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Highlights

Highlights of GAO-05-351, a report to congressional committees

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INTERNATIONAL TRADE

Treasury Assessments Have Not Found Currency Manipulation, but Concerns about Exchange Rates Continue

Why GAO Did This Study

The 1988 Trade Act requires the Department of the Treasury to annually assess whether countries manipulate their currencies for trade advantage and to report semiannually on specific aspects of exchange rate policy. Some observers have been concerned that China and Japan may have maintained undervalued currencies, with adverse U.S. impacts, which has brought increased attention to Treasury's assessments. In 2004, Congress mandated that Treasury provide additional information about currency manipulation assessments, and Treasury issued its report in March 2005. Members of Congress have continued to propose legislation to address China currency issues.

We examined (1) Treasury's process for conducting its assessments and recent results, particularly for China and Japan; (2) the extent to which Treasury has met legislative reporting requirements; (3) experts' views on whether or by how much China's currency is undervalued; and (4) the implications of a revaluation of China's currency for the United States.

In commenting on a draft of this report, Treasury emphasized it does consider the impact of the exchange rate on the economy, and factors influencing exchange rates also affect U.S. production and competitiveness.

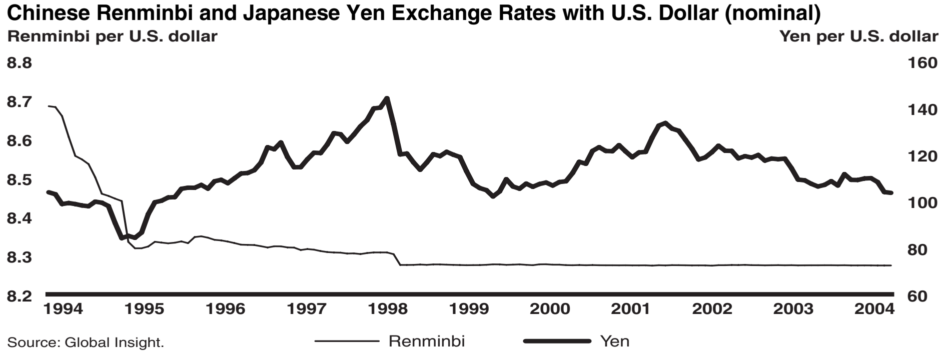
www.gao.gov/cgi-bin/getrpt?GAO-05-351.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4128 or yagerl@gao.gov.

What GAO Found

Treasury has not found currency manipulation under the terms of the 1988 Trade Act since it last cited China in 1994. Treasury officials make a positive finding of currency manipulation only when all the conditions in the Trade Act are satisfied—when an economy has a material global current account surplus and a significant bilateral trade surplus with the United States, and is manipulating its currency with the intent to gain an unfair trade advantage. Treasury said that in its 2003 and 2004 assessments, China did not meet the criteria for manipulation, in part because it did not have a material global current account surplus and had maintained a fixed exchange rate regime through different economic conditions. Japan did not meet the criteria in 2003 and 2004 in part because its exchange rate interventions were considered to be part of a macroeconomic policy to combat deflation.

Chinese Renminbi and Japanese Yen Exchange Rates with U.S. Dollar (nominal)



Source: Global Insight.

Treasury has generally complied with the reporting requirements for its exchange rate reports, although its discussion of U.S. economic impacts has become less specific over time. Recent reports stress the importance of broad macroeconomic and structural factors behind global trade imbalances, which Treasury officials contend meets the intent of economic impact requirements.

Many experts have concluded that China's currency is undervalued, but by widely varying amounts, while some maintain that undervaluation cannot be determined. The significant variation in estimates can be attributed in part to different methodological approaches, but experts also believe that exchange rate assessments are especially challenging for rapidly developing economies such as China's. Among experts who believe China's currency is undervalued, views on policy steps to correct the imbalance differ.

A revaluation of China's currency could have implications for various aspects of the U.S. economy, although the impacts are hard to predict. They depend on multiple factors, including how much appreciation is passed through to higher prices for U.S. purchasers and the extent to which reduced imports from China are replaced with imports from other countries. In addition to affecting trade-related sectors, a revaluation could have implications for U.S. capital flows.