As the Ways and Means Committee conducts a review of U.S. trade policy with regard to China, the Coalition for a Prosperous America (CPA) would like to offer its views as a nonprofit, nonpartisan organization representing the interests of 4.1 million households, including manufacturing, agricultural, and labor members.

**Basic Rules and Tools of Trade Strategy**

There are a few key points about trade strategy and tools that we believe are important to remember.

1. Trade and economic policy is about winning the global competition for good jobs and industries. For successful trading countries it is less about achieving “fairness” or “level playing fields.” Chasing growth has proven more successful for them than helping to enhance the efficiency of the global market.

2. Growth, good jobs, and broadly shared prosperity depend on wisely managing a country’s economy. The volume of trade does not drive growth so much as follow it.

3. Tariffs, as a trade tool, are good for: (a) Inoculating a country against trade cheating, including subsidized imports; (b) Changing the composition of imports, often to incubate or help key domestic industries; (c) Changing the direction of trade, usually to reduce trade with enemies or increase trade with allies. Tariffs are less effective at impacting the overall balance of trade.
A corollary is that tariff reduction through trade agreements will change the composition and direction of trade toward specific countries, but not the overall balance of trade.

4. Exchange rate misalignment or realignment primarily impacts the balance of overall trade. The world is divided into two blocs: persistent surplus regions and countries (Asia and Germany) and persistent deficit countries (U.S. and UK). Due to market failure, a glut of capital flow sloshing across the world, and systemic manipulation, these imbalances are not resolving as they should.

5. Industrial strategy is important to optimize the composition of the economy. The U.S. should foster the industries of the future—those that absorb lots of innovation, capital, and labor for a long time, while spinning off new industries in their wake. The U.S. should also want to foster social stability as changes occur.

1. Overview

This testimony incorporates CPA’s comprehensive economic research while discussing five key areas related to U.S.-China trade: the effectiveness of tariffs; Beijing’s aggressive “China 2025” industrial strategy; the hidden and persistent bailout program that China provides to its state banks and major industries; the impact of trade deficits on job quality in America; and, the trade imbalances and economic harm that result from currency misalignment.

CPA supports the Trump administration’s tough approach to U.S. trade with China. Critics of the administration’s policies have predicted economic disruption from the tariffs (ie. inflation, recession, job losses), but this did not happen. Instead, the resulting new era should be viewed as Trade Strategy 1.0. This is the first time the United States has used actual leverage against predatory trade competitors. This leverage is derived from the United States possessing the largest consumer market in the world, and acting as the world’s importer and consumer of last resort. In contrast, other countries simply use opportunistic trade strategy. America must now learn to act in a similar manner—and get better at it.

The United States should not be in a game of chasing efficiencies. Instead, the U.S. should be in a race to win good jobs and important industries.

CPA supports the Trump administration’s Section 301 tariffs and is pleased that they are continuing to be imposed on approximately half of U.S. imports from China. We support these tariffs on China for national security, geo-strategic, and economic reasons, as explained below.
With regard to the U.S.-China “Phase One” deal, CPA has offered cautious support for that agreement. CPA will be watching carefully to see if Beijing breaches the provisions of “Phase One.” Even with the agreement in place, we are not optimistic that China’s state-managed economy will begin to liberalize.

However, an important benefit of the Trump administration’s unilateral leverage approach to China is that Beijing and Chairman Xi have demonstrated clear intransigence in response. This has stimulated widespread, bipartisan recognition of the true nature of China’s economic aggression. Whatever the outcome of the Phase One deal, it is critical to maintain this momentum. Congress needs to continually seek solutions to rebuild the quality of the U.S. economy, rebalance trade, protect national security, and counter China’s illegal and unethical tactics.

CPA has urged the Trump administration to move further in decoupling the U.S. economy from China. We support a full suite of trade intervention tools to pursue America’s national security and economic interests.

Specifically, CPA supports the use of tariffs, quotas, exchange rate management, capital flow management, domestic infrastructure initiatives, and industrial strategy to help rebalance trade flows and stimulate America’s productive economy. These are the same types of tools that are often used by America’s trading competitors to further their own national interests.

2. Trade in a New World of Oversupply: Managing glut rather than scarcity.

The global economy is in an age of oversupply. Throughout most of history, nations had to manage scarcity. But now we must manage “glut”—a glut of goods, a glut of global capital, and a glut of labor.

Billions of workers in China, India, and elsewhere have become a major source of labor and production—but not of consumption. They overproduce in relation to consumption. And they dump their overproduction in other countries without importing their fair share in return to achieve balance.

As a result, we have two trading blocs: (a) Persistent surplus regions like Asia and individual countries like Germany that rely excessively on other countries for employment and growth; (b) Persistent deficit countries like the U.S. and the UK, which absorb global overcapacity and transfer good jobs and industries to surplus countries.
Multilateralism has little chance of succeeding in such a situation. The trade-surplus bloc sees little reason to reduce the imbalances now driving their growth and full employment. Why should they disregard such unrestricted access to America’s consumers, if the U.S. keeps handing it to them?

Additionally, European countries have exhibited little willingness to side with the United States against China for two reasons. First, important EU countries like Germany are in surplus or balance with China. Second, they prefer to play one side against the other in this great power conflict—rather than take America’s side.

3. **A Rising China: Diminishing our economy and our workforce.**

China’s goal is to become the world’s largest economy—and gain commensurate geopolitical power. To achieve this objective, the Communist Party of China has perfected a disciplined strategy to win the jobs of the future: exchange rate management, tariffs, industrial policy, and monetary policy. Beijing has adopted a series of five-year plans that have successively developed state-influenced industries, many of which have become globally dominant. These plans focus on cultivating strategic industries, particular in advanced technologies. Aiding this development have been systematic restrictions on foreign competitors, except when advanced technology can be gained through forced joint ventures with China’s state-owned companies.

Presently, Beijing’s “Made in China 2025” campaign represents a consistent threat to America’s economic, military, and geopolitical leadership. The “2025” program has targeted 10 key sectors for robust competition with the United States: information technology; numerical control tools and robotics; aerospace; ships and ocean equipment; rail products; new energy vehicles; power equipment for electrical infrastructure; advanced materials; medicine and medical devices; and, agricultural machinery. These are the industries of the future—the ones that the U.S. should attempt to dominate. But instead, America’s “jobs of the future”—based upon the predominance of jobs now being created—are in positions like food service and home health care.

Beijing hopes to acquire technical and production dominance in each sector in order to significantly degrade America’s industrial might, military strength, and workforce security. In the face of such unilateral ambition, it’s clear that America’s previous neoliberal trade approach failed to respond adequately—and will fail in the future.

Pushing back is pro-growth. CPA’s research—which won a National Association of Business Economics award in 2019—demonstrated that a 25 percent across-the-board tariff on imports from China would boost domestic U.S. growth, employment, and manufacturing. There are two
reasons for such growth. First, some production would move back to the United States from China, providing new jobs, investment, and production at home. Second, other production would migrate to third countries—especially in southeast Asia—that have lower wages, and would mean reduced import prices for U.S. consumers.

4. Tariffs on China: With tariffs in place, the economy remains strong and prices are low, demonstrating positive changes to the composition and direction of trade—and little change to the balance of trade.

The Trump administration has imposed significant tariffs on multiple lines of imports from China. Domestic industries shielded by the tariffs from the subsidized glut of overseas production are doing well. Personal consumption continues to rise nationally. Inflation is low, rather than climbing. Unemployment is at 50-year lows, rather than rising. However, employment growth remains weak in the high-wage, high-hour jobs that deliver real prosperity for working Americans.

When it comes to predatory global trade, and particularly the loss of domestic manufacturing that furnishes high-quality jobs, CPA urges a strong response to foreign trade practices that unlawfully discriminate against U.S. producers. Notably, this means moving beyond simply filing trade cases. For example, the administration’s Section 301 tariff actions have proven necessary because the World Trade Organization simply cannot handle the pervasive, strategic, non-market behavior forced by Beijing’s aggression. In May 2018, the Trump administration released a comprehensive Section 301 report that outlined dozens of acts and practices undertaken by China to acquire U.S. technology in wrongful ways. China has never apologized for this, though, and has since retaliated. In the face of such bullying, the administration has appropriately increased the scope and amount of tariffs against China.

As CPA has documented across various domestic industrial sectors, the tariffs are working. CPA members can provide firsthand accounts of how the tariffs have given them an opportunity to expand—since the tariffs have shielded them from the immense subsidies that Beijing doles out to its state-supported enterprises. In response, CPA members have hired new employees, increased capacity utilization, and upgraded equipment. If the tariffs were made permanent, CPA’s members would invest further in new plants.

As noted above, tariffs primarily impact the composition and direction of trade. They are less effective in changing the overall balance of trade.
The U.S. Commerce Department’s 2019 trade data corroborates these relationships. The U.S. goods deficit with China shrank by a massive 17% in relation to 2018. But America’s deficits with many other countries increased. The overall balance of trade remained relatively unchanged but the direction of trade did change substantially—away from China. Reducing America’s goods deficit with China is geopolitically important to slow the challenge that Beijing presents for the U.S.

The Section 232 tariffs on steel reduced imports by a substantial 17.3%, largely achieving the goal of getting U.S. steel mills to 80% capacity utilization. This higher capacity utilization has allowed them to produce profitably at prices lower than those before the tariffs. Little to no steel price inflation occurred after the initial period of volatility. Here we see that the composition of trade changed—away from imported steel—but the overall balance of trade remained the same. Meanwhile, China’s steel mills have racked up record inventories of unsold product. We must anticipate that China will clear the market via unprecedented price cutting, which will pose an ongoing danger for America’s domestic steel industry. In other words, this war is not yet won—and Washington must remain vigilant.

5. Trade Imbalances: The cause of declining jobs and industry in the U.S.

Many, including CPA, have criticized the job losses created by the China shock (2000s), the Asian Tiger shock (1990s), and the Japan Shock (1970-80s). However, a substantial portion of the resulting job “losses” ended up as job “churn” yielding a degraded quality of U.S. employment. As the United States transferred good jobs and industries of the future to surplus countries, new jobs were created. But these new, replacement jobs were “low quality”—providing lower wages and lower hours per week than the previous jobs.

For many years, Washington has issued indices of job “quantity” such as the unemployment rate and the labor force participation rate. But there has been no index of job “quality.” CPA has filled that crucial need by helping to develop a Job Quality Index (JQI) that tracks the ratio of “high quality” versus “low quality” jobs created each month. The resulting index shows a horrifying erosion of the quality of employment in the United States over the past 30 years. The Job Quality Index (jobqualityindex.com) is attached to this testimony.

The index examines all production and non-supervisory jobs created each month since 1990. This is the portion of the labor market that comprises a full 80 percent of America’s workforce. Using Bureau of Labor Statistics data, the JQI reveals that the quality of U.S. jobs has deteriorated significantly in the last 30 years. In fact, 63 percent of the jobs created since 1990 pay below the average weekly wage.
Overall, the JQI demonstrates troubling repercussions that have emerged as America’s middle class has progressively shifted from higher-paying manufacturing employment to lower-paying jobs in food service, hospitality, and tourism. The JQI provides a crucial measure of this underemployment. The underemployed, low-quality job workforce could shift to high-quality jobs—but only if Washington gets trade and economic strategy right. The JQI further shows that the U.S. economy is continuing to operate at below capacity, and at flattened rates of productivity growth not otherwise seen in post-war history.

Compare this degradation in employment quality with the job quality improvements Beijing has produced via its five-year plans, and with the Made in China 2025 program. Chairman Xi and his party are steadily working to create new jobs in robotics and artificial intelligence—all while the U.S. creates mostly lower-paying service and hospitality jobs. This must change.

6. Currency Misalignment: The primary cause of persistent imbalances and the transfer of jobs and industries from deficit to surplus countries.

More significant than tariffs, however, are currency issues. Exchange rates remain the single most powerful driver of global imbalances. For example, countries with an overvalued currency (like the U.S.) face the dual challenge of seeing their exports grow more costly overseas, and imports becoming artificially cheap. This results in a trade deficit. America loses good jobs and industries as a result.

Conversely, countries with an undervalued currency (due to manipulation or a collection of domestic fiscal and monetary policies) increase exports and decrease imports, resulting in a trade surplus.

Neoclassical economists say that exchange rates will adjust in order to resolve global imbalances. But they have not, as the U.S. Treasury Department has noted.

At present, the U.S. dollar remains substantially overvalued due to a continual influx of private foreign investment in U.S. financial markets. This overvaluation is the primary cause of the U.S. trade deficit.

CPA estimates that the U.S. dollar is overvalued by 27 percent in relation to a current account-balancing exchange rate. This estimate is in line with others (Bergsten 2015). Our research also found that realigning the dollar could produce more than 5 million jobs, increase GDP growth by over 1 percent per year, and re-shore a substantial portion of domestic manufacturing. America’s
farmers would see benefits, too, since an overvalued dollar imposes a downward effect on agricultural commodity prices.

Exchange rate management is globally recognized by other countries and the IMF as a crucial sovereign economic management function. But the U.S. has sworn it off, to the nation’s detriment.

In 1985, President Reagan responded to Congressional pressure to reduce the trade deficit by negotiating the Plaza Accord. That multilateral agreement with Japan, West Germany, the United Kingdom, and France realigned the dollar by over 40 percent within a few months. As a result, America enjoyed a small current account surplus by 1991.

In the current Congress, Senators Tammy Baldwin (D-WI) and Josh Hawley (R-MO) have introduced the ‘Competitive Dollar for Jobs and Prosperity Act’ (S.2357) to address the dollar’s misalignment, and to help eliminate America’s persistent trade deficits. CPA strongly supports this bill as a key effort to rebalance trade and bring the U.S. economy to full potential. The bill would task the Fed with a new mandate—achieving and maintaining a current account balance. The Fed would do so through a capital flow management tool called the Market Access Charge (MAC). A variable charge imposed on capital inflows could deter excessive purchases of dollar-denominated financial assets, allowing the dollar to realign to a trade-equalizing target price.

If the dollar remains overvalued, the U.S. economy will continue to deteriorate in terms of job quality, income inequality, and growth. Our economy will continue to operate at below full capacity. The world will continue to have two trading blocs: surplus countries and deficit countries. That will result in increased pressure to tear down the nonfunctioning global trading system and the multilateral institutions that have failed to resolve these problems.


The U.S. Treasury Department and the Fed bailed out U.S. banks during the Great Recession, making their bad debt go away. In China, the People’s Bank of China continually cooperates with state-owned banks and financial institutions, perpetually bailing out firms operating in many parts of its economy. This occurs on a scale never seen before in the global economy. The U.S. bank bailout looks laughably small in comparison.

How can China produce overcapacity in so many industries? Europe may subsidize Airbus, in contrast, but it doesn’t also subsidize every producer of steel, cement, chemicals, nails, kitchen
cabinets, plastic moldbuilding, tooling, machining, and other industries. However, Beijing subsidizes everything from critical industries to everyday household goods, all according to a set of master plans developed and approved by the Chinese Communist Party.

Many in the West want to believe that China’s “State Capitalism” constitutes a reasonable facsimile of our own system. It does not. China plays by rules that are hard for westerners to understand. And Beijing doesn’t face the economic and financial bounds we believe naturally exist.

Directly state-owned enterprises (SOEs) constitute 30% of the Chinese economy and hold many times the assets of the private sector. SOEs exert enormous control over many other companies—or exercise indirect ownership of some of them. And the vast majority of the Chinese banking system is owned and controlled by the state.

China capitalizes state-owned banks that lend to state-owned enterprises and local governments, which then support the efforts of other state-owned enterprises as well as private businesses. These loans have enabled construction firms to build roughly 50 new cities that are presently unoccupied—simply to absorb the continuous production of steel and other materials. China continues to build steel mills in the face of a global steel glut resulting from two decades of Chinese over-investment in steel. China launches technology companies (with stolen tech) that can sell product at jaw-droppingly low prices, despite labor being only a small part of the cost equation. All of this is thanks to massive state-directed subsidization.

China also maintains an extensive, shadow banking system. It channels the savings of a middle and upper class that is itself larger than the entire population of the U.S. into all forms of “wealth management programs,” securities, and trust loans. Savings accounts in China have to settle for artificially low interest rates because the state controls the rates. It also channels those savings into its loss-making industries. Beijing will not allow insolvent banks to be wiped out.

When all of this overbuilding of industrial capacity, infrastructure, and real estate results in losses to lenders, the state steps in again to set up bad banks that are euphemistically referred to as “Asset Management Companies.” These banks take non-performing loans off the books of lenders, and enter them as debt for equity swaps with borrowers. They park the bad loans in a black box while recapitalizing the banks—which are themselves, directly or indirectly, organs of the state with fresh capital.

How can they do this? Why is China simply immune from the laws of capitalism that say, if a business or a bank loses money year after year, it must go bankrupt?
The answer is that Beijing exerts total, top-down control over the national economy. It holds wages and other forms of personal income down, thus allowing the state to control about half of China’s $12 trillion GDP. It uses that capital to prop up hundreds of “zombie companies” and a huge network of banks and shadow banks that funnel capital to the zombies every year.

On top of that, China is building an impressive machine to attract foreign capital from the U.S. and other international sources. According to Roger Robinson, consultant and former member of President Reagan’s National Security Council, U.S. investors have invested around $2 trillion in Chinese equities, and that figure could likely double in the next three years as pension funds and other large investors follow Wall Street’s advice in seeking international diversification. This foreign capital helps to keep China’s legions of zombie companies alive and moving forward—investing yet more money in unprofitable and excessive production that drives western companies out of business. On top of that, these investment dollars are in many cases powering Chinese companies building the concentration camp infrastructure and technologies that oppress the Uighurs inside China and also spy on governments and companies worldwide.

All of the foregoing supports a system of massive, continuous state subsidies to China’s manufacturers and other businesses on a scale never seen before. Chinese state capitalism is powerful and effective and, most importantly, not being confronted by developed nations, including the United States. Many Americans are convinced the Chinese system must fail because such a debt-fueled and subsidy-fueled system would prove disastrous in a traditional capitalist economy. But the worst that has happened to China is a biological virus, not an economic one, because we refuse to address China playing by its own set of rules.

8. Conclusion

We’ve drafted this testimony to help the Committee better understand the tools beyond tariffs and trade agreements that can be used to rebuild America’s productive sector. We want to provide a better understanding of how trade-competitor nations use such tools to achieve results that have eluded the United States. Global trade and economic strategy is something successful countries do in their national interest, even when they deny doing it.

Tariffs, exchange rate management, commitment to domestic infrastructure built with American-made inputs, and industrial strategy are needed as offensive strategic measures to improve our economy, and as defensive measures to protect against economic and national security harm from foreign subsidizers and trade cheaters. These tools are the key to boosting middle-class prosperity nationwide.
The continued absence of a U.S. trade and competitiveness strategy will keep eroding America’s innovation, prosperity, national security, and the quality of employment offered to the nation’s workers. Future leadership in the world depends on getting this right.

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Appendix 1

Job Quality Index Value

The Private Sector Job Quality Index Reported Monthly (Dotted Line) & 3-Month Moving Average (Solid Line)