

United States Senate

WASHINGTON, DC 20510

March 3, 2004

The Honorable George W. Bush
President of the United States
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

We are writing to request an emergency meeting with you, the Secretary of the Treasury and the United States Trade Representative to discuss concrete action regarding the continuing illegal undervaluation of China's currency.

Mr. President, we have raised this issue with you and others in the Administration on numerous occasions over the past nine months. In addition, the Senate and the House of Representatives have passed resolutions by an overwhelming margin expressing their deep concern over China's currency manipulation and its impact on their constituents. As you know, there are several concrete steps the United States can take to ensure China acts within the rules of the world trading system it has joined and the free market competition that underlies it. We have waited for any of those actions to commence, yet to date we have seen no concrete action taken.

Specifically, under Section 3004 of the United States' Omnibus Trade and Competitiveness Act of 1988, the Secretary of the Treasury is obligated to consider whether any countries manipulate the rate of exchange between their currency and the dollar for the purpose of preventing effective balance of payments adjustments or gaining unfair advantage in international trade. If such violations are found, the Secretary of the Treasury is required to undertake negotiations with the manipulating countries that are running significant trade surpluses. It seems clear that these manipulations are ongoing and to our knowledge no formal negotiations have begun.

In addition, Treasury has authority to push for action under International Monetary Fund (IMF) rules. According to the IMF, a pattern of "protracted large-scale intervention in one direction in the exchange market" is a principal indicator of currency manipulation. The IMF Articles of Agreement, which China has agreed to, prohibit currency manipulation for the purposes of gaining an unfair advantage over other members. It seems clear that the actions of the Chinese Central Bank meet that definition and to our knowledge, Treasury has taken no action.

In addition, under Article XV, "Exchange Agreements," of the General Agreement on Tariffs and Trade (GATT), a party that is contract to the Agreement, like China, "shall not, by exchange action, frustrate the intent of the provisions of this Agreement, nor by trade action, the

intent of the Articles of Agreement of the International Monetary Fund.” To our knowledge, the Administration has not pursued this avenue.

Finally, China's undervalued currency could be interpreted as a violation of the World Trade Organization (WTO) Subsidies Agreement, which could lead to action under the WTO dispute settlement procedures. The U.S. Trade Representative could also pursue action as authorized under Section 301 of the Trade Act of 1974. We understand that no dispute resolution request has been filed or even prepared.

Mr. President, in your recent State of the Union address, you made it clear that the United States does not need a "permission slip" to enforce international laws or protect its national interests. Given that China's currency manipulation violates international rules, and its ongoing damage to U.S. strategic industrial sectors, trade deficits, job creation, and economic security, we call on you to use your authority to initiate corrective actions under the above mentioned agreements, protocols and acts to rectify this inequity. We ask that you do this on behalf of our constituents who grow increasingly aware and disturbed by the continued flouting of China's international and bilateral agreements.

We must hold our international trading partners accountable when they violate the rules of free trade. When these actions are allowed to go unchecked, Americans begin to question whether the free trade system itself works as advertised.

Mr. President, we believe American business leaders and workers who play by the rules and are ready to compete must know that their government is doing all it can to ensure a level playing field with our trading partners. We look forward to discussing as soon as possible the tangible steps your Administration has taken and will take to honor that most basic of assurances.

Sincerely,



Charles E. Schumer
United States Senator



Lindsey O. Graham
United States Senator



Richard J. Durbin
United States Senator



George J. Voinovich
United States Senator