tremendous importance on its exchange-rate regime as a means to foster economic growth and employment through exports and to encourage macroeconomic, social, and financial-sector stability in China.

Third, China's undervaluation of the yuan runs counter to obligations China has assumed at the IMF and the WTO. Most notably, the yuan's undervaluation should be considered and treated as a prohibited export subsidy within the meaning of Articles 1, 2, and 3 of the WTO's Agreement on Subsidies and Countervailing Measures and Articles 3, 9, and 10 of the WTO's Agriculture Agreement. All the earmarks of such a subsidy are present.

Thus, in a typical export transaction, having been paid for goods sold to a customer in the United States, the exporter in China must transfer the U.S. dollars received to the Chinese government in return for yuan at the undervalued exchange rate in effect. In this sequence of events, the criteria for a prohibited export subsidy are satisfied: (a) the Chinese government provides a financial contribution of funds and services to the exporter by converting U.S. dollars into yuan and "sterilizing" the yuan to control inflation in China; (b) due to the Chinese government's controls and measures, a benefit is conferred to the extent that the exporter in China is "better off" as the result of being given more yuan than if there were no undervaluation; and (c) this subsidy is contingent upon export performance.

Lastly, what recourse does the United States have to address the yuan's undervaluation apart from further talks with China? Unfortunately, there is no way to compel China to revalue, and the IMF has no dispute-settlement mechanism or effective means at its disposal to sanction China. Moreover, while the WTO has a dispute-settlement mechanism, earlier this year the WTO's Director-General