



***Written Testimony***

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***a Witness***

*on behalf of* Revere *and the* China Currency Coalition (on China currency issues)

*before the* Ways and Means Subcommittee on Trade; *the* Financial Services Subcommittee on Domestic and International Monetary Policy, Trade, and Technology; *and the* Energy and Commerce Subcommittee on Commerce, Trade and Consumer Protection.

*on* Currency Manipulation and its effects on U.S. business and workers.

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## International Trade: Myth vs. Reality

Three million manufacturing jobs have been lost in the USA since the year 2000. Some attribute it to increased productivity - but previous recoveries typically resulted in a loss of about one million jobs in spite of productivity increases. Some think it is our country's responsibility to support fledgling economies because we are the strongest, most powerful nation in the world. Some say we need to set a good example and others will follow. Make no mistake about it, protectionism should not be the end game but it seems to be an acceptable practice when used by everyone but the USA.

*No matter how we try to rationalize it, millions of manufacturing jobs are going overseas.*

My company is Revere Copper Products. We were founded in 1801 by Paul Revere and believe we are the oldest manufacturing company in the USA. We have two plants. Our large mill is in Rome, New York and produces copper and brass sheet, strip and coil. Many of its customers are manufacturing companies located throughout the USA.

Since 2000, about 30% of these customers have shut down or moved offshore. You can see why if you simply go to any big box store and look at any item made of copper or brass. Turn it over and you will likely see that the product is now made in China. That's because the cost of manufacturing in China is so much cheaper, you believe. At least, that is what you have been told...

*Once you start looking at the facts, however, you will see a very different picture.*

Let's say the production cost of a brass doorknob in China is 100 yuan. If the exchange rate for converting yuan to dollars is controlled by the government of China at 8 yuan to \$1, then the production cost is equivalent to \$12.50. But if the exchange rate was allowed to be determined by market forces, it would be about 5 yuan to \$1 and the production cost in China would be equivalent to \$20. So a company that produces that doorknob for \$18 in the USA is going to lose market share and be shut down.

*In other words, China manipulates its currency so that it subsidizes the cost of manufacturing in China.*

The current and the former US administration have refused to take any concrete action against such manipulation by China and have chosen instead to jawbone. The problem with this strategy is that currency manipulation by China is serving its best interests.

*The manipulation of its currency reduces the competitiveness of every other product, good and service in the world when compared to its production in China.*

This form of protectionism by China is reaping huge rewards as its export-based economy is growing 3 or 4 times faster than the rest of the world with factories being built at a pace beyond the imagination of anyone just a few years ago. Meanwhile, factory jobs are disappearing in the USA and the world. Even manufacturing plants in Mexico are moving to China.

*But this is more than an economic battle.*

Did you catch the statement by Congressman Tim Ryan of Ohio concerning the paper ("Unrestricted Warfare") written by two Chinese military strategists? They suggested that military supremacy be achieved by undermining the manufacturing base of the United States by maintaining China's currency at artificially low levels to gain an economic advantage for Chinese manufacturing and destroying the manufacturing base of the United States. Seems to be working, doesn't it?

Personally, I admire the Chinese culture and believe that China does not need such a disruptive currency policy to compete in the world given its many other advantages. The Chinese economic policy is export driven by taxing its citizens through currency manipulation which takes away their disposable income. A market driven currency exchange rate policy would drive China's economy toward domestic consumption and a better life for its citizens.

*But make no mistake about it, China is waging a mercantile war on the world and the world is sleeping.*

Why is the world sleeping? First, we must look at the role of a significant number, but not all, multinationals. Remember in the 1980s when Japan was such a fierce competitor in so many US markets. The reaction by our largest corporations was loud and largely one voice calling for tariffs and restraints. Contrast that with today as many of the largest US corporations are so much more international and especially with their investments in China. Many that do not have direct investments in China buy substantial numbers of components from China's factories. Many have set their strategic plans to produce components or products in China.

It may surprise you to learn that I don't have a problem with any company that sets up a plant offshore or imports components or products. But if manufacturing in America must compete with the protectionist policies of any foreign government, that is not fair. And if meaningful corrective action by the US government is thwarted by US manufacturing and financial service companies who gain from such protectionism, that is wrong.

*This country is more than multinationals and financial service companies.*

CEOs of multinational companies are put in a very difficult position by national trade policies. *They have to choose between their company and their country.* Let me explain. Earlier I mentioned that China practices a policy of managing its currency at artificially low levels to gain a competitive advantage for any export products or services produced in China... by as much as 40%! Now, you must realize a simple truth, a multinational that manufactures in China and benefits significantly from this advantage doesn't want this to change.

It is not my intention to vilify multinationals or the capable CEOs who run them. These executives are charged with representing the best interests of their shareholders. Also, many of these CEOs of "American" companies are not US citizens nor are many of their shareholders. For example, the Chairman of Coca-Cola is Irish and its President is Turkish!

It is important to appreciate that it is in our nation's best interest to have the corporate headquarters of a multinational or traditional US based company located in the USA even if it has no remaining production facilities here. That is not so that they can be taxed and regulated and driven away but so that the high skilled, corporate level jobs are here not there...

*So when issues such as patriotism are raised in this paper, it is really an appeal to US political leadership not that of multinational corporations.*

Companies that manufacture in the USA and must compete with either multinationals or companies that outsource components from abroad believe currency manipulation is unfair and must be stopped. They see other US based manufacturing plants shutting down and are concerned that will be their fate. These domestic manufacturing companies want the US government to take effective action to right this wrong and the sooner, the better.

