



MEMORANDUM

To: Reporters and Editors  
Fr: Jill Gerber for Sen. Grassley, 202/224-6522  
Re: China currency  
Da: Wednesday, Feb. 3, 2010

Sen. Chuck Grassley, ranking member of the Committee on Finance, with jurisdiction over international trade, made the following comment in response to the President's comments today that China and Asia would be a huge market for U.S. exports going forward but it would be important to address currency rates to ensure American goods were not facing a disadvantage.

“China is a big beneficiary of international trade, yet it fails to allow its currency to float freely. That's not right for such a major economy, and American exporters are cheated as a result. I criticized the previous administration for failing to identify China as a currency manipulator, and so far we've seen more of the same from the Obama administration. I gave this administration's diplomatic efforts the benefit of the doubt, but so far the Strategic and Economic Dialogue with China hasn't produced results. But President Obama has the opportunity to change course. His administration can label China a currency manipulator in its upcoming biannual report. Secretary Geithner already acknowledged as much during his confirmation proceeding. Maybe that will finally get China's attention and lead to a more level playing field for U.S. exporters.”

Relevant Secretary Geithner confirmation hearing questions for the record and responses below:

ANSWERS TO QUESTIONS FROM SENATOR SCHUMER

**As you know, for more than five years, I have been one of the leading voices in the Senate pushing China on its currency policy. First, Senator Graham and I pursued a bill to apply a tariff to all Chinese imports; then we joined with Senators Baucus and Grassley on a bill that passed the Finance Committee 20-1 but never saw floor action.**

**President Obama talked a little bit about Chinese currency policy towards the end of the campaign, but has not offered many specifics. What I would like to know is whether you think the economic problems facing the nation and the world make confronting China over its trade policies in the short term MORE important and urgent, or LESS important.**

**I would really like to understand the Administration's view on this, because some argue that our precarious economic position means we should wait, but others say that we have a window now to take meaningful action. On which side of that economic coin does the Administration fall?**

President Obama - backed by the conclusions of a broad range of economists - believes that China is manipulating its currency. President Obama has pledged as President to use aggressively all the diplomatic avenues open to him to seek change in China's currency practices. While in the U.S. Senate he cosponsored tough legislation to overhaul the U.S. process for determining currency manipulation and authorizing new enforcement measures so countries like China cannot continue to get a free pass for undermining fair trade principles. The question is how and when to broach the subject in order to do more good than harm. The new economic team will forge an integrated strategy on how best to achieve currency realignment in the current economic environment.

#### **Snowe Question 14**

**While China's currency has appreciated nearly 19 percent since Beijing removed it from its peg to the dollar in July 2005, manufacturers and workers in trade-sensitive industries—such as paper production in Maine—feel that the Yuan (“You-on”) may still be undervalued by as much as 20 percent, making Chinese imports artificially cheaper vis-à-vis competing U.S. goods. These domestic producers argue that the undervaluation of the Yuan has contributed to the burgeoning U.S. trade deficit with China, which set another record in November 2008 of \$40.1 billion. Do you believe that China's currency remains artificially undervalued, and that this undervaluation has a trade-distortive effect harmful to U.S. producers?**

**Former Secretary Paulson has frequently raised the China Currency issue at Strategic Economic Dialogue meetings with Beijing, most recently last month, arguing for greater flexibility in the exchange rate. Yet the Treasury Department's inability to classify China's intervention in the valuation of its currency as “manipulation” has frustrated me and many of my colleagues who would like to see greater pressure put on China to allow its currency to appreciate more rapidly, according to market forces. Do you believe the Bush Administration's policy of handling this issue through bilateral dialogue has worked satisfactorily, or would your recommend further actions be taken by the Obama Administration?**

**Finally, In July 2007 the Finance Committee—with my support—favorably reported the “Currency Exchange Rate Oversight Reform Act of 2007,” which would direct the Secretary of the Treasury to identify countries with**

**“fundamentally misaligned” currencies (i.e., currencies that do not correspond to market conditions, whether or not due to deliberate foreign government manipulation), and impose gradually increasing restrictions on financial cooperation with such countries over the course of a year, possibly culminating in the U.S. bringing a formal dispute resolution case against an offending country in the World Trade Organization.**

**Are these legislative changes that you would recommend the President sign into law? Would you like to see different or additional authorities granted to the Treasury Department to deal with currency manipulation?**

President Obama - backed by the conclusions of a broad range of economists - believes that China is manipulating its currency. President Obama has pledged as President to use aggressively all the diplomatic avenues open to him to seek change in China's currency practices. More broadly, we look forward to a productive economic dialogue with the Chinese government on a number of short- and long-term issues. The Yuan is certainly an important piece of that discussion, but given the crisis the immediate focus needs to be on the broader issue of stabilizing domestic demand in China and the US. The latest figures show that China's growth in 2008 was 9%, a full 4 percentage points lower than in the previous year. Because China accounts for such a large fraction of the world economy, a further slowdown in China would lead to a substantial fall in world growth (and demand for US exports) and delay recovery from the crisis. Therefore, the immediate goal should be for us to convince China to adopt a more aggressive stimulus package as we do our part to try to pass a stimulus package here at home.

**Stabenow Question #8: Article IV of the IMF Charter, obligates each member nation; " to avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustments or to gain an unfair competitive advantage over other members." The IMF has adopted surveillance provisions to guide member nations on how various IMF Articles will be interpreted. With regard to surveillance of Article IV, it defined currency manipulation as: “protracted large scale intervention in one direction in the exchange market.” Over the last few years China's global current account surplus has risen to over 11 per cent of its GDP, but it has maintained an undervalued currency by massively intervening in currency markets. What do you think of China's currency policies? And, more generally, what is the best approach to ensuring countries are not engaged in manipulating currency markets around the world?**

President Obama - backed by the conclusions of a broad range of economists - believes that China is manipulating its currency. President Obama has pledged as President to use aggressively all the diplomatic avenues open to him to seek change in China's currency practices. While in the U.S. Senate he cosponsored, with Senator Stabenow, tough legislation to overhaul the U.S. process for determining currency manipulation and authorizing new enforcement measures so countries like China cannot continue to get a free pass for undermining fair trade principles. The question is how and when to broach

the subject in order to do more good than harm. The new economic team will forge an integrated strategy on how best to achieve currency realignment in the current economic environment. More generally, the best approach to ensure that countries do not engage in manipulating their currencies is to demonstrate that the disadvantages of doing so outweigh the benefits. If confirmed, I look forward to a constructive dialogue with our trading partners around the world in which Treasury makes the fact-based case that market exchange rates are a central ingredient to healthy and sustained growth.