



Emissary of the U.S. Secretary of Treasury to the
People's Republic of China

*American Embassy
Manila, Philippines*

May 18, 2005

The Honorable John W. Snow
Secretary of the Treasury
U.S. Department of The Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220
U.S.A.

Dear Mr. Secretary,

Thank you for giving me the opportunity to serve as your Economic and Financial Emissary to China over the past thirteen months. As China has made sufficient reforms to now begin to introduce flexibility in its currency regime, this is an appropriate time for me to return to my full-time service as U.S. Executive Director at the Asian Development Bank.

Over the last year, we have made significant progress with China on economic and banking reforms. It is important to note that in addition to the progress on our chief goal of persuading China to move to a flexible exchange rate regime, we have also achieved a number of other noteworthy objectives related to that goal. Clearly, the most important accomplishment of the past year was to achieve the understanding from China's economic leadership that adopting a flexible currency system is in China's own best interests to help it effectively manage its economy. Today there is no doubt that China is prepared to introduce greater flexibility in its exchange rate regime.

The reforms undertaken by the Chinese during this period are substantial and critical to China's progress, specifically in the financial sector; meeting WTO compliance; and building the financial infrastructure for sustainable economic growth with a flexible currency regime.

In support of China's preparations for exchange rate reform, we have engaged with the People's Bank of China in the bilateral Technical Cooperation Program (TCP) that you established during your September 2003 visit. As part of this cooperation, we have actively worked with the State Administration of Foreign Exchange (SAFE) to encourage further capital account liberalization and develop the foreign exchange markets. The Chicago Mercantile Exchange has already established a close working relationship with

SAFE's China Foreign Exchange Trading System (CFETS) that will soon allow China to trade foreign exchange derivatives products. Reflecting China's new capabilities in foreign exchange trading, CFETS began trading an additional eight currency pairs in China on May 18.

We also provided valuable assistance in the area of banking reform to assist in China's resolution of non-performing loans (NPLs) in its banking system. Our efforts have been so well-received that the People's Bank of China has asked for follow-up efforts to continue progress in this area. Separately, Treasury and the Federal Deposit Insurance Corporation (FDIC) are also teaming up to provide a seminar on bank deposit insurance.

In the area of expanding market access in China's securities industry, our ongoing discussions with the China Securities Regulatory Commission (CSRC) have also helped persuade the Chinese authorities that allowing more foreign investment in Chinese securities firms will be helpful in strengthening China's troubled securities sector. A number of deals are currently in progress that will allow foreign firms to acquire an effective controlling interest in local securities firms.

These are just a few of the more notable results of the strengthened U.S.-China relationship on financial issues. This cooperative relationship is clearly helping China to manage its transition as it moves into a flexible exchange rate regime.

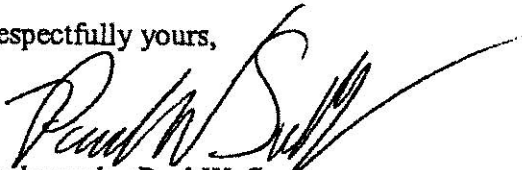
As you know, I have been honored to serve you as your Financial Emissary in China. I have done this job in addition to continuing to serve as United States Executive Director for the Asian Development Bank (ADB). Balancing these two full-time responsibilities while commuting between the Philippines, China and the many other Asian member countries of the ADB, has been an effective arrangement. However, this extensive travel in Asia makes it difficult for me to come to Washington enough to confer directly with senior administration officials and to be responsive to Congress' need for ongoing updates. I have found that my many meetings with members of Congress have proved helpful to all sides in providing a clear understanding of the Administration's overall U.S. - China economic engagement and specifically on the difficulties regarding the Chinese action on currency reform.

I would ask that my remaining time in the Philippines be focused on my responsibilities in representing President Bush at the ADB. The United States, as a major shareholder at the ADB, plays a critical role in advancing the adoption of sound economic policies, generating economic growth, and raising living standards of poor people in Asia. During the last two years, we have made positive and significant steps in reforming this multilateral development bank, specifically in the areas of combating corruption, promoting management reform, and good governance. Externally, my work and frequent travel to Afghanistan, Pakistan, Indonesia, and other countries in the region, have all been carefully coordinated with the various U.S. Government agencies to further our bilateral and international development objectives. This is very important and we need to continue

to actively drive this initiative forward. Our ongoing work in assisting with the Tsunami disaster is another critical program that we are focusing on.

I remain at your service to provide any advice and counsel as you and your team at Treasury continues the effort to ensure that China adopts sound economic policies.

Respectfully yours,



Ambassador Paul W. Speltz