Appendix 2: Past U.S. Treasury Determinations with Respect to Economies Considered to have Manipulated their Exchange Rate

The determination of exchange rates is a complex process that involves countless economic decisions, both at the national and global level. Although there are many plausible reasons that government authorities might seek to influence an economy's exchange rate, there is a legitimate concern that some economies might succeed in manipulating an exchange rate to prevent effective balance of payments adjustment or to achieve an unfair competitive advantage. The assessment of whether an economy is manipulating the rate of exchange in terms of Section 3004 of the Omnibus Trade and Competitiveness Act ("the Act") of 1988, 22 U.S.C. § 5304, requires a comprehensive review of significant international developments. At certain times in the past, Treasury has stated that it had determined that certain economies were manipulating their exchange rates for the reasons identified in the Act. Those instances are listed below:

<u>October 1988</u>

- <u>Taiwan and Korea</u> were named. The Report stated that undervalued exchange rates were a major factor in the increase in the external surpluses of the two economies. The undervaluation was deemed the direct result of currency intervention by the central bank, capital controls, and administrative mechanisms aimed at preventing the exchange rates from reflecting market forces and achieving competitive gain.

<u>April 1989</u>

- <u>Taiwan and Korea</u> were named again under the terms of the Act. The Report noted that progress had been made but that it was insufficient to alter the basic judgments of October 1988.

<u>October 1989</u>

- <u>Korea</u> was named. The Report stated that there continued to be indications, despite positive moves, of exchange rate manipulation by Korea.

<u>May 1992</u>

- <u>China and Taiwan</u> were determined to be manipulating their exchange rates under the terms of the Act. The Report noted that China's external payments surpluses resulted in large part from pervasive administrative controls maintained by the Chinese authorities including a highly regulated system of foreign exchange allocation and direct control on imports. This was the result of China's dual exchange rate system in which an administered exchange rate applied to trade transactions and a "market" rate was determined in "swap centers" where foreign-invested enterprises and domestic entities could buy and sell foreign exchange at rates established through a regulated auction. The judgment on Taiwan was made based on continued official action, including controls on capital inflows, that was viewed as an effort by the authorities to inhibit effective balance of payments adjustment.

December 1992

- China and Taiwan were named again; China for continued use of the administered exchange rate (i.e., the dual system) and Taiwan for continued official intervention.

May 1993

- China was named as no significant changes were made to the foreign exchange regime.

November 1993

- China was named. However, the Report expressed support for China's plan to move toward a more market-based economy and reform of its foreign exchange system. But the Report noted that China's foreign exchange system continued to be heavily regulated.

July 1994

- China was named. Treasury welcomed China's decision to unify its dual exchange rates as of January 1, 1994. However, further reforms implemented on April 1, 1994, segmented the foreign exchange market and imposed restrictions that limited foreign-funded enterprises access to foreign exchange.

In the December 1994 Report, no economy was named. On China, Treasury noted that the government had taken important steps to reform its foreign exchange system, unify exchange rates, and liberalize domestic firms' access to foreign exchange. Some restrictions remained, such as a requirement of government approval of foreign exchange purchases by foreign-funded enterprises, which at the time accounted for a large share of China's imports. Since the arrangement was viewed as intended to provide the means to limit imports, Treasury determined that China was not manipulating its exchange rate to prevent effective balance of payments adjustment or to gain unfair competitive advantage in trade.

No economy has been determined to have met the criteria for manipulation as set out in the Act since July 1994.