



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 10, 2003

The Honorable Bill Frist
Majority Leader
United States Senate
Washington, DC 20510

Dear Senator Frist:

We are writing to express our strong opposition to S. 1586, regarding China's currency. We view the legislation as damaging to our trade and economic interests, and are concerned because it clearly violates our international obligations. The possible addition of this measure to S. 150, the Internet Tax Non-Discrimination Act of 2003, would also harm chances of passage of that important and long overdue legislation.

This Administration is determined to level the playing field for American manufacturers and workers competing in the global marketplace. To preserve opportunities for America's manufacturers, farmers, ranchers, and service providers to expand their exports, it is essential that we maintain access to important foreign markets. By potentially requiring the Administration to violate our WTO commitments, and effectively reversing Congress's grant of Permanent Normal Trade Relations, the legislation undermines the important goal of expanding U.S. companies' access to the Chinese market by advancing China's integration into the global rules-based trading system.

Unilateral imposition of a 27 percent duty on imports from China would harm the U.S. economy just as it is beginning to gain momentum. Many domestic manufacturers would face rising costs and consequently be less able to compete globally. Our economy is just now beginning to resume a pattern of consistent, strong, job-creating growth. This import tariff would diminish the strength of the economy and its potential to create new jobs. Further, in many cases, the cost of higher tariffs would be passed directly to consumers, with particularly harsh consequences for low-income Americans.

The imposition of an import duty would likely also greatly undermine recent gains made by U.S. exporters to China. It is likely that the WTO would authorize China to retaliate against our exports, resulting in serious damage to U.S. exporters and consumers. Since 2001, China has been the fastest-growing export market for the United States. Our exports to China surged 19 percent in 2001, 15 percent last year, and more than 20 percent from January to August of this year.

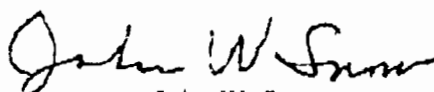
The unilateral imposition of a new import duty would also send a chilling signal throughout the world trading system. The United States has long been the leading voice for advancing the principles of free trade. President Bush has continued and advanced this important tradition. A retaliatory duty such as that included in S. 1586 would signal to the world that the United States may be abandoning its role as the leader of the world free trade movement.

Although we oppose the legislation, we are working actively to ensure that China continues to open its market and adheres to its international obligations. This active, high-profile diplomatic offensive is much the superior solution and the one prescribed by Congress in its 1988 trade bill instructions to the Treasury Secretary. We have all recently traveled to Beijing to meet with China's new leadership and made clear our trade and exchange rate concerns. Our principal interest is making sure Chinese leaders understand that a level playing field is a fundamental requirement for free and fair trade. Our message was clear: China needs to eliminate unfair trade practices that give Chinese companies an unfair advantage in our market.

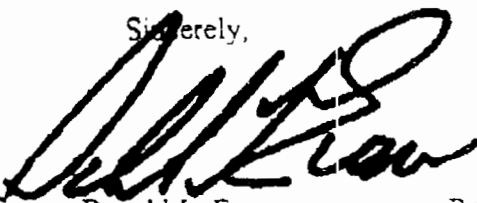
We have also been working to move China to a market-determined floating exchange rate as soon as possible. Our message has been clear and consistent and has been received by Beijing in a constructive manner. President Bush has talked directly with Chinese President Hu on the importance of this issue. Secretary Snow has urged China's leadership to take the steps necessary to float their exchange rate. He has initiated technical cooperation to help accomplish this goal. We have also worked through multilateral fora such as the G7 and APEC to build an international consensus for large economies - like China - to have a market-determined floating exchange rate. At APEC, China helped draft the section noting the need for flexible rates.

We are making progress in our efforts to move China to a system of free trade, free capital flows and market-determined floating exchange rates. We look forward to working with Congress to achieve these important objectives.

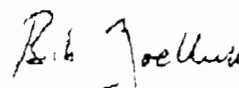
Sincerely,



John W. Snow
Secretary of the Treasury



Donald L. Evans
Secretary of Commerce



Robert B. Zoellick
United States
Trade Representative