CHINA CURRENCY COALITION
WASHINGTON, D.C.
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Chinese Currency Manipulation Fact Sheet
February 2005

The China Currency Coalition seeks the immediate elimination of the undervaluation of China's yuan.
Although the Coalition supports the long-term goal of a freely-floating yuan that would reflect market conditions, the Coalition believes an upward revaluation by about 40 percent is necessary until capital controls can be effectively eliminated and until stable capital markets are established.

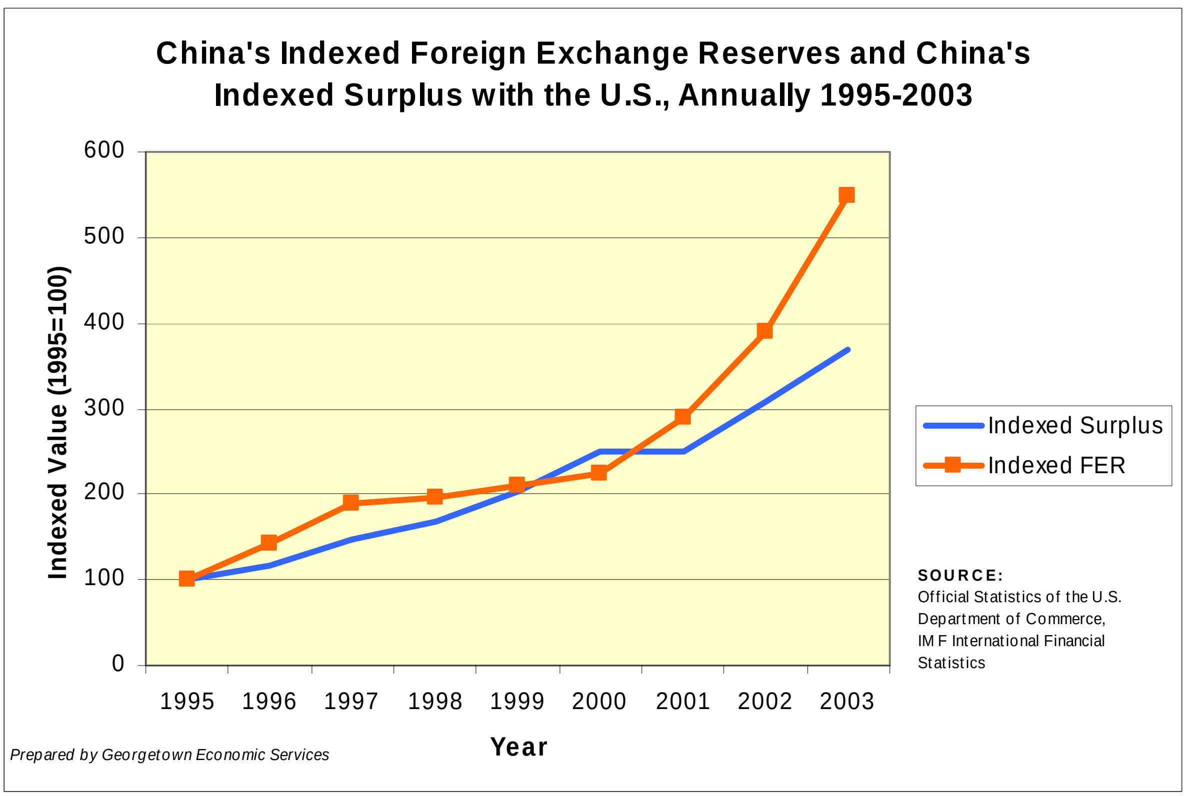
China's maintenance of an undervalued exchange-rate regime violates various international legal obligations of China.
China's maintenance of an undervalued fixed exchange rate constitutes a prohibited export subsidy under the WTO Agreement on Subsidies and Countervailing Measures and violates Article XV of World Trade Organization's General Agreement on Tariffs and Trade regarding currency manipulation and other WTO rules. In addition, 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 the International Monetary Fund's rules.

President Bush and Economists agree that China's currency is significantly undervalued.
President Bush stated in Toledo Ohio in January 2004, "We expect countries like China to understand that trade imbalances mean trade is not balanced and fair. They have got to deal with their currency." As the table below shows, economists agree that China's currency is undervalued, although estimates of the degree to which the yuan is undervalued vary.

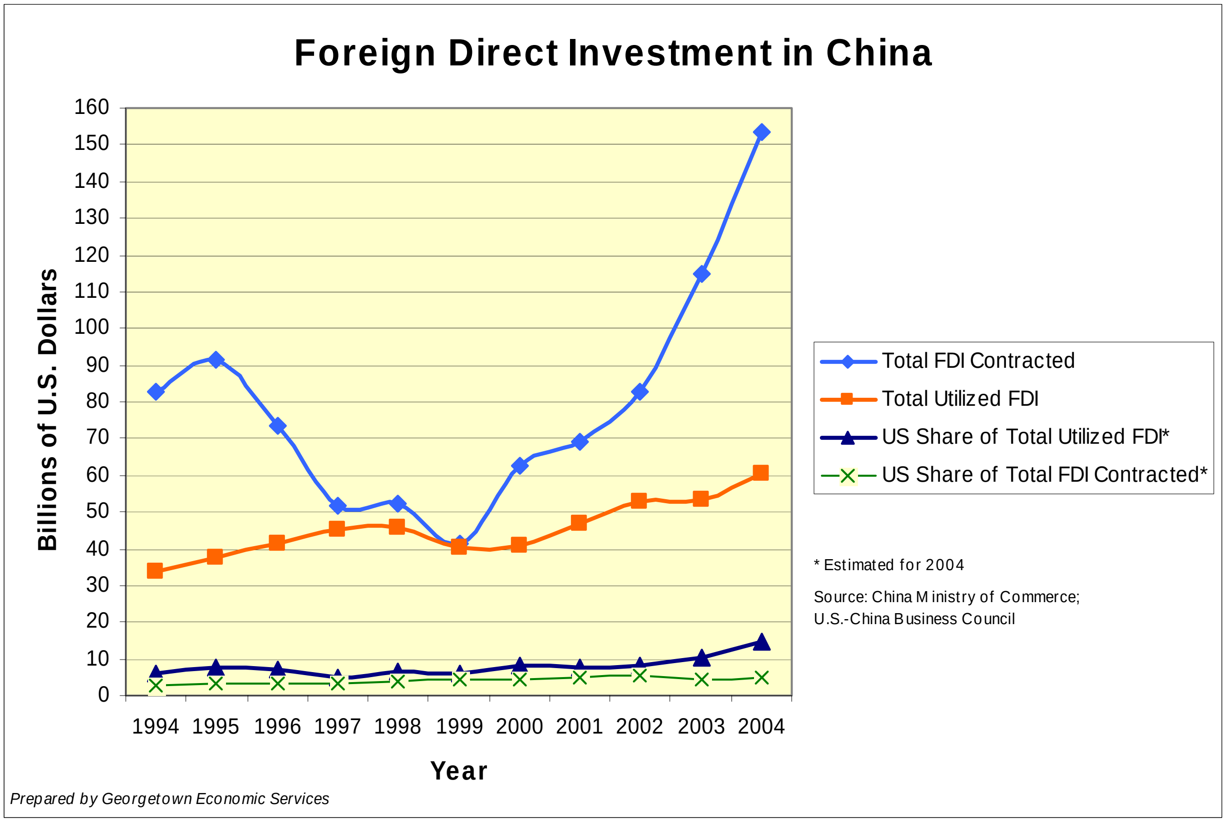
Analyst	Publication	Date of Publication	Percent Yuan Undervalued
World Bank	PPP Level	2000	75%
Big Mac Index	The Economist	Apr. 2003	56%
Preeg	MAPI	Sept. 2002	40%
Yang and Bajeux-Besnainou	Is the Chinese Currency Undervalued?	Nov. 2003	27.99% based on PPP and using 1985 as fixed base year
Williamson	IIE lecture	Oct. 2003	Over 25%
Anderson/UBS	The Complete RMB Handbook	Oct. 2003	Nearly 25% in real terms
Goldstein	Testimony to Congress	Oct. 2003	15-25%
O'Neill & Wilson	Goldman Sachs Rpt.	Sept. 2003	10-15%
Bhalla	Chinese Mercantilism: Currency Wars and How the East Was Lost	July 1998	10-15% as of 1998

China presents an extreme and unique case of currency undervaluation and manipulation. China is the only major trading countries that maintain a conventional fixed peg, set at a rate of 8.28 yuan per dollar since 1994. Fixed-rate regimes, by their very nature, tend to require the greatest degree of governmental intervention and control by monetary authorities in order to maintain the relative value of the currency close to its parity value. Because China is such a major global trading country, China's undervalued fixed-exchange rate is generating significant distortions and persistent imbalances among countries and between trading partners.

China's exchange rate-regime distorts trade and foreign-exchange flows. As a result of China's exchange-rate regime, the U.S. annual bilateral trade deficit with China has accelerated continuously since 2001, reaching $124 billion in 2003, the largest U.S. trade deficit with any country. Based on half-year data, the bilateral trade deficit with China is estimated at nearly $160 billion for 2004. If recent trends hold, the annual U.S. trade deficit with China will more than double in the next five years. Concurrently, China's foreign-exchange reserves also have risen sharply, growing from $165 billion in 2000 to $578 billion as of November 2004, an astonishing 40 percent of China's Gross Domestic Product.



China's undervalued fixed exchange-rate regime also increases foreign-exchange reserves through increased inflows of foreign direct investment into China, as the chart below indicates.



China's official trade data significantly underestimate its global trade surplus and the degree of undervaluation.

An analysis of China's trading-partner data indicates that China is significantly understating its bilateral trade deficit with the United States and its global trade surplus. China is "hiding the ball." After adjustments are made for transshipments through Hong Kong and differences in f.o.b./c.i.f. valuation, an analysis of trading-partner data indicates that this divergence has been rising, as the table below shows.

China's Global Trade Surplus (Exports-Imports),
Adjusted for Hong Kong Re-Export Trade, 1999 – 2004 YTD
By Source, in Billions of US$

Year	China Data	Partner Data	Percent Divergence
1999	$28.0	$118.8	325%
2000	$30.7	$147.9	382%
2001	$26.2	$151.5	479%
2002	$31.8	$174.6	450%
2003	$29.9	$202.0	575%
2003 (Jan-June)	$8.3	$49.9	504%
2004 (Jan-June)	$2.5	$63.2	2411%

The significance of these statistics is that many of the various estimates of undervaluation (cited above) may be significantly understated, because they were based upon Chinese data rather than trading-partner data. China's global surplus is more than 325 percent higher than China's trade statistics claim, according to its partner trading data.

China's understatement of its surplus extends to nearly every country. As the table below shows, China's has consistently underestimated its surplus with its major trading partners.

Comparison of China-Reported Data with Trading Partner Data
2003 Bilateral Trade Surplus(+)/Deficit(-)
Million U.S. Dollars

Country	China Data	Partner Data	Percent Divergence
Canada	$1,477	$9,919	-85%
Japan	-$11,040	$14,326	-177%
European Union (15)	$21,616	$57,783	-63%
United States	$60,321	$124,913	-52%

As an example of other countries concern about the undervaluation of the yuan, the European Commission President, Romano Prodi, raised this issue with China's leadership according to a commission official as reported by Bloomberg News. According to Prodi, "there is clearly pressure mounting."

China's undervalued currency is creating the conditions for another financial crisis.
In the last two Article IV consultations, the IMF has urged China to adopt a more flexible exchange-rate system, which China has not done. As the IMF predicted, a fixed exchange-rate regime eliminates the possibility of China maintaining an independent monetary policy because the regime requires China to print yuan to purchase foreign-exchange inflows from trade and investment. China's money supply has been growing by 17-20 percent annually, a rate that is overheating the economy and that will create inflation and ultimately another financial crisis.

China's undervalued exchange-rate regime is "unreasonable and discriminatory and burdens and restricts U.S. commerce," as set forth in the FCA section 301 petition.
China's undervalued exchange rate denies market opportunities for U.S. exports, and this regime constitutes export targeting. Moreover, the regime is discriminatory because it disadvantages U.S. products in China, in the United States and in third-country markets. Because the policy suppresses the value of the yuan, it burdens and restricts U.S. commerce.