



State of
Kansas



State of
Michigan



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Commonwealth of
Pennsylvania

April 13, 2006

Via Facsimile
(202) 622-0073

Hon. John W. Snow
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

Re: Spring 2006 International Economic and Exchange Rate Policies Report

Dear Secretary Snow,

As your Department completes work on the Spring 2006 Report to Congress on International Economic and Exchange Rate Policies, we write to urge you to take immediate steps to address the manipulative currency practices of several nations, particularly China, that continue to harm America's manufacturers and workers.

When China officially abandoned its practice of pegging the rate of exchange of the renminbi ("RMB") to the U.S. dollar, it committed, and has repeatedly affirmed its intention, to permit exchange rates to be increasingly influenced by market forces. Unfortunately, this has not happened to date, as there are independent experts who continue to conclude that the RMB is undervalued by up to 46 percent in real terms against the dollar. Further, recent studies by the International Institute of Economics have found that "evidence of currency manipulation has become increasingly obvious over the past three years," and that the RMB "remains significantly undervalued on a real, trade-weighted basis." The fact that China has engaged in a large-scale, protracted, one-way effort to prevent the RMB from appreciating against the dollar by boosting its foreign exchange reserves from \$165 billion in 2000, to \$819 billion in 2005, provides strong evidence of this manipulation. Other studies indicate that the Japanese yen and Korean won are also fundamentally undervalued.

Mr. Secretary, we recognize that the United States operates in a global economy, and we support efforts to promote exports, open new markets, and remove barriers to U.S. goods and services. We also believe that if the trading system is to work properly, and American firms are to compete on an equal footing, the rules that govern this system should be vigorously enforced. The condition that nations refrain from manipulating exchange rates to gain an unfair competitive advantage in international trade—a condition set forth in both the Articles of Agreement of the International Monetary Fund and the General Agreement on Tariffs and Trade—is one of these rules. Despite this, American producers continue to be penalized by the fact that China's, and other nations', manipulative exchange practices effectively subsidize the goods these nations sell in the United States, and impose tariffs on U.S. goods sold abroad. These practices undermine the general principle that markets, not governments, should determine exchange rates. They should not go unchallenged.

Unless a substantial revaluation occurs in the immediate future, we urge you, in the Department's Spring 2006 Report, to find that China is improperly manipulating the rate of exchange of the RMB to obtain an unfair trade advantage against the United States. America's businesses deserve to know that other nations will be held to account for this type of unfair conduct.

We look forward to working with you to help you to resolve these important matters.

Sincerely,



Governor Kathleen Sebelius
Kansas



Governor Jennifer M. Granholm
Michigan



Governor Bill Richardson
New Mexico



Governor Edward G. Rendell
Pennsylvania