

**Congress of the United States**  
Washington, DC 20510

May 1, 2012

The Honorable Timothy Geithner  
Secretary of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

The Honorable Ron Kirk  
United States Trade Representative  
600 17<sup>th</sup> Street, NW  
Washington, DC 20508

Dear Secretary Geithner and Ambassador Kirk:

The upcoming meeting of the Strategic and Economic Dialogue (S&ED) represents an important opportunity to achieve concrete progress toward resolving several longstanding issues in the U.S.-China economic relationship. Progress on these issues would help enhance our bilateral economic ties and reduce our bilateral economic tensions. China should adopt additional reforms that will provide American businesses and workers with a level playing field on which to compete. Opening China's market to fair competition will benefit both countries and their citizens. While there are a number of issues that merit additional progress, we would like to focus on three issues of critical importance that present opportunities for progress in the upcoming S&ED meeting.

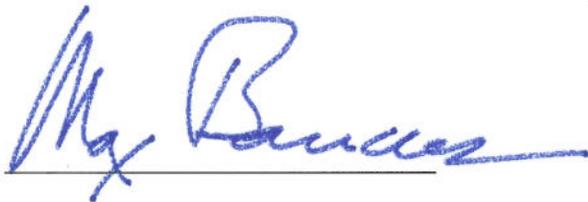
Reform and modernization of the financial sector in China, including increased access to the Chinese market for American firms, should be a top priority of the upcoming S&ED agenda. This goal would help to rebalance China's economy from an export growth model towards one more reliant on domestic consumption, and would support future growth and prosperity in both countries. China is the only G20 member that denies U.S. financial services firms majority ownership and their corporate form of choice. The increased global profile of China's financial institutions and its capital markets should be accompanied by a corresponding reduction and elimination of discriminatory barriers to American financial firms. We urge you to continue to press the Chinese government to eliminate arbitrary caps on foreign investment in Chinese financial entities and restrictions on corporate form. China must also improve regulatory and procedural transparency, develop a more liquid corporate bond market and ensure that American financial firms receive the same treatment from regulators as that received by domestic entities. American businesses must be treated fairly and be allowed to compete on a level playing field.

We also continue to be concerned about the slow rate of progress with respect to the protection of intellectual property rights in China. The Chinese government has made numerous pledges and commitments in various fora, including in the S&ED in areas such as software legalization, but the implementation of those commitments has been mixed at best. While some U.S. software firms have seen an incremental or modest increase in sales to the Chinese government, there has been no meaningful progress with respect to sales to the much larger and commercially important state-owned enterprise (SOE) sector. Likewise, while personal computer sales in China have grown to surpass those in the United States, purchases of legal software have not kept pace. And massive problems persist with respect to patent, trademark, and trade secret protection. The Chinese government's agreement to make the special intellectual property rights enforcement campaign permanent and its enhancement of the authority of China's Ministry of Commerce are steps in the right direction, but far more must be done to protect America's innovations and competitive edge. Chinese commitments must produce significant, concrete results.

We also urge you to continue to press the Chinese government on the issue of the yuan's undervaluation. While we welcome the Chinese government's announcement this month that the yuan would be allowed to trade within a broader daily band, the fact remains that China continues to intervene in currency markets to keep the yuan undervalued relative to the dollar. Moreover, senior Chinese government officials have stated in recent months that they do not intend to allow significant additional appreciation of the yuan against the dollar this year, in view of China's reduced current account surplus. Such statements suggest that, if anything, China may be formalizing a policy of government currency intervention linked to China's trade balance. We believe strongly that China should be moving in the opposite direction and allow the value of its currency to be dictated by market forces. We encourage you to engage Chinese officials at all appropriate levels at the S&ED on this issue.

Along with the U.S. – China Joint Commission on Commerce and Trade, the S&ED is a vital mechanism for seizing the opportunities and confronting the challenges that the U.S. – China economic and strategic relationship present. We urge you to take full advantage of the upcoming S&ED meeting to press China to address our ongoing concerns.

Sincerely,



Senator Max Baucus



Representative Sander M. Levin