DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

C-570-140
Investigation
Public Document

May 28, 2021

James Maeder
Deputy Assistant Secretary for Antidumping and Countervailing Duty Operations
Department of Commerce

Dear Deputy Assistant Secretary Maeder:

Pursuant to 19 C.F.R 351.528(c) and your letter dated April 23, 2021, please find below the evaluation and conclusion of the Department of the Treasury (Treasury) regarding the determinations under 19 C.F.R. 351.528(a) and (b)(1) in relation to Commerce's countervailing duty (CVD) investigation of an alleged subsidy pertaining to currency undervaluation on mobile access equipment and subassemblies thereof (MAE) from the People's Republic of China (China) (Case No. C-570-140).

In order to make our evaluation and conclusion as to the determinations requested by Commerce, Treasury has conducted an analysis using its Global Exchange Rate Assessment Framework (GERAF). GERAF provides a multilaterally consistent method for assessing the extent of any currency misalignment and the specific economic fundamentals and government policies that contribute to the misalignment. For further detail on GERAF, please see the methodology paper[1] and a non-technical summary[2] of how GERAF is applied for purposes of submissions for Commerce's countervailing duty investigations and reviews.

Regarding the determination under 19 C.F.R. 351.528(a)(1), Treasury assesses that the Chinese renminbi was undervalued during the relevant period. Specifically, Treasury's evaluation leads us to assess that in 2020 there was a gap between China's real effective exchange rate (REER) and the real effective exchange rate that would achieve an external balance over the medium term under appropriate policies (equilibrium REER). Treasury's assessment that the renminbi was undervalued in 2020 is independent of its finding of undervaluation as a result of government action on the exchange rate, which is the determination required by 19 C.F.R. 351.528(a)(2). Treasury notes the large degree of uncertainty surrounding GERAF's assessment across economies for 2020. Quantifying the amount of uncertainty surrounding these estimates proves challenging, especially considering the effects of COVID on the global economy.

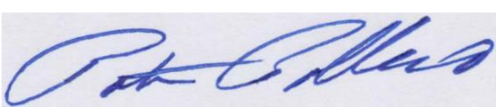
[1] U.S. Department of the Treasury, *Global Exchange Rate Assessment Framework Methodology*, available at: https://home.treasury.gov/system/files/206/Global-Exchange-Rate-Assessment-Framework-Methodology.pdf.
[2] U.S. Department of the Treasury, *Treasury Framework for Assessing Currency Undervaluation Summary*, available at: https://home.treasury.gov/system/files/206/Treasury-Framework-for-Assessing-Currency-Undervaluation-Summary.pdf.

Regarding the determination under 19 C.F.R. 351.528(a)(2), Treasury has found that in 2020 China did not undertake "government action on the exchange rate" that contributed to the undervaluation of the renminbi. As noted in Treasury's *April 2021 Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States*, monthly changes in the People's Bank of China's (PBOC) foreign exchange assets recorded no significant changes, decreasing by $15 billion in 2020.[3] **Treasury assesses these small net sales of foreign exchange had no effect on the bilateral exchange rate vis-à-vis the U.S. dollar in 2020.** Although Treasury assesses (under 19 C.F.R. 351.528(a)(1)) that the renminbi was undervalued on a real effective basis, with respect to the determination required by 19 C.F.R. 351.528(a)(2), this undervaluation was due to other factors than "government action on the exchange rate."

Treasury recognizes doubts among some analysts and market participants about whether the data on foreign exchange assets reported by the PBOC allows for a sufficiently comprehensive measure of Chinese foreign exchange intervention, and pursuant to 19 C.F.R. 351.528(a)(2), Commerce (and, by extension, Treasury) may consider the government's degree of transparency regarding actions that could alter the exchange rate. However, for the purposes of this analysis, reasonable estimates of foreign exchange intervention that may be conducted through other financial institutions that is not reported as intervention in official data still yield valuation estimates that lie within the margin of error, particularly when factoring in the increased estimation uncertainty due to COVID. Nevertheless, China continues to remain an outlier regarding its non-disclosure of data on foreign exchange intervention activities, and its lack of transparency warrants intensified attention. Treasury has emphasized this in its April 2021 *Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States*, stressing that "China's failure to publish foreign exchange intervention and broader lack of transparency around key features of its exchange rate mechanism and the activities of state-owned banks warrant close monitoring of renminbi…developments going forward."[4]

If you have any questions regarding this analysis, please contact Treasury at CurrencyCVD@treasury.gov.

Sincerely,



Patricia Pollard
Acting Deputy Assistant Secretary, International Monetary Policy

Enclosure

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[3] U.S. Department of the Treasury, Report to Congress—*Foreign Exchange Policies of Major Trading Partners of the United States*, April 2021, pg. 18, available at: https://home.treasury.gov/system/files/206/April_2021_FX_Report_FINAL.pdf.
[4] Id, pg. 5.