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United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510–6075

May 17, 2007

The Honorable Henry M. Paulson
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Paulson,

We are writing you to support your efforts to promote American economic interests in the upcoming U.S.-China Strategic Economic Dialogue. Diplomacy is a critical tool to level the playing field for American firms doing business in China and for American workers and companies producing goods for sale in the global markets.

Currently, the trade of goods and services is tilted to advantage Chinese firms because of ongoing government intervention to keep the yuan undervalued and discriminatory regulatory and supervisory treatment of foreign financial services firms in China. Last week's release of Commerce Department trade statistics indicated that the bilateral trade deficit increased from $47 billion in the first quarter of 2006 to $57 billion in the first quarter of this year, accounting for nearly thirty percent of the overall trade deficit. We urge you to take the necessary steps that will bring an end to the unfair trade practices that are contributing to this deficit and damaging the competitive position of American workers and businesses.

Adequately addressing these unfair trade practices may require steps beyond dialogue and diplomacy, as your colleagues in the Department of Commerce and the Office of the United States Trade Representative ("USTR") have recently demonstrated. The Treasury Department has the authority and opportunity to identify the unfair trade advantage provided by China's currency in the upcoming International Economic and Exchange Rate Policy report. The *1988 Omnibus Trade Act* requires Treasury to take action to ensure that countries who manipulate their currencies "regularly and promptly adjust the rate of exchange…to eliminate the unfair trade advantage."

We ask that you use this authority and all other tools available to the Department of the Treasury to eliminate the unfair trade advantage resulting from China's currency and discriminatory market access policies. Far from hindering U.S.-China relations, dialogue

coupled with action is necessary to promote the free and fair markets for exchange rates and financial services that benefit both nations.

Should you find that Treasury's existing authority is insufficient to eliminate these unfair trade practices, we expect that you will communicate to the Senate Banking Committee any legislative options that may be necessary for improving our nation's ability to ensure a level playing field for U.S. firms and workers. We appreciate the unprecedented high-level dialogue you have established with the Chinese government and we look forward to working with you to produce results for American firms and workers.

Sincerely,

Christopher J. Dodd

Richard C. Shelby