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# Congress of the United States

## U.S. House of Representatives

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BRETT LOPER,  
MINORITY STAFF DIRECTOR

March 26, 2008

The President  
The White House  
Washington, D.C. 20500

Dear Mr. President:

We write to express our grave concerns about China's ongoing manipulation of its currency and the adverse impact that this is having on the U.S.-China trade relationship and the global economy. Now, more than ever, it is critical that the Administration use all available tools at its disposal to address China's protracted, large-scale intervention in the foreign exchange markets to maintain an undervalued currency.

The consequences of China's currency manipulation are manifest. China's undervaluation of the yuan makes U.S. exports to China more expensive and Chinese exports to the United States cheaper, contributing to massive U.S. trade deficits, lost jobs, and a suppression of U.S. economic growth. In 2007, the U.S. trade deficit with China surged past one-quarter of a trillion dollars. This figure represents an increase of almost 10 percent over the 2006 U.S.-China trade deficit, and amounts to 5 percent of the United States economy. At this time of economic insecurity, American workers, farmers and businesses can ill-afford to allow China to continue to undervalue its currency.

China's currency manipulation is an issue not only for the United States, but for the world economy. China's global trade surplus was a cause for serious concern in 2006 and before. That surplus grew 50 percent in 2007, to roughly 10.5 percent of China's gross domestic product, a level unprecedented for an economy of China's size. At the same time, China's foreign exchange reserves today exceed \$1.5 trillion, again, a level unprecedented in world history. Despite these serious imbalances in China, currencies of countries with much *smaller* trade surpluses have appreciated much *more* significantly in recent months than the Chinese yuan. This contrast provides clarity regarding China's currency manipulation and demonstrates the incongruity of the current relationship between China and the rest of the world.

We recognize that the Administration has engaged in “quiet diplomacy” for the past four years in an attempt to address this problem. But we respectfully suggest that this approach has failed. As evidenced by the growing U.S. trade deficits with China and the minimally improved exchange rate, the problem persists.

We therefore call on the Administration to adopt and implement a new strategy relying upon all of the tools at its disposal, including those provided by the multilateral system. If vigorously implemented, the strategy outlined below can successfully check China’s unfair currency manipulation, help reduce the global imbalances, and ensure that American workers, farmers and business can compete fairly in the global marketplace.

**1. Strengthen U.S. Leadership in the International Monetary Fund**

Article IV of the International Monetary Fund (IMF) Articles of Agreement states that the IMF shall exercise “firm surveillance” over its members to ensure that they “avoid manipulating exchange rates ... to gain an unfair competitive advantage over other members.” To date, the IMF has failed to hold China accountable under this key provision. And, unfortunately, the United States has missed opportunities to ensure that China complies with IMF rules. For instance, in September 2006, the United States failed to hinge its support for an IMF resolution increasing China’s voting shares in the IMF on China’s commitment to halt its currency manipulation.

It is time that the United States began using opportunities like these in the IMF to pressure China to refrain from undervaluing the yuan. The Administration can begin to bring such pressure to bear by ensuring that the IMF holds China accountable in its upcoming staff report concerning China’s compliance with Article IV. The Administration should also consider hinging its support for any future increases in China’s IMF voting shares on a commitment from China to halt its currency manipulation.

**2. Take Action in the World Trade Organization**

China’s currency manipulation needs to be addressed through the WTO, as well as the IMF. WTO rules are clear. A member country “shall not, by exchange action, frustrate the intent of the provisions of this Agreement[.]” China agreed to comply with this obligation when it joined the WTO in 2001. Unfortunately, China has failed to honor this fundamental commitment. This failure cannot continue to go unchecked.

Moreover, China’s currency practices have impeded progress in the WTO Doha Round of trade negotiations. A number of countries have been reluctant to open their markets further to *fairly* traded imports, in part because they are struggling to fully absorb *unfairly* trade imports from China.

**3. Initiate Special Negotiations with Key Countries**

The adverse impact of China's actions is being felt in many countries around the world. This fact indicates that there is an opportunity to respond with action not just at the national level, but at a multilateral level as well. We urge you to work with other countries that have a strong interest in pressing China to end its currency manipulation practices.

China is not alone. Other countries, particularly in Asia, are also manipulating their currencies. The Administration should engage these countries in a process of eliminating to the maximum extent possible government-driven distortions in China and any other countries, and addressing the adverse consequences of currency manipulation in economies that are maintaining market-driven exchange rates.

There is important precedent for addressing the current currency-driven imbalances through an effective strategy of multilateral coordination. Early in 1985, senior members of Congress from both parties called on the Reagan Administration to address the issue of misaligned currencies and the large U.S. trade deficit. Later that year, a number of countries joined in an agreement to address the problem. No two circumstances are identical; yet, the substantial misalignment of currencies and the even-larger trade deficits of the current era may present some useful parallels with that earlier time. The Administration should invite other major industrial and emerging-market economies to a special meeting to address currency misalignment and global economic imbalances.

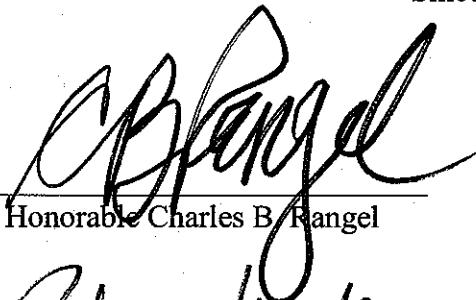
For our part, we intend to accelerate international efforts at the parliamentary level to describe and document the adverse effects of currency manipulation, and advance efforts to develop effective solutions. We hope that these efforts will accelerate changes to China's practices in ways that benefit American workers, farmers, and companies and buttress a more vigorous approach to these issues by your Administration.

**4. Enforce Existing U.S. Trade and Exchange Rate Laws**

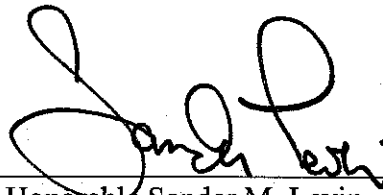
We also urge you to enforce existing U.S. laws that can address currency manipulation and its effects. For example, the Exchange Rates and International Economic Policy Coordination Act of 1988 ("1988 Act") requires the Treasury Secretary to identify foreign countries that are manipulating their currencies to gain an unfair competitive advantage. The Reagan Administration, the George H.W. Bush Administration, and the Clinton Administration all designated countries as manipulators under the 1988 Act. This Administration has failed to do so, despite even more compelling evidence of manipulation today.

More than 60 years ago, the United States led the community of nations in the development of international economic rules that laid the foundation of international peace and prosperity. Today, the United States has the opportunity to lead the community of nations in ensuring compliance with those vital rules. The Executive Branch is in the best position to provide this leadership and has the tools it needs to do so. If the Administration is unable or unwilling to do so, Congress will take action, if necessary, to ensure the integrity of the international economic system and to guard against international economic instability.

Sincerely,



The Honorable Charles B. Rangel



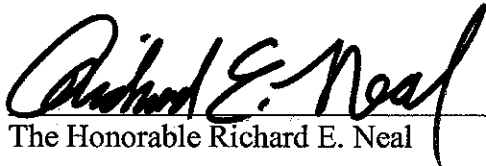
The Honorable Sander M. Levin



The Honorable Fortney Pete Stark



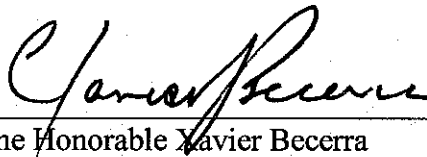
The Honorable John Lewis



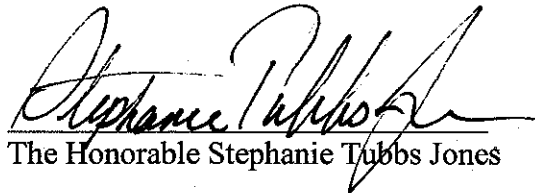
The Honorable Richard E. Neal



The Honorable Michael R. McNulty



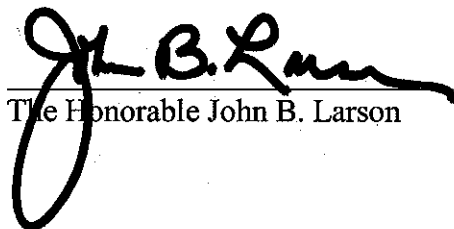
The Honorable Xavier Becerra



The Honorable Stephanie Tubbs Jones



The Honorable Mike Thompson




The Honorable John B. Larson




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The Honorable Bill Pascrell, Jr.



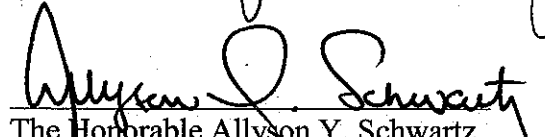
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The Honorable Shelley Berkley




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The Honorable Chris Van Hollen



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The Honorable Allyson Y. Schwartz



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The Honorable Earl Pomeroy