

108TH CONGRESS  
1ST SESSION

# S. 1592

To require negotiation and appropriate action with respect to certain countries that engage in currency manipulation.

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IN THE SENATE OF THE UNITED STATES

SEPTEMBER 8, 2003

Mr. LIEBERMAN introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To require negotiation and appropriate action with respect to certain countries that engage in currency manipulation.

1        *Be it enacted by the Senate and House of Representa-*  
2        *tives of the United States of America in Congress assembled,*

3        **SECTION 1. SHORT TITLE.**

4        This Act may be cited as the “Fair Currency En-  
5        forcement Act of 2003”.

6        **SEC. 2. FINDINGS.**

7        Congress makes the following findings:

8                (1) The manufacturing sector is an important  
9        driver of the United States economy, contributing al-  
10       most 30 percent of our economic growth during the

1 1990's, and twice the productivity growth of the  
2 service sector during that period.

3 (2) The manufacturing sector contributes sig-  
4 nificantly to our Nation's development of new prod-  
5 ucts and technologies for world markets, performing  
6 almost 60 percent of all research and development in  
7 the United States over the past two decades.

8 (3) The manufacturing sector provides high  
9 quality jobs, with average weekly wages in 2002  
10 nearly 26 percent higher than jobs in the service sec-  
11 tor.

12 (4) The manufacturing growth creates a signifi-  
13 cant number of jobs and investments in other sec-  
14 tors of the economy, and this "multiplier effect" is  
15 reckoned by economists to be larger (2.43 to 1) than  
16 for any other significant sector of the economy.

17 (5) The "jobless recovery" from the recent re-  
18 cession has witnessed the worst job slump since the  
19 Great Depression and the weakest employment re-  
20 covery on record.

21 (6) The manufacturing sector has been hit the  
22 hardest by the jobless recovery, with more than  
23 2,700,000 jobs lost since July 2000, accounting for  
24 nearly 90 percent of the total United States jobs  
25 lost.

1           (7) A significant factor in the loss of valuable  
2 United States manufacturing jobs is the difficulty  
3 faced by United States manufacturers in competing  
4 effectively against lower priced foreign products.

5           (8) A significant obstacle to United States man-  
6 ufacturers in competing against foreign manufactur-  
7 ers is the practice of some governments of inter-  
8 vening aggressively in currency markets to maintain  
9 their own currencies at artificially low valuations,  
10 thus subsidizing their export sales and raising price  
11 barriers to imports from the United States.

12           (9) Certain Asian countries exemplify this prac-  
13 tice. China, Japan, South Korea, and Taiwan to-  
14 gether have accumulated approximately  
15 \$1,200,000,000,000 in foreign currency reserves,  
16 about ½ of the world's total reserves. The vast ma-  
17 jority of these reserves, perhaps as high as 90 per-  
18 cent, are in dollars. These same 4 countries account  
19 for 60 percent of the United States world trade def-  
20 icit in manufactured goods. These reserves are  
21 symptomatic of a strategy of intervention to manipu-  
22 late currency values.

23           (10) The People's Republic of China is particu-  
24 larly aggressive in intervening to maintain the value  
25 of its currency, the renminbi, at an artificially low

1 rate. China maintains this rate by mandating for-  
2 eign exchange sales at its central bank at a fixed ex-  
3 change rate against the dollar, in effect, pegging the  
4 renminbi at this rate. This low rate represents a sig-  
5 nificant reason why China has contributed the most  
6 to our trade deficit in manufactured goods. The  
7 United States trade deficit with China increased  
8 from \$57,000,000,000 in 1998 to \$103,000,000,000  
9 in 2002, while China accumulated dollar reserves to-  
10 taling over \$345,000,000,000 as of June 2003,  
11 keeping the value of the renminbi essentially flat  
12 since 1994.

13 (11) Economists estimate that as a result of  
14 this manipulation of the Chinese currency, the  
15 renminbi is undervalued by between 15 and 40 per-  
16 cent, effectively creating a 15- to 40-percent subsidy  
17 for Chinese exports and giving Chinese manufactur-  
18 ers a significant price advantage over United States  
19 and other competitors.

20 (12) Japan held foreign currency reserves worth  
21 \$526,600,000,000 as of June 2003, and for the pre-  
22 vious 6 months increased its reserves by an average  
23 of \$12,500,000,000 per month. Experts estimate  
24 that the yen is undervalued by approximately 20  
25 percent or more, giving Japanese manufacturers a

1 significant price advantage over United States com-  
2 petitors.

3 (13) In addition to being placed at a competi-  
4 tive disadvantage by foreign competitors' exports  
5 that are unfairly subsidized by strategically under-  
6 valued currencies, United States manufacturers also  
7 may face significant nontariff barriers to their own  
8 exports to these same countries. For example, in  
9 China a complex system involving that nation's value  
10 added tax and special tax rebates ensures that semi-  
11 conductor devices imported into China are taxed at  
12 17 percent while domestic devices are effectively  
13 taxed at 6 percent.

14 (14) The United States has the right and power  
15 to redress unfair competitive practices in inter-  
16 national trade involving currency manipulation.

17 (15) Under section 3004 of the Omnibus Trade  
18 and Competitiveness Act of 1988, the Secretary of  
19 the Treasury is required to determine whether any  
20 country is manipulating the rate of exchange be-  
21 tween its currency and the dollar for the purpose of  
22 preventing effective balance of payments adjust-  
23 ments or gaining unfair advantage in international  
24 trade. If such violations are found, the Secretary of  
25 the Treasury is required to undertake negotiations

1 with any country that has a significant trade sur-  
2 plus.

3 (16) Article IV of the Articles of Agreement of  
4 the International Monetary Fund prohibits currency  
5 manipulation by a member for the purposes of gain-  
6 ing an unfair competitive advantage over other mem-  
7 bers, and the related surveillance provision defines  
8 “manipulation” to include “protracted large-scale  
9 intervention in one direction in the exchange mar-  
10 ket”.

11 (17) Under Article XV of the Exchange Agree-  
12 ments of the General Agreement on Tariffs and  
13 Trade, all contracting parties “shall not, by ex-  
14 change action, frustrate the intent of the provisions  
15 of this Agreement, nor by trade action, the intent of  
16 the Articles of Agreement of the International Mone-  
17 tary Fund”. Such actions are actionable violations.  
18 The intent of the General Agreement on Tariffs and  
19 Trade Exchange Agreement, as stated in the pre-  
20 amble of that Agreement, includes the objective of  
21 “entering into reciprocal and mutually advantageous  
22 arrangements directed to substantial reduction of  
23 tariffs and other barriers to trade,” and currency  
24 manipulation may constitute a trade barrier disrupt-

1       tive to reciprocal and mutually advantageous trade  
2       arrangements.

3           (18) Deliberate currency manipulation by na-  
4       tions to significantly undervalue their currencies also  
5       may be interpreted as a violation of the Agreement  
6       on Subsidies and Countervailing Measures of the  
7       World Trade Organization (as described in section  
8       101(d)(12)) of the Uruguay Round Agreements Act,  
9       which could lead to action and remedy under the  
10      World Trade Organization dispute settlement proce-  
11      dures.

12          (19) Deliberate, large-scale intervention by gov-  
13      ernments in currency markets to significantly under-  
14      value their currencies may be a nullification and im-  
15      pairment of trade benefits precluded under Article  
16      XXIII of the General Agreement on Tariffs and  
17      Trade, and subject to remedy.

18          (20) The United States Trade Representative  
19      also has authority to pursue remedial actions under  
20      section 301 of the Trade Act of 1974.

21          (21) The United States has special rights to  
22      take action to redress market disruption under sec-  
23      tion 406 of the Trade Act of 1974 adopted pursuant  
24      to the provisions of the United States-China Bilat-



1 in this process from international agencies and other na-  
2 tions and regions adversely affected by these currency  
3 practices.

4 **SEC. 4. FINDINGS OF FACT AND REPORT REGARDING CUR-**  
5 **RENCY MANIPULATION.**

6 (a) IN GENERAL.—During the 90-day negotiation pe-  
7 riod described in section 3, the International Trade Com-  
8 mission shall—

9 (1) ascertain and develop the full facts and de-  
10 tails concerning how countries have acted to manipu-  
11 late their currencies to increase their exports to the  
12 United States and limit their imports of United  
13 States products;

14 (2) quantify the extent of this currency manipu-  
15 lation;

16 (3) examine in detail how these currency prac-  
17 tices have affected and will continue to affect United  
18 States manufacturers and United States trade levels,  
19 both for imports and exports;

20 (4) review whether and to what extent reduc-  
21 tion of currency manipulation and the accumulation  
22 of dollar-denominated currency reserves and public  
23 debt instruments might adversely affect United  
24 States interest rates and public debt financing;



1 findings of the International Trade Commission under sec-  
2 tion 4, continue to engage in the most egregious currency  
3 manipulation. In addition to seeking a prompt end to cur-  
4 rency manipulation, the President shall seek appropriate  
5 damages and remedies for the Nation's manufacturers and  
6 other affected parties. If the President does not institute  
7 action, the President shall, not later than 120 days after  
8 the date of enactment of this Act, provide to the appro-  
9 priate congressional committees a detailed explanation and  
10 accounting of precisely why the President has determined  
11 not to institute action.

12 **SEC. 6. ADDITIONAL REPORTS AND RECOMMENDATIONS.**

13 (a) NATIONAL SECURITY.—Within 90 days of the  
14 date of enactment of this Act, the Secretary of Defense  
15 shall provide a detailed report to the appropriate congres-  
16 sional committees evaluating the effects on our national  
17 security of countries engaging in significant currency ma-  
18 nipulations, and the effect of such manipulation on critical  
19 manufacturing sectors such as semiconductors.

20 (b) OTHER UNFAIR TRADE PRACTICES.—Within 90  
21 days of the date of enactment of this Act, the United  
22 States Trade Representative and the International Trade  
23 Commission shall evaluate and report in detail to the ap-  
24 propriate congressional committees on other trade prac-  
25 tices and trade barriers by major East Asian trading na-

1 tions potentially in violation of international trade agree-  
2 ments, including the practice of maintaining a value-added  
3 or other tax regime that effectively discriminates against  
4 imports by underpricing domestically produced goods.

5 (c) TRADE ENFORCEMENT.—Within 90 days of the  
6 date of enactment of this Act, the United States Trade  
7 Representative and the International Trade Commission  
8 shall report in detail to the appropriate congressional com-  
9 mittees on steps that could be taken to significantly im-  
10 prove trade enforcement efforts against unfair trade prac-  
11 tices by competitor trading nations, including making rec-  
12 ommendations for additional support for trade enforce-  
13 ment efforts.

14 (d) TRADE PROMOTION.—Within 90 days of the date  
15 of enactment of this Act, the Secretaries of State and  
16 Commerce, and the United States Trade Representative,  
17 shall prepare a detailed report with recommendations on  
18 steps that could be undertaken to significantly improve  
19 trade promotion for United States goods and services, in-  
20 cluding recommendations on additional support to improve  
21 trade promotion.

22 **SEC. 7. CURRENCY MANIPULATION DEFINED.**

23 In this Act, the term “currency manipulation”  
24 means—

1           (1) large-scale manipulation of exchange rates  
2           by a nation in order to gain an unfair competitive  
3           advantage as stated in Article IV of the Articles of  
4           Agreement of the International Monetary Fund and  
5           related surveillance provisions;

6           (2) sustained, large-scale currency intervention  
7           in one direction, through mandatory foreign ex-  
8           change sales at a nation's central bank at a fixed ex-  
9           change rate; or

10          (3) other mechanisms, used to maintain a cur-  
11          rency at a fixed exchange rate relative to another  
12          currency.

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