House Lashes Out at China

Bill Would Give U.S. Power to Levy Tariffs Over Cheap Yuan; Senate May Balk

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WASHINGTON—The House of Representatives by a wide margin passed legislation to penalize China's foreign-exchange practices, sending a powerful warning to Beijing but risking a response that could harm U.S. companies and consumers.

The measure would allow, but not require, the U.S. to levy tariffs on countries that undervalue their currencies, which makes their goods cheaper relative to American products. A majority of Republicans lined up with Democrats to pass the bill on a 348-79 vote, highlighting lawmakers' long-simmering frustration with Chinese trade practices as well as their sensitivity to the faltering U.S. economic recovery with an election looming.

The vote marks the strongest trade measure aimed at China to make it through a chamber of Congress after more than a decade of threats by lawmakers. But despite the broad support Wednesday, dim Senate prospects make it unlikely the measure would become law this year.

Chinese Commerce Ministry spokesman Yao Jian said Thursday it would be a breach of World Trade Organization rules to conduct antisubsidy investigations based on exchange-rate concerns, according to the official Xinhua news agency. He said China is willing to take joint actions with the U.S. to help balance trade flows between the two countries, but he said China doesn't undervalue its currency to obtain a competitive advantage.

In a rare showing of bi-partisan support, the U.S. House of Representatives overwhelmingly voted to support a bill that puts pressure on China to let its currency rise faster. Video courtesy of Reuters.

Wang Baodong, a spokesman for the Chinese embassy in Washington, on Wednesday criticized the House vote for politicizing the issue. He stressed the importance of trade relations between the two countries and urged lawmakers to "refrain from making excuses for practicing trade protectionism against China, so as to avoid further harming the overall China-U.S. economic cooperation and their trade relations."

The Obama administration didn't endorse the measure, nor did it work with House negotiators out of concern for being tagged as secretly approving of the move. Nevertheless, the bill gives the White House another tool to pressure China to boost the value of its currency, the yuan.

Treasury Secretary Timothy Geithner has already tried to use the threat of congressional action to press China to let its currency appreciate.

"Today's vote clearly shows lawmakers have serious concerns about this issue," a Treasury spokeswoman said. "The President and Secretary Geithner share those concerns."

The administration also is expected to use multilateral pressure, as European and Asian countries are likely to complain about Chinese currency practices at a Washington meeting of the International Monetary Fund next week, and a summit of the leaders of the Group-of-20 industrialized and developing nations in mid-November in Seoul.

China generally links its currency tightly to the dollar. Many economists have long viewed the rate as undervalued, giving Chinese exporters a big boost competing in the U.S. market and putting pressure on American steelmakers and machine-tool producers, among others. In June 2010, China said it would allow the yuan to float more freely, but it since has gained just 2% against the dollar.

The Obama administration faces election-year pressure to act. China is increasingly coming up in both parties' campaigns, as a sort of shorthand for worrisome foreign influence. In their recently released "Pledge to America," for example, Republicans say the U.S. shouldn't "borrow 41 cents of every dollar we spend, much of it from foreign countries, including China."

Democrats have accused Republicans of abetting outsourcing and the trade deficit. Rep. Mark Schauer, a Michigan Democrat in a tough race, is airing an ad against his GOP opponent that says, "Tim Walberg made it way too easy for companies to outsource our jobs to China. That's wrong. I'm fighting to end outsourcing, and making sure we create jobs here, not China."

Mr. Walberg said the ad misrepresents his position.

The parties' divisions remained on display in their response to Wednesday's vote. "Real action is now being taken in Congress to stand up for American workers and businesses," said House Ways and Means Chairman Sander Levin of Michigan. But GOP Rep. Jeb Hensarling of Texas warned against "precipitating a trade war at a time when we're in tough economic times."

The move comes at a sensitive time in U.S.-China relations, with clashes over Beijing's territorial claims in the South China Sea and wrangling over a number of trade issues, from glossy paper to tires to chicken.

Under the measure approved Wednesday, the U.S. Department of Commerce would be directed to consider whether Beijing's currency practices amount to an unfair subsidy to Chinese companies in cases brought by their competitors. If Commerce were to make such a finding, it could assess levies on goods imported from China or other countries with undervalued currencies.

But the measure, which was revised in a Ways and Means Committee vote earlier this month, doesn't require Commerce to make such a determination. The change in language, said Scott Lincicome, a trade lawyer at White & Case, gives the administration "a way to say no" to U.S. industries and could signal to China that Washington isn't looking to declare a trade war over currency practices.

China critics in the Senate plan to press for legislation when lawmakers return to Washington after the elections, but that would involve a separate proposal and the window for legislation to move before year-end is expected to be brief.

The House is set to pass legislation that would pressure China to increase the value of its currency and lead to additional duties on goods from that country. John Bussey, Rebecca Blumenstein and Dennis Berman discuss.

If Republicans win control of the House, priorities could change. Even Republicans on the Ways and Means Committee who supported the bill said the U.S. should instead be more aggressive in pursuing alleged Chinese trade violations with the World Trade Organization, rather than taking on Beijing unilaterally. "To those who continue to oppose this bill, I say this: This bill is not on my trade agenda," said Michigan Rep. Dave Camp, the top GOP member of Ways and Means.

Mr. Camp also plans to press for Washington to revive bilateral-investment treaty talks with Beijing. Republicans have also called for the U.S. to move more quickly on new trade pacts.

Even so, the heat will remain on Beijing over trade. Although Chinese officials regularly say they don't act in response to threats of pressure, that hasn't been the case recently. In June, shortly before an earlier G-20 summit, China said it would end its two-year-old practice of tying the yuan tightly to the dollar.

When the yuan's value barely budged, the U.S. dispatched White House economic adviser Lawrence Summers to Beijing in September to warn of political consequences. Since then, the yuan has risen 1.7%, and about 2% overall since the June announcement.

But predicting Beijing's reaction is always difficult. A coalition of three dozen U.S.-based trade associations warned in a letter to Congress that the measure could produce a backlash against U.S. companies. In Beijing, The American Chamber of Commerce in China also opposed such legislation, which it said "puts at risk thousands of existing export-related jobs."

—Andrew Batson contributed to this article.

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