



## United States Council for International Business

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June 13, 2005

The Honorable William H. Frist  
Senate Majority (Republican) Leader  
S-230 The Capitol  
Washington, DC 20510-7010

Via Fax: 202-228-1264

Dear Senator Frist:

On behalf of the United States Council for International Business (USCIB), I am writing to express our strong opposition to S-295, a bill that would impose a 27.5% duty on all U.S. imports from China, unless China adopts a market-based currency valuation within six months. We have sent similar letters to your colleagues, both majority and minority leaders in the U.S. Senate and the U.S. House of Representatives.

This legislation, if enacted, would have profound, negative consequences for the U.S. economy and U.S. companies; undercut broader U.S. national interests; and impede, rather than promote, China's movement toward a market-based exchange rate, the alleged objective of S-295. Unilateral trade sanctions are not an effective response to supposed "currency misalignments." They damage U.S. interests by raising the costs of components used by manufacturers and the costs of imported goods to consumers, especially those at the lower end of the income scale. The end result would be slower economic growth, fewer jobs, and higher costs. At the same time, such action would invite other countries to adopt similar measures if at some future point they found the dollar undervalued.

S-295 would also undermine U.S. efforts to bring China into full compliance with its WTO and other obligations. While China has made some progress in this regard, there are substantial areas where improvement is needed, including the areas of market access, distribution rights, intellectual property protection, procurement practices, and other technical barriers to freer trade and investment. The U.S. can hardly be an effective voice for promoting Chinese compliance with its obligations if it turns its back on its own commitments to the international trading system.

In testimony before the Senate Committee on Banking, Housing and Urban Affairs on May 26, Treasury Secretary Snow rightly said, "China's rigid currency regime has become highly distortionary." He added, "The current system poses a risk to China's economy, its trading

partners, and global growth.” While we understand that this will not solve global imbalances, clearly, a more flexible exchange rate system for China is required. The Administration must, therefore, continue to work with the Chinese authorities to help prepare China’s banking sector for fully liberalized capital markets so that in time China can adopt more flexible exchange rate policies. Such an approach is more likely to help resolve international imbalances than unilateral actions in violation of international trade rules under the WTO.

USCIB represents over 300 U.S. corporations, professional firms, and business associations, many with substantial trade and investment interests in China. In 60 years of promoting open markets internationally, USCIB has consistently argued that strong, positive, exemplary U.S. leadership is essential to address today’s challenges. Short-term punitive measures, such as the proposed legislation, would undermine America’s leadership position in the area of international trade.

We strongly urge your opposition to S-295.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Peter M. Robinson".

Peter M. Robinson  
President  
U.S. Council for International Business