BEFORE THE OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

PETITION FOR RELIEF UNDER SECTION 301 (a) OF THE TRADE ACT OF 1974, AS AMENDED

ON BEHALF OF THE BIPARTISAN CHINA CURRENCY ACTION COALITION

Rep. Charles B. Rangel
Rep. John D. Dingell
Rep. Barney Frank
Rep. Earl Blumenauer
Rep. Kendrick B. Meek
Rep. Charles A. Gonzalez
Rep. Tim Ryan
Rep. Charlie Melancon
Rep. Charles A. Wilson
Rep. Bruce L. Braley
Rep. Janice D. Schakowsky

Rep. Sander M. Levin
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Rep. Luis V. Gutierrez
Rep. Bill Pascrell, Jr.
Rep. Peter J. Visclosky
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Rep. Lynn A. Westmoreland
Rep. Louie Gohmert
Rep. Joe Wilson
Rep. Paul Gillmor
Rep. Joseph R. Pitts
Rep. J. Gresham Barrett

May 17, 2007

Petition for Relief Under Section 301 (a) of the Trade Act of 1974, As Amended

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BEFORE THE OFFICE OF THE
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BIPARTISAN CHINA CURRENCY ACTION COALITION	))))	**Petition for Relief Under Section 301(a) of the Trade Act of 1974, as Amended, 19 U.S.C. §§ 2411 et seq.**

SUMMARY

The Bipartisan China Currency Action Coalition is a group of U.S. Members of the House of Representatives, each of whom represents U.S. workers, farmers, family-owned businesses, and other businesses injured by the Chinese currency's undervaluation, which has been estimated at 15 to 40 percent or more. Between 1994 and July 2005, China pegged the yuan to the U.S. dollar. Over approximately the last five and a half years of that period, the value of the yuan averaged 8.2775 yuan to the U.S. dollar and fluctuated in the range of ±0.1 percent (i.e., equal to roughly 1/100th of one U.S. cent). During the last year of that period, the range narrowed even further to ±0.01 percent (i.e., equal to about 1/1,000th of one U.S. cent) around the average of 8.2771 yuan per U.S. dollar.

On July 21, 2005, China revalued the yuan by 2.1 percent to 8.11 yuan to the U.S. dollar and announced the replacement of the yuan's peg to the U.S. dollar with reliance upon a basket of currencies and the institution of a daily trading band of ± 0.3 percent. Nearly two years later, the weighting of this basket of currencies has not been made public, and, in fact, it appears the yuan remains largely pegged to the U.S. dollar. As of May 2007, the yuan's nominal rate of exchange is approximately 7.70 yuan to the U.S. dollar, but after relative rates of inflation in China and the United States are considered, the real rate of exchange is probably about what it was before the revaluation in July 2005.

China is the only major trading country in the world with what effectively is still a fixed-peg currency system. By definition, this regime requires an expansive role in the market by the Chinese government, because it alone can manage the imbalances in supply and demand caused by its determination to maintain an undervalued price of the yuan contrary to market forces and given China's soaring volume of exports. China permits foreign direct investment that it favors, but otherwise has a labyrinthian array of currency controls on the holding and use by businesses and individuals of current- and capital-account inflows of foreign exchange. In effect, the Chinese government absorbs foreign currency by printing and circulating yuan in exchange. See Exhibit 1.

China's yuan presents an extreme and unique case of currency undervaluation and manipulation. While economists and academicians debate the extent of the yuan's undervaluation, there is a strong consensus that the yuan is significantly undervalued. See Chart on p. 20.

China's undervaluation of the yuan is fueling serious trade imbalances. First, China's official trade data significantly understate its global trade surplus and the degree of the yuan's undervaluation. See Section II.D. If China's import/export data are replaced by the corresponding export/import data of China's 39 largest trading partners (which have accounted for roughly 90 percent of China's total trade since 1999), it is evident that the United States and the rest of the world are running substantially greater trade deficits annually with China than China's official trade data show and that these deficits have become progressively worse over the last several years especially. This conclusion is reached even after adjustments are made for transshipments through Hong Kong and after f.o.b./c.i.f. valuation inconsistencies are reconciled.

Thus, the trade surplus of China with the United States catapulted from $33.8 billion in 1995 (according to U.S. data) to $235.4 billion in 2006 (again according to U.S. data). China's data show, by contrast, a $9.4 billion trade surplus in 1995 and a $147.3 billion trade surplus with the United States in 2006. See Chart on p. 33. Likewise, in 1999 China reported a trade surplus of $37.7 billion with its 39 principal trading partners (including the United States), but the data of those 39 trading partners indicate that China's trade surplus in 1999 was $140.6 billion. In 2006, the corresponding figures were $217.1 billion and $470.1 billion, respectively. See Chart on p. 36. If trade between China and the United States is excluded from the calculations, China's trade surplus in 1999 was reported by China as $14.2 billion, but was reported by China's major trading partners other than the United States as $71.5 billion. In 2006, China reported its trade balance apart from the United States as a surplus of $69.9 billion, while China's main trading partners other than the United States computed China's surplus as $234.7 billion. See Chart on p. 39.

Second, China's undervalued yuan has encouraged and facilitated foreign direct investment into China. Between 1994 and 2000, total utilized foreign direct investment increased by almost 21 percent and then between 2000 and 2006 rose by 55 percent as growth accelerated. In the last several years, total utilized foreign direct investment in China has been approximately $60 billion annually. Moreover, in 2004, the last year for which it is understood China's government is releasing such data, there were over $153 billion of total FDI contracted in China. See Chart on p. 42.

Third, China's undervalued yuan has also generated an accumulation of foreign-exchange reserves that is excessive. In 1995, the year after the yuan was pegged to the U.S. dollar, China's foreign-exchange reserves were $73 billion. In 2000, China's foreign-exchange reserves were $165 billion. After the yuan's revaluation in July 2005, China's foreign-exchange reserves were 1.066 trillion dollars by the end of 2006, significantly in excess of one-third of China's Gross Domestic Product. Furthermore, China's accumulated foreign-exchange reserves are far in excess of the IMF's prudential guidelines of 4-6 months and 180 percent of short-term debt.

Fourth, the increase in foreign-exchange reserves is requiring China to increase its money supply in order to purchase the foreign-exchange reserves and maintain the undervalued exchange rate of the yuan. Between 2000 and 2006, China's money supply has been growing annually by an average of 15-18 percent, see Chart on p. 47 and p. 81, and this substantial increase in the money supply is overheating China's economy, which has been expanding at an average annual rate of about 10 percent over the past several years.

In the absence of an orderly realignment and revaluation of China's exchange rate to reflect underlying economic fundamentals, China's economy will continue to overheat, creating greater imbalances and pressures on an economy historically characterized by booms and busts, ultimately resulting in a financial crisis.

China's maintenance of an undervalued exchange-rate regime violates various international legal obligations of China at the expense of the United States. China's manipulative undervaluation of the yuan constitutes a prohibited export subsidy (pp. 50-71) and frustrates the intent of and breaches basic principles of the World Trade Organization's General Agreement on Tariffs and Trade (pp. 71-77 and Attachment). At the same time, China's undervalued-exchange-rate policy unjustifiably gives China an unfair competitive advantage over the United States and discriminates against U.S. exports of goods and services contrary to Articles IV and VIII of the International Monetary Fund's Articles of Agreement (pp. 78-83).

As our constituents have repeatedly informed us, China's undervalued exchange rate burdens and restricts U.S. commerce. U.S. imports from China and the U.S. trade deficit with China are soaring, accounting for 56 percent of the increase in imports of manufactured goods between 2001 and 2003, and have risen further since then. If longer-term historical trends in exports and imports prevail, the annual U.S. trade deficit with China will increase from $235 billion in 2006 to $548 billion by the end of annual 2011. Even if the growth rates in 2006 continue, the deficit will still reach $442 billion in annual 2011. See Chart on p. 90.

Moreover, U.S. domestic market share is being displaced by U.S. imports from China. According to an import penetration analysis on a sector-by-sector basis, 60 percent of China's increased import penetration of the U.S. market for manufactured goods between 2000 and 2003 displaced domestic U.S. producers' share. This displacement is equivalent to a $31-billion loss in U.S. domestic production. See pp. 91-97. China's undervalued exchange rate results in extremely low prices on China's exports to the United States, unfairly pressuring domestic firms by undercutting their pricing power.

The undervalued exchange rate also adversely affects U.S. exports. While U.S. exports to China rose by 33 percent in 2006, much of the increase occurred in raw and intermediate materials. In fact, China's imports from the United States were the slowest-growing compared with imports from China's largest foreign suppliers. The U.S. share of China's total imports declined to a new low of 8.0 percent in 2004. If its share had not fallen, U.S. exports to China would have been $35 billion higher in 2004 than they actually were – a significant difference of about 50 percent.

U.S. affiliates are not causing the surge in U.S. imports from China. About 50 percent of U.S. imports from China come from foreign-invested enterprises, the great bulk of which are non-U.S. companies. Moreover, relative wages are not a primary factor driving U.S. imports from China, because labor costs are a relatively small fraction of the total cost of manufacturing.

The Bipartisan China Currency Action Coalition seeks the immediate elimination of the undervaluation of the yuan. If China refuses to eliminate the undervaluation, the United States should pursue a formal dispute settlement action under the World Trade Organization. If such action is successful, and China does not bring its policies into conformity with its WTO obligations, the United States should pursue WTO-consistent remedies against China.