Committee On Finance

Max Baucus, Ranking Member

NEWS RELEASE http://finance.senate.gov

For Immediate Release
Thursday, October 30, 2003

Contact: Laura Hayes
202-224-4515

Baucus Dissatisfied by Treasury Report on China Currency

Senator Urges Formal Negotiations on Currency and WTO Case on Agriculture

(WASHINGTON, D.C.) U.S. Senator Max Baucus today wrote to President Bush following the release of the Treasury Department's report on international economic and exchange rate policies.

Baucus has repeatedly stressed the need for formal negotiations with China to address the undervaluation of the Chinese yuan. Currently, China pegs its currency at a fixed exchange rate that economists estimate is undervalued by anywhere between 15 to 40 percent against the U.S. dollar, which leads to artificially depressing the prices of Chinese exports and hurts the competitiveness of U.S. manufacturers.

In September, Baucus met with Chinese Commerce Minister Lu Fuyuan while at the World Trade Organization ministerial and pressed the need for China to take action to revalue its currency.

Baucus's letter to President Bush follows:

October 30, 2003

President George W. Bush
The White House
Washington, D.C. 20500

Dear Mr. President:

I am deeply disappointed in the approach the Department of the Treasury has taken in its report on currency manipulation issued today under section 3005 of the Omnibus Trade and Competitiveness Act of 1988 (the "Act").

Despite repeated statements by the White House and senior Administration officials that China needs to stop manipulating its currency and ensure the value of the yuan is determined by market forces, the Treasury report finds that there is no manipulation sufficient to trigger the negotiations called for in section 3004 of the Act. I disagree with this finding.

China pegged its currency to the dollar at an exchange rate fixed in 1994, before China was a WTO member. Since that time, China's exports to the world have more than doubled, its foreign direct investment inflows have nearly tripled, and its trade surplus with the United States has quadrupled. China's currency peg ignores the current macroeconomic reality of a booming China whose trade balance with the United States in 2002 made up one-fifth of the entire U.S. trade deficit.

As a result, the yuan is held fixed to a value that is anywhere from fifteen to forty percent below where macroeconomics would dictate in a free market. This is wreaking havoc in international currency markets as other economies in Asia, including Japan, also artificially depress the value of their currencies in an attempt to compete with China and stimulate their economies.

Mr. President, during Secretary Evans' recent visit to China, he noted that protectionist sentiment in the United States is on the rise. Pretending that the problem does not exist will not resolve this issue. As such, I recommend several courses of action.

First, I urge you to launch the formal negotiations called for in section 3004 of the Act before the end of the year. The problem of undervalued currencies is sufficiently severe, and its detrimental effects so widespread, that a multilateral approach may be warranted. I continue to believe that negotiations are the best course for addressing this difficult issue. The long-term goal should be to have the value of the yuan determined according to market principles. In the short term, however, we should focus on convincing China to adjust its currency peg to take account of economic changes that have occurred since 1994, or to set its exchange rate values in reference to a basket of foreign currencies.

Second, should these negotiations fail, the Administration should initiate an investigation under section 302(b) of the Trade Act of 1974 into the currency manipulation issue. The actions of China, Japan, and others in purposefully depressing their currency values frustrate the intent of the provisions of the General Agreement on Tariffs and Trade in violation of GATT 1994 Art. XV, ¶ 4.

Finally, we should hold China strictly to its WTO obligations. There are various ways in which China is failing to live up to the substance and the spirit of the commitments it made when it acceded to the WTO. These include the imposition of unreasonable capital requirements for the establishment of financial service businesses, the maintenance of discriminatory tax policies on imports, the failure to issue promised regulations on automobile financing, and the drafting of government procurement regulations that would require the purchase of Chinese software.

Perhaps most egregiously, China has failed to allocate tariff rate quotas ("TRQs") in accordance with its accession agreement, despite repeated requests to do so over the last two years. Import permits are effectively being used to maintain import controls on U.S. agriculture commodities and meat exports. While I do not believe in turning to WTO dispute settlement lightly, the United States has been more than patient with China on this issue. China must learn that it cannot flout its WTO commitments without consequences. The United States should bring a WTO case against China on its agricultural policies.

Mr. President, the U.S. economy is shedding jobs at an alarming rate. The time has come to address these issues meaningfully. I urge you to act to protect the American economy and American jobs.

Sincerely,

Max Baucus

cc: Secretary of the Treasury John Snow
United States Trade Representative Robert B. Zoellick

###