Congress of the United States
Washington, DC 20510

July 31, 2003

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 because we believe it is time to consider stronger action regarding the undervaluation of China's currency, the yuan. We respectfully ask you to direct the Department of the Treasury, the Department of State, and the Office of the U.S. Trade Representative to urge China, to freely float the yuan.

We share your concern about our economy and your commitment to do everything we can to create new jobs and preserve the United States' current job base, especially in those industrial sectors so critical to our economic and national security. For this reason, we are deeply concerned about the undervaluation of China's currency and its potential effect on jobs in the United States.

The current unemployment situation in the U.S. economy has been felt the most by workers in the manufacturing sector. June was the thirty-fifth straight month of declining jobs in the manufacturing sector, the worst record since World War II. Since July 2000, the manufacturing sector has lost approximately 2.6 million jobs, accounting for nearly 90 percent of the total U.S. jobs lost. Our manufacturing job loss has been blamed, in part, on a shift of manufacturing jobs overseas, and layoffs at U.S. manufacturers who are finding it increasingly difficult to compete against lower priced foreign goods.

China has been one of our strongest manufacturing competitors, as illustrated in our trade figures. For the twelve months ending in May, the country that most contributed to the U.S. trade deficit was China, where we had a trade deficit of over $110 billion. In the last five years, our trade deficit with China has widened from $57 billion in 1998 to $103 billion in 2002, an aggregate trade deficit of over $396 billion over this period.

China clearly enjoys some competitive advantages in its cost of labor and regulatory structure, and they can and do use those advantages to compete in the global markets. In our constituent meetings, public hearings, and independent research, however, Congress has also found that China appears to hold another advantage – a deeply undervalued currency. Economists estimate that China's currency may be undervalued by between 15 percent and 40 percent, an enormous subsidy on China's exports and a nearly insurmountable advantage against U.S. producers.

Many of the experts that Congress has consulted have highlighted several factors that suggest an undervaluation of China's currency. For example, while the value of the yuan has been flat since 1994, China's economic growth has been enormous, estimated at approximately eight percent per year. As a result, measures of purchasing power parity illustrate that the yuan is now substantially undervalued. Economists also point to the growth of China's foreign reserves as evidence of an undervalued currency and currency manipulation. The International Monetary Fund (IMF) reports that China has acquired massive dollar reserves over the past several years, totaling over $345 billion as of June 2003. China's increase in reserves over the past twelve months exceeded that of any other country in the world. These reserves have grown through the need to buy dollars to maintain a low value for the yuan.

The U.S.– China Security Review Commission, a bi-partisan group established by Congress, has studied China's currency manipulation and its impact on the U.S. economy. Its first report to Congress, dated July 15, 2002, states:

> By holding down the exchange rate, China gains an unfair trade advantage (....) The Commission believes China's currency manipulation needs to be addressed and that the Chinese should be pressured to change their exchange rate policy and eliminate capital controls.

We believe there are several potential avenues to pursue to ensure China acts consistently with the spirit of the world trading system it has joined and the free market competition that underlies it. Under Section 3004 of the United States' Omnibus Trade and Competitiveness Act of 1988, the Treasury Department 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.

In addition, Treasury has authority to pursue action under 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.

In addition, under Article XV, "Exchange Agreements," of the General Agreement on Tariffs and Trade (GATT), all contracting parties, including 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."

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.

While some may argue that China's currency policy technically complies with international trade norms, it certainly undermines the spirit of the free markets. We are encouraged by recent news reports indicating that China is considering more flexibility in the yuan's trading range; however, we believe the United States must take an active role to ensure that China does not have a currency policy that violates its IMF and WTO obligations and its international responsibilities.

Mr. President, we fully support your position that markets, not foreign governments, should determine exchange rates. In that spirit, we respectfully urge you to direct the Department of the Treasury, the Department of State, and the Office of the U.S. Trade Representative to use all appropriate means to encourage China to unpeg its currency from the dollar and allow it to freely float. We appreciate your leadership in this important matter.

Sincerely,

Charles Schumer

Elizabeth Dole

Evan Bayh

Olympia Snowe

Debbie Stabenow

Jim Bunning

Donald Manzullo

Cass Ballenger

Earl Blumenauer

Phil English

Sam Graves

Mark Green

Sue Myrick

Sander Levin

Joe Lieberman

Richard Burr