July 30, 2007

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate
Washington, DC 20510

Dear Chairman Baucus:

America's economy today is strong, prosperous and competitive. The openness of our economy to trade and investment has been a critical component of our economic success. The Bush Administration is committed to strengthening further America's economy by advancing open markets and free and fair trade at home and abroad.

When nations open their economies, their citizens benefit. The competition, innovation, research and investment encouraged by open economies leads to economic growth, greater opportunity and improved living standards. But when other countries follow a different path and adhere to policies that are less open, there is a temptation to respond by raising barriers to trade and investment here in the United States. That is the wrong approach. Protectionism and economic isolationism undermine our ability to promote reform abroad and weaken our economy at home.

We recognize that many Americans are concerned that China's currency is undervalued and that the pace of economic reform is too slow, to the detriment of American businesses and workers. We share this concern. We further recognize that Members of Congress want to communicate their concerns, and we respect the intent of the legislation sponsored by Members of the Senate Committee on Finance and the Senate Committee on Banking, Housing and Urban Affairs. However, these bills will not accomplish our shared goal of persuading China to implement economic reforms and move more quickly to a market-determined exchange rate. Rather, the approaches taken in S. 1607 and S. 1677 would substantially weaken the position of the United States in our ongoing efforts to achieve essential economic reforms in China and around the world, while jeopardizing our rapidly growing exports that have benefited American workers and farmers.

The best way to achieve results is through continued intensive dialogue and engagement with China bilaterally and through multilateral institutions, coupled with appropriate reliance on WTO litigation and WTO-consistent trade remedies available under U.S. law. The Strategic Economic Dialogue (SED), established by President Bush and Chinese President Hu Jintao, provides a framework for pursuing a broad range of important economic reforms. The United States and

China also have robust agendas in the Joint Commission on Commerce and Trade, the Joint Economic Commission, and other focused dialogues. At the same time, we have brought a number of important cases against China in the WTO, and are appropriately administering U.S. trade remedy law. To get results, we must use all of these avenues strategically to advance reform.

These efforts have yielded results, although more is needed and at a faster pace. The Chinese have taken steps to increase exchange rate flexibility and the RMB has appreciated nearly 10 percent against the dollar. Since the start of the SED, the pace of appreciation has tripled. We also continue to work actively with China on the trade agenda, on further opening its markets, on increasing transparency and on promoting adherence to international standards and the rule of law.

The legislative approaches recently considered by the Senate Committee on Finance and before the Senate Committee on Banking, Housing and Urban Affairs would be counter-productive and undermine the U.S. position as we continue to work with China on essential economic reforms. Moreover, these approaches – applicable to China and other major trading partners – create risks of broad trade disruption. If we violate our international obligations, other nations would have the right to impose sanctions against U.S. exports or take other measures. Certain provisions designed to enhance trade litigation appear to raise serious concerns under international trade remedies rules and could invite WTO-sanctioned retaliation against U.S. goods and services. America's leading farm, high-technology, financial services, and manufacturing exporters and their employees should not be subjected to such risk. At a time when U.S. exports are growing globally, such legislation also exposes the United States to the risk of "mirror legislation" abroad and could trigger a global cycle of protectionist legislation.

Legislation that could potentially violate our international obligations, distance us from multilateral institutions, invite copycat legislation or other retaliation against U.S. exporters, impede our efforts to open and move foreign markets toward flexible, market-determined exchange rates would risk undermining market confidence, which rests on continued adherence to open trade and investment policies. Such legislation is not in the best interests of the United States. The best way to achieve results on goals that we share with Members of Congress is not through the legislation currently being considered but through continued direct, robust engagement with China's senior leaders.

For these reasons, the Administration opposes the approaches taken in legislation proposed by the Senate Committee on Finance and the Senate Committee on Banking, Housing and Urban Affairs. The Administration looks forward to discussing further its efforts and its concerns with these legislative approaches.

Sincerely,

Henry M. Paulson, Jr.
Secretary of the Treasury

Carlos M. Gutierrez
Secretary of Commerce

Susan C. Schwab
United States Trade Representative