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House of Representatives

The House met at 12:30 p.m. and was called to order by the Speaker pro tempore (Mr. PETRI).

DESIGNATION OF SPEAKER PRO TEMPORE

The SPEAKER pro tempore laid before the House the following communication from the Speaker:

WASHINGTON, DC,
May 23, 2005.

I hereby appoint the Honorable THOMAS E. PETRI to act as Speaker pro tempore on this day.

J. DENNIS HASTERT,
Speaker of the House of Representatives.

MORNING HOUR DEBATES

The SPEAKER pro tempore. Pursuant to the order of the House of January 4, 2005, the Chair will now recognize Members from lists submitted by the majority and minority leaders for morning hour debates. The Chair will alternate recognition between the parties, with each party limited to not to exceed 30 minutes, and each Member, except the majority leader, the minority leader, or the minority whip, limited to not to exceed 5 minutes.

The Chair recognizes the gentleman from Florida (Mr. STEARNS) for 5 minutes.

CHINA'S UNDERVALUED CURRENCY

Mr. STEARNS. Mr. Speaker, since 1994 China has pegged its currency, the yuan, to the United States dollar. Many economists contend that for the first several years of this peg, the fixed value was likely close to market value, but in the past few years, economic conditions have changed, such that the yuan would likely have appreciated, like virtually every other currency, if its exchange rates were determined by simple market forces. This policy con-

stitutes a form of currency manipulation and is intended to give China an unfair trade advantage. Also, it is contributing to the loss of United States manufacturing jobs.

China's currency is significantly undervalued vis-a-vis the United States dollar. Some experts contend that it is undervalued by as much as 40 percent, making Chinese exports to the United States cheaper and U.S. exports to China more expensive than they would be if market forces determined the exchange rates.

Furthermore, the undervalued currency has contributed to the large U.S. trade deficit with China. It has hurt United States production and employment in several U.S. manufacturing sectors, such as textiles and apparel and furniture, that are forced to compete domestically and internationally against artificially low-cost goods from China.

If the yuan is undervalued against the dollar, imported Chinese goods are cheaper than they would be if the yuan were market-driven. This lowers prices for United States consumers and diminishes inflationary pressures, but in turn, lower priced goods from China hurt U.S. industries that compete with those products, diminishing their production and eventually their employment. In addition, an undervalued yuan makes U.S. exports to China more expensive, thus diminishing the level of U.S. exports to China and job opportunities for U.S. workers in those particular sectors.

Pegging the yuan to the dollar has large implications for the United States-China trade. When a fixed exchange rate causes the yuan to be less expensive than it would be if it were floating, it causes Chinese exports to the United States to be relatively inexpensive and U.S. exports to China to be relatively expensive. As a result, U.S. exports and the production of U.S. goods and services that compete with

Chinese imports fall in the short run. Many of the affected firms are in the manufacturing sector. This causes the U.S. trade deficit to soar, to rise, and reduces aggregate demand in the short run.

Mr. Speaker, in 2004, China became the United States' second largest supplier of imports. A large share of China's exports to the United States are labor-intensive consumer goods such as toys and games, textiles and apparel, shoes, and consumer electronics. Because the manufacturing of these products have, over the past several years, shifted overseas, many of these exports do not compete directly with the United States domestic producers.

However, there are a number of small- and medium-sized firms, including makers of machine tools, hardware, plastics, furniture, and tool and die that are concerned over the growing competitive challenge posed by China. An undervalued Chinese currency contributes to a reduction in the output of these industries.

In addition, the low value of the yuan is forcing other East Asian economies to keep the value of their currencies low vis-a-vis the U.S. dollar in order to compete with Chinese products, to the detriment of U.S. exporters and U.S. domestic industries competing against foreign imports.

Furthermore, while China is still a developing country, it has been able to accumulate a massive foreign exchange reserve, approximately \$660 billion at the end of March, and thus, it has the resources to maintain the stability of its currency if it were fully convertible.

Appreciating the yuan would greatly benefit China by lowering the cost of imports for Chinese consumers and producers who have used imported parts and machinery.

□ This symbol represents the time of day during the House proceedings, e.g., □ 1407 is 2:07 p.m.

Matter set in this typeface indicates words inserted or appended, rather than spoken, by a Member of the House on the floor.



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Finally, China's accumulation of large amounts of foreign exchange reserves in order to maintain the currency peg could be better spent on investment in infrastructure and development of poor regions in their country.

Recently, the Treasury Department issued a strongly worded report warning China over its pegging its currency to the dollar. The report called the Chinese currency peg highly distortionary, but the report stops short of designating China as manipulating its currency for a trade advantage. This designation would have triggered formal negotiations between the Bush administration and Chinese officials that potentially could end this peg.

The administration has taken the right steps in taking a harder line against China. While I welcome the tough language in the Treasury Department report regarding China, Mr. Speaker, the time has come for China to act, which will result in freer, fairer trade for both countries.

WE ARE HEADED TOWARDS A THIRD RATE ECONOMY

The SPEAKER pro tempore. Pursuant to the order of the House of January 4, 2005, the gentleman from Kansas (Mr. TIAHRT) is recognized during morning hour debates for 5 minutes.

Mr. TIAHRT. Mr. Speaker, last year our trade deficit was \$670 billion, our Federal budget deficit was about \$300 billion, and our government made it more and more difficult last year to keep and create jobs here in America. Barriers have been created and erected by Congress, and the results have been the wrong environment for the current day economy.

The world is changing. The world is getting more and more technical, and we, as a country, are not measuring up, and we are headed towards a third rate economy.

What a third rate economy means to our national security, to the future of our children is rather startling, and it is something we need to start preparing today to change. We must change the environment for keeping and creating jobs here.

In 10 to 20 years from now, we are looking at countries like China, currently with 1.3 billion people, India with 1 billion people, add that to Southeast Asia, and they get a group of about 3 billion people. Currently, they are in talks with trying to create an Asian Union, similar to the European Union, with the yuan as the currency of choice. This would be a very strong economy. It would be very difficult for America, who currently has the strongest economy in the world and the envy of the world, to compete with that.

Last year, China graduated 350,000 engineers. India graduated 80,000 software engineers alone. They are preparing for the future.

Today, a columnist for MSNBC wrote an article called, "Can China build its

own Silicon Valley? Beijing's recipe for technological success." In this article, China lays out what China's doing in their Zhongguancun district to create an environment to develop new technological businesses. They have already quite a few small high-tech companies in that area, and they also have the prestigious Tsinghua University, which is creating a lot of research and development to go along with this world-class technology incubator.

They are also providing business support, venture capital, legal services, property management and health care. It is a total package, a culture, if you will, to try to develop new ideas.

Dr. Meng Mei at the university said, "We need a culture that gives small companies the confidence to succeed." It sounds like something we need to do here in America. What they are giving them is an infrastructure, an entrepreneurial infrastructure, so that they can go out and create new technology, driving the leading edge, something that America has been doing for the last several decades. In China, the amount of money they spend on research and development has tripled between 1991 and 2001, according to the article.

In the meantime, what have we been doing here in America over the last generation? Well, starting in the 1960s, Congress started writing more rules and regulations and passing laws with good intent but terrible consequences.

We have come up with burdensome regulations that keeps new companies from starting up. We have a litigation system that works against success. We have health care costs that are rising faster than small employers can keep up with. We have got a tax policy that punishes success instead of rewarding success. We have an energy policy that is dependent on foreign sources. We have a trade policy that too often goes unenforced, and our research and development sometimes gets spent in wasteful ways instead of looking forward to the future. Our education system, sadly, is lagging behind, especially in math, science and engineering.

At the end of this article, it says, "While the number of U.S. science and engineering graduates declines, year after year, China's numbers are surging. China already graduates more English-speaking electrical engineers than does the U.S. Last month the U.S. came in 17th in an annual international collegiate programming contest; a team from Shanghai University came in first. And U.S. middle school math and science scores continue to lag behind those of other developed Nations."

We are on a path to a third rate economy that has worldwide implications for our future, for our kids, for our national security, and we have to change that environment.

This is the debate that we should be having today on the floor of the United States House of Representatives. This is how we are going to create the environment, by changing these rules and

regulations, so that we can create new jobs, create new technology and prepare for the oncoming challenges of the future.

RECESS

The SPEAKER pro tempore. Pursuant to clause 12(a) of rule I, the Chair declares the House in recess until 2 p.m. today.

Accordingly (at 12 o'clock and 43 minutes p.m.), the House stood in recess until 2 p.m. today.

□ 1400

AFTER RECESS

The recess having expired, the House was called to order by the Speaker pro tempore (Mr. RADANOVICH) at 2 p.m.

PRAYER

The Chaplain, the Reverend Daniel P. Coughlin, offered the following prayer:

Lord God, when Your servant Moses came down from Mount Sinai, he carried the two stone tablets of Your commands. Struck by Your awesome presence, he bowed down to the ground in worship. Then he said: "If I find favor with you, O Lord, do come along and be in our company. Indeed, this is a stiff-necked people; yet pardon our wickedness and our sins and take us as Your very own."

Today, in America, O Lord, facing the image of Moses before us in this Chamber, we are again struck by Your presence. We pray that You be in our company now. Pardon our sins, because we too can be a stiff-necked people. Truly take us as Your own. Make of us a strong and virtuous Nation, a people truly set apart to be Your hallmark of justice for all peoples and an instrument of peace in the world.

"For You are gracious and merciful, slow to anger, rich in kindness and fidelity" both now and forever.

Amen.

THE JOURNAL

The SPEAKER pro tempore. The Chair has examined the Journal of the last day's proceedings and announces to the House his approval thereof.

Pursuant to clause 1, rule I, the Journal stands approved.

PLEDGE OF ALLEGIANCE

The SPEAKER pro tempore. Will the gentleman from Michigan (Mr. KNOLLENBERG) come forward and lead the House in the Pledge of Allegiance.

Mr. KNOLLENBERG led the Pledge of Allegiance as follows:

I pledge allegiance to the Flag of the United States of America, and to the Republic for which it stands, one nation under God, indivisible, with liberty and justice for all.

MESSAGE FROM THE SENATE

A message from the Senate by Mr. Monahan, one of its clerks, announced