

CNBC “Closing Bell” – May 23, 2007

Robert Lawrence Kuhn, Ph.D.



Maria Bartiromo, Anchor:

Welcome back. We've all heard the warnings: America is losing manufacturing jobs. There are efforts to level the playing field now with China. As part of our “Keeping America Great” look, we are zeroing in on the China challenge with Scott Paul, Executive Director for the Alliance for American Manufacturing, along with Robert Lawrence Kuhn, advisor to the Chinese government and editor of the book, *China's Banking and Financial Markets: The Internal Research Report of the Chinese Government*.

Gentlemen, nice to have you on the program.



Scott Paul, Executive Director, Alliance for American Manufacturing:

Good to be here, Maria.

Robert Lawrence Kuhn, Chinese Government Advisor and Editor, *China's Banking and Financial Markets*:

Nice to be here.



Bartiromo:

Scott, let me begin with you: Do you think we are losing manufacturing jobs to China?

Paul:

Absolutely, Maria. Every state is hemorrhaging jobs to China because of its unfair trade practices. Since China joined the WTO in 2000, we estimate that we've lost about 1.8 million manufacturing and other jobs, due to the imbalanced trade relationship we have with China and their unfair trade practices like subsidies, dumping, currency manipulation, and lax environmental and labor standards.

Bartiromo:

Robert, do you agree with that? And if so, what do you think can be done about it?



Kuhn:

First of all, in the coming decades the bilateral relationships between America and China are vital for our domestic economic welfare and our international security. In fact, China recognizes this. Right now, they have 15 cabinet ministers – half their cabinet – in Washington for the Strategic Economic Dialogue.



Trade, jobs are indeed critical issues. But to assume that if China revalues its currency (the yuan), such upward movement is going to solve our manufacturing problems is not correct. I wish it were so simple. We all want to help our workers. But forcing China to revalue its currency upward too rapidly will only impose a tax on American consumers, because prices of goods will go up, as we'll have to import from Mexico, Vietnam, Indonesia, other places. And it will not help our workers.



Bartiromo:

Well, that's the bottom line here, Scott. Of course, if a company can send jobs to China, to India, and pay lower salaries, they're going to do it – whether it's an American company or another company outside of America – just for the financial numbers, you're going to do it. But are the talks we're hearing about today between the U.S. and China really aimed at solutions?



Paul:

The talks, I think, are very disappointing. They didn't deal with any of the underlying structural problems with our economic relationship with China. And we're not talking about differing wage levels. What we're talking about is agreements that China made to gain access to the U.S. market when it entered the World Trade Organization. It said it would stop subsidizing its industries, dumping its products into our market, and that it would appropriately regulate its industries. It's broken virtually all of those promises. And our government – including both Democratic and Republican administrations – has refused to step up the plate.



We argue that if you counter China on its unfair trade practices, it's going to respond, and we'll have a level playing field for our workers and for our consumers as well.

Bartiromo:

Robert, what do you think? What can be done?



Kuhn:

There are some areas that we absolutely should put pressure on China, for *their* good as well as for ours. If the yuan appreciates gradually, that will be good for both sides. That would be good for China. But it would not be good if done precipitously, since millions of people could be thrown out of work, threatening social stability, which would not be good for everyone. A gradual rise is better.



We should insist on better protection of intellectual property rights, and the opening of their markets in various areas for foreign investment. We should encourage labor unions in China – I've been talking about this in China for several years. Labor unions used to be alien to a Communist government, which theoretically represents all the workers and owns all the business assets. But today, with foreign companies and private business proliferating, labor unions would be good in helping Chinese workers. Also, technology transfer in energy and sustainable development, like coal gasification and mine safety. These are some of the areas of constructive dialogue. Pressure to revalue the yuan too rapidly will be counterproductive to both sides. This is critical.



Bartiromo:

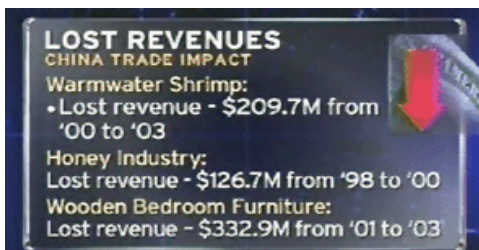
But what if we don't see progress, Robert? Should we impose sanctions?

Kuhn:

Sanctions would just hurt America as much as they would hurt China. They are a completely simplistic, naïve approach, and really should be avoided.

Bartiromo:

Scott?



Paul:

Actually, it's the law. We have trade rules on the books for a reason. And they're to ensure that workers and manufacturers and producers in this country have the same opportunity as their competitors overseas. When we employ those laws, according to a study that we released yesterday called "Enforcing the Rules," we're able to send money back into the communities. And we're talking about industries as diverse as raspberries, steel and warm-water shrimp.



But if we actually use the tools that are given to us under the trade laws, we can put money back into the U.S. economy. We can save jobs here. And we can have a balanced trade relationship with China. We just have to have the political courage to do that.

Bartiromo:

Well, we have been at this for some time, right, Robert? I mean, shouldn't we see a little more progress?

Kuhn:

We can always like more progress, judging how much of this or how little of that. But the point is, we should continue the pressure but be sensitive to China's needs and the interests of its people.

American workers make perhaps 20 times as much income as do Chinese workers. And compared to the rural workers in China – the farmers, who make up 70 percent of the population – the difference could be as much as 100 times! This imposes structural development differences between the U.S. and China. And we would be naïve and foolish to be unaware of it.

China and America must work together. There are things that we should pressure them to do that are good for them as well as for us, such as the gradual rise in their currency and the greater opening up of their markets. That's where we should focus our attention, not look for simplistic, artificial solutions.

Bartiromo:

Well, you have to believe that this is the beginning of it: the Strategic Economic Dialogue, these two meetings. Thanks so much, gentlemen. We'll talk with you soon.

Paul:

Thank you.

Kuhn:

Thank you.

Bartiromo:

We appreciate it. We'll talk with you soon. Thank you.