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October 30, 2003

The President
The White House
Washington, D.C.

Dear Mr. President:

The Administration has stated that China's manipulation of its currency exchange rate is a significant problem for the United States, and that China needs to adopt a more flexible market-based exchange rate. The problem is urgent. China's undervalued currency has hit every major sector of the U.S. economy. At a time when the United States is facing the loss of more than 2.5 million good U.S. manufacturing jobs since 2001, diminished agricultural exports, and the wave of offshore outsourcing in the service sector, this is a significant problem.

In light of past Administration pronouncements of concern and the severity of China's currency manipulation, we are both surprised and dismayed at the substance and tone of the testimony of the Secretary of Treasury to the Senate Banking Committee as well as of Treasury's statutorily-mandated *Report to Congress on International Economic and Exchange Rate Policies* (3004 report). The 3004 report, issued two weeks after the date required by statute, contains only the most cursory examination and analysis of this serious problem and no plan of action to resolve it.

Neither Secretary Snow's testimony nor the 3004 report states plainly an increasingly obvious conclusion — namely, that China is artificially maintaining an undervalued currency. Moreover, the report treats almost casually the fact that China is accomplishing this task in part by stockpiling an astounding dollar reserve of almost $350 billion, and does not even mention that China has added a remarkable $153 billion in the last two years alone.

Further, neither the Secretary's testimony nor the 3004 report offers any proposal, let alone a concrete plan of action, to alleviate this serious problem. The 3004 report states only that the Administration will continue a "serious engagement with China" through a new "technical cooperation program." U.S. manufacturers have been complaining about China's undervalued currency for years now. This issue does not require study and delay; it requires action. In light of the crisis in the U.S. manufacturing sector and the magnitude of China's exchange rate manipulations, the absence of any semblance of a solution to this problem is striking.

Perhaps most remarkable, Secretary Snow's testimony states that "[n]o major trading partners of the United States meet the technical requirements set forth in the Omnibus Trade and Competitiveness Act of 1998." It is not clear what requirements the Secretary is alluding to. If he is referencing requirements in the 1988 Act completely separate from those in the section 3004 dealing with currency manipulation, we do not see how they are relevant in the Secretary's testimony about the conclusions drawn in Treasury's 3004 report. In any case, statements like that are almost certain to be taken by governments like China's as alleviating the pressures on them to take the steps that need to be taken.

Finally, China is not the only major U.S. trading partner that has been actively manipulating its exchange rate. In particular, Japan continues to depress artificially the value of the Yen, with an impact on U.S. workers, farmers and businesses similar to China's actions. Japan's actions are particularly notable, because Japan is the only major fully industrialized country that has taken these steps. Japan's actions send the wrong signal to China and other countries that also artificially depress their currencies. The Administration's efforts in regard to Japan have been similarly weak — as the 3004 report exemplifies — as well as ineffectual.

In sum, we call once again on the Administration to take concrete and immediate actions to address this serious problem. These steps should include seeking to resolve these matters through active and vigorous negotiations under section 3004. If negotiations are not successful within a fixed time, USTR should use its authority under section 302(b)(1)(A) of the Trade Act of 1974, to initiate an investigation into China's policy and practice of pegging the value of its currency to the U.S. dollar at a fixed rate, despite the significant changes in the U.S.-China trade and investment relationship. Further, if USTR makes an affirmative determination under the investigation initiated under section 302, USTR should take action under section 301(c) of the Trade Act of 1974, based upon any relevant WTO finding, consistent with U.S. international obligations.

Sincerely,

Charles B. Rangel
Ranking Democrat

Sander M. Levin
Ranking Member
Subcommittee on Trade

CC: Honorable John W. Snow
Honorable Robert B. Zoellick