AIADA
American International Automobile Dealers Association

POSITION PAPER

EXCHANGE RATES AND THE INTERNATIONAL AUTOMOBILE MARKET

BACKGROUND

Charges have been made that Japan is manipulating its currency to gain an unfair competitive advantage in the United States, creating a subsidy for automobile companies. In its most recent *Report to Congress on International Economic and Exchange Rate Policies* (10/9/2015) the U.S. Treasury stated:

> "Japan maintains a floating exchange rate regime and has not intervened in foreign exchange markets since November 2011. Along with other G-7 countries, Japan committed to direct its economic policies to domestic objectives using domestic instruments, and has committed, with other G-20 countries, to refrain from competitive devaluations, and resist all forms of protectionism. As of August 2015, Japan had at its disposal the second largest stock of foreign exchange reserves in the world at $1.19 trillion, or about 25 percent of GDP."

> "South Korea officially maintains a market determined exchange rate, and its authorities intervene with the stated objective of smoothing won volatility. In February 2013, Korea joined the rest of the G-20 in committing to refrain from competitive devaluation and to not target its exchange rate for competitive purposes, a commitment reaffirmed at the G20 Finance Ministers and Central Bank Governors Meeting in Ankara, Turkey in September"

> "China's commitments—including in the U.S.–China 2015 Strategic and Economic Dialogue (S&ED)— to intervene only when justified by disorderly market conditions and allow the market to play a greater role in determining the exchange rate, remain critical. China also acknowledged that it is in its own interest to adopt the transparency standards of major reserve currencies. In October, China subscribed to the IMF's Special Data Dissemination Standard (SDDS), a much-needed step toward increasing the transparency of China's foreign exchange reserves and exchange rate policy. 5 In another step toward greater transparency, the September 30, 2015 release of the IMF's Currency Composition of Official Foreign Exchange Reserves (COFER) database included for the first time data on reserves from China."

> "Based on the analysis in this report, Treasury has concluded that no major trading partner of the United States met the standard of manipulating the rate of exchange between its currency and the United States dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade as identified in Section 3004 of the Act during the period covered in the Report. Treasury continues to closely monitor developments and policy implementation in economies where growth is weak and exchange rate adjustment is incomplete, and continues to push for comprehensive adherence to all G-7, G-20 and IMF commitments. These include the G-7 commitments to orient fiscal and monetary policies towards domestic objectives using domestic instruments and to not target exchange rates. They also include the G-20 commitments, which were re-affirmed in Ankara in September, to move more rapidly toward market-determined exchange rate systems and exchange rate flexibility, to avoid persistent exchange rate misalignments, to refrain from competitive devaluation, and to not target exchange rates for competitive purposes."

POSITION

The American International Automobile Dealers Association supports the findings of the United States Treasury.

MORE ABOUT THE ISSUE

- Currency is an international issue more properly addressed on a multilateral basis, such as with the G-7 or G-20 and the International Monetary Fund. Including currency provisions in selected free trade agreements to which only signatory countries are subject will adversely affect a fair and competitive global economic environment for the United States.
- In the G-7 statement of February 2013, Japan joined the G-7 countries in pledging to base its economic policies on domestic objectives using domestic instruments, and to avoid targeting exchange rates.
- Japan was also part of the subsequent G-20 consensus and statement at the February 2013 Finance Ministers and Central Bank Governors Meeting in Moscow that countries would not target exchange rates for competitive purposes.
- These statements were affirmed by G-20 Leaders in September 2013 at the St. Petersburg Summit.

October 2016