

RECOMMENDATIONS

Currency manipulation

- The Commission recommends that Congress urge the Administration to take to the World Trade Organization (WTO) and the International Monetary Fund (IMF) a complaint about China's manipulation of its currency. This manipulation contravenes both the letter and the spirit of WTO rules and the IMF charter.
- The Commission recommends that Congress pass legislation to modify the requirements of the Treasury Department's biannual report on countries that practice currency manipulation, by making it clear that countries that artificially peg their currency in order to gain an export advantage should be identified as violating the principles of international trade. The Commission also recommends that Congress eliminate the requirement that a country must be running a global trade surplus to be designated a currency manipulator.¹
- The Commission recommends that Congress enact legislation to define currency manipulation and loan forgiveness as illegal export subsidies subject to countervailing duty penalties levied against an offending country's exports.
- The Commission recommends that Congress pass legislation to allow the U.S. Department of Commerce to impose countervailing duties against non-market economy subsidies. (Although current U.S. practice does not allow such duties to be imposed against non-market economies, such actions are permitted by the WTO.)

¹China currently is running a large global current account surplus. The International Monetary Fund estimates China's global current account surplus will be \$184 billion in 2006, having surged from \$68.7 billion in 2004 and \$160.8 billion in 2005. In the 1990s, however, China ran far smaller surpluses and even a deficit in 1993. This recommended change would allow the Treasury Department to designate China as a currency manipulator even during a year when China's current account is in balance or in deficit.

Accounting integrity

- The Commission recommends that Congress direct the Treasury and Commerce Departments to examine how the collection of data regarding foreign investment in the United States can be improved, placing particular emphasis on the feasibility of tracking how foreign central banks invest their reserves in dollar denominated assets.
- The Commission recommends that Congress encourage the executive branch to protest any Chinese restrictions on the free flow of financial information.
- The Commission recommends that Congress urge the executive branch to open negotiations with China to secure approval for foreign credit reporting agencies to provide uncensored ratings of all Chinese securities, and to obtain Chinese central government agreement that Chinese regulators will drop licensing and regulatory requirements that dictate criteria for the hiring of ratings analysts.

Dispute resolution

- The Commission recommends that Congress urge the U.S. Trade Representative to press ahead aggressively with a WTO case against China for its manifest failures to enforce intellectual property rights, selecting the best of many potential cases in order to establish a strong precedent, and that Congress urge the U.S. Trade Representative to enlist other nations to join in the case.
- The Commission recommends that Congress monitor the recent steps taken to strengthen and enlarge the international trade law enforcement office within the Office of the U.S. Trade Representative and, if the Representative needs additional resources to investigate and prosecute dispute settlement cases before the WTO, that Congress provide those resources.
- The Commission recommends that Congress direct the Administration to increase the number of intellectual property attachés in China from the Office of the U.S. Trade Representative, the U.S. Patent and Trademark Office, and the Departments of State, Commerce, Justice, and Homeland Security, and provide sufficient funding to the parent agencies to support these additional attachés.

Fair trade

- The Commission recommends that Congress urge the U.S. Trade Representative to strengthen its annual review of China's compliance with WTO rules by adding conclusions and recommendations to its report. (Congress instituted the requirement that the Representative prepare this report when it granted China permanent normal trade relations as part of China's admission to the WTO.)

Criminal penalties for intellectual property rights violations

- The Commission recommends that the U.S.-China Inter-parliamentary Exchange raise with the National People's Congress the need to lower the threshold for criminal prosecutions of Chinese intellectual property rights violation cases.

ENDNOTES

1. In 2003, China surpassed Japan to become the third largest trading partner. In 1999, China surpassed Germany to become the fourth largest trading partner.
2. This is a 20 percent increase in exports and 24 percent increase in imports over 2004. Also, it is a 118 percent increase in exports and 138 percent increase in imports since 2001, the last trading year before China's WTO accession. U.S. Commerce Department, *Country and Product Trade Data*, www.census.gov/foreign-trade/statistics/country/index.html.
3. USCC calculations based on U.S. Commerce Department data.
4. The International Monetary Fund estimates China's current account surplus will be \$184 billion in 2006 and Japan's will be \$167 billion. China's surplus in the first half of 2006 was \$92 billion. China's current account surplus is expected to reach \$206 billion in 2007. The IMF estimates the U.S. current account deficit in 2006 to be \$869 billion.
5. This reference to foreign-invested enterprises, based on China's Ministry of Commerce figures, refers to China-based, foreign business enterprises that are independent of any state ownership. Ministry of Commerce (PRC), *Exports by Type of Enterprises (2005/01-12)*. english.mofcom.gov.cn/aarticle/statistic/ie/200603/20060301722205.html.
6. AmCham-China, *White Paper 2006: Enhancing Dialogue, Moving Forward*, May 2006, p. 34.
7. U.S. Chamber of Commerce, *Countering Global Counterfeiting and Piracy*, Summer 2006.
8. Ted Fishman, "How to Stop Intellectual Property Theft in China," *Inc. Magazine*, June 2006. www.inc.com/magazine/20060601/ip-theft.html.
9. See U.S. Senate Committee on Finance, *Hearing on U.S.-China Economic Relations Revisited*, testimony of C. Fred Bergsten, March 29, 2006. Also, Morris Goldstein and Nicholas R. Lardy, "A New Way to Deal with the Renminbi," *Financial Times*, January 20, 2006. Also, China Currency Coalition, "Fact Sheet" chinacurrencycoalition.org/pdfs/0405-factsheet.pdf.
10. Peter S. Goodman, "Foreign Currency Piles Up in China?" *The Washington Post*, January 17, 2006, p. D-1.
11. U.S. Trade Representative, *2006 National Trade Estimate; Foreign Trade Barriers*, (Washington, DC: March 2006), p. 92.
12. U.S. Trade Representative, *2006 Special 301 Report*, (Washington, DC: April, 2006), p. 1.
13. U.S. Trade Representative, *U.S.-China Trade Relations: Entering a New Phase of Greater Accountability and Enforcement*, (Washington, DC: February, 2006), p. 8.
14. China agreed to an official designation as a non-market economy during negotiations with the United States. "Non-market economies" are economies whose labor, prices, production, and investment are controlled or substantially controlled by the government. Designating China a non-market economy makes it easier to bring antidumping cases against Chinese exports and allows the United States to impose higher tariffs to counter sudden import surges, but the United States has declined to exercise these abilities.
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16. U.S. Trade Representative, *U.S.-China Trade Relations: Entering a New Phase of Greater Accountability and Enforcement*, (Washington, DC: February, 2006), p. 17.
17. U.S. Trade Representative, *2006 National Trade Estimate; Foreign Trade Barriers*, (Washington, DC : March 2006), p. 95.
18. U.S. Trade Representative, *U.S.-China Trade Relations: Entering a New Phase of Greater Accountability and Enforcement*, (Washington, DC: February, 2006), p. 9.
19. U.S.-China Economic and Security Review Commission, *Hearing on China's WTO Compliance and Industrial Subsidies*, testimony of Timothy Stratford, April 4, 2006.

20. U.S. Trade Representative, *2006 National Trade Estimate; Foreign Trade Barriers*, (Washington, DC: March 2006), p. 92.
21. Portion of the Draft of the 11th Five-Year Plan—"Tuiji Gongye Jiegou Youhua Sengji," ("Promote the Optimization and Upgrading of Industrial Structure"), March 16, 2006. www.china.com.cn/chinese/news/1156676.htm.
22. World Trade Organization, *Trade Policy Review: People's Republic of China*, (Geneva: February 2006), p. xiii.
23. World Trade Organization, *Trade Policy Review: People's Republic of China*, (Geneva: February 2006), p. xii.
24. U.S. Trade Representative, *2005 Report to Congress on China's WTO Compliance*, (Washington, DC: December 11, 2005), p. 38.
25. U.S. Trade Representative, *2005 Report to Congress on China's WTO Compliance*, (Washington, DC: December 11, 2005), p. 39.
26. U.S. Trade Representative, *2005 Report to Congress on China's WTO Compliance*, (Washington, DC: December 11, 2005), p. 6.
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28. That is, firms owned and controlled by foreign-based investors or foreign-based parent companies.
29. According to MOFCOM, in 2005 foreign-funded enterprises accounted for \$444 billion and SOEs accounted for \$169 billion of the total value of exports (\$762 billion). english.mofcom.gov.cn/aarticle/statistic/ie/200603/20060301722205.html.
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41. Department of Homeland Security, U.S. Customs and Border Protection, and U.S. Immigration and Customs Enforcement, *FY2005 IPR Seizure Statistics*, p.5. www.cbp.gov/xp/cgov/import/commercial_enforcement/ipr/seizure/fy05_midyear_stats.ctt/fy05_ipr_midyear.pdf.
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44. Wayne M. Morrison, *China-US Trade Issues*, (Congressional Research Service Washington DC: May 16, 2006), p. 10. www.usembassy.at/en/download/pdf/china_trade.pdf.

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138. U.S.-China Economic and Security Review Commission, *China's Financial System and Monetary Policies*, testimony of Bradley Setser, C. Fred Bergsten, Peter Morici, August 22, 2006.

139. U.S.-China Economic and Security Review Commission, *Hearing on China's Financial System and Monetary Policies*, testimony of C. Fred Bergsten, August 22, 2006.

140. China's export-led GDP growth rate is due in part to its policy of emphasizing exports over domestic consumption. That is, its workers are expected to labor to produce goods for export earnings rather than to produce goods meant for internal consumption. In addition, Chinese economic policy encourages and even directs Chinese citizens to save, rather than spend, their money. As a result, consumption in China represents less than 40 percent of GDP versus 70 percent of GDP in the United States.

141. The International Monetary Fund estimates China's current account surplus will be \$184 billion in 2006 and Japan's will be \$167 billion. China's surplus in the first half of 2006 was \$92 billion. China's current account surplus is expected to reach \$206 billion in 2007. The IMF estimates the U.S. current account deficit in 2006 to be \$869 billion.

142. A 2006 study by the Federal Reserve Bank of San Francisco, looking at historical data, shows that a 10 percent change in the exchange rate leads to a 4 percent change in the prices of imported goods in the United States, although changes in other countries run at 6 percent. At lower rates of change in the currency, such as 10 percent, exporters and distributors accept lower profit margins to retain market share. They would likely be less willing to moderate price increases at a currency rate change of 40 percent, for example. Diego Valderrama, "The Exchange Rate-Consumer Price Puzzle," *Federal Reserve Bank of San Francisco, Economic Letter No. 23*, September, 2006.

143. Azam Ahmed, "Dollar Rises on Fed Comments; China is Wary of Pressuring Yuan," *The Wall Street Journal*, August 23, 2006, C3.

144. The IMF has issued several warnings about a disorderly adjustment. Iain MacDonald, "IMF Warns Lingering Imbalances May Spur Volatile Fall in Dollar," *Wall Street Journal*, 13 September 2006, p. A8.

145. U.S.-China Economic and Security Review Commission, *Hearing on China's Financial System and Monetary Policies*, testimony of Peter Morici, August 22, 2006.

146. U.S.-China Economic and Security Review Commission, *Hearing on China's Financial System and Monetary Policies*, testimony of Francis E. Warnock, August 22, 2006.

147. U.S.-China Economic and Security Review Commission, *Hearing on China's Financial System and Monetary Policies*, testimony of Francis E. Warnock, August 22, 2006. U.S. Treasury Department survey data of some investment firms purchase and sales of Treasury securities can be found at www.ustreas.gov/tic/s1-41408.txt, but it does not include third party holdings.