U.S. Manufacturers Target China for Trade Sanctions

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U.S. Manufacturers Target China for Trade Sanctions A coalition of U.S. manufacturing groups plans to file a trade complaint with the Bush administration against China for allegedly manipulating its currency to gain product-pricing advantages in violation of global trade laws.

The complaint, which is being organized by the National Association of Manufacturers, or NAM, a powerful lobbying group in Washington, would represent another difficult Chinese trade issue for the Bush administration, which already is faced with deciding how to handle an appeal from textile manufacturers to limit the import of China's textile products.

By **Michael Schroeder** in Washington and
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The administration had hoped to blunt such trade complaints with Commerce Secretary Donald Evans's recent announcement of a special team within his department to investigate allegations of anticompetitive practices, such as illegal dumping and subsidies.

But the intensity of the backlash against China has only increased, suggesting that the new Commerce unit hasn't satisfied those who say the Bush administration isn't doing enough to defend domestic industry. Several U.S. House of Representatives members Wednesday introduced a nonbinding resolution calling on the Bush administration to use "all tools" available to combat what they called "illegal currency manipulation" by China, Japan, South Korea and Taiwan.

In a recent trip to China, Treasury Secretary John Snow urged Beijing leaders, without success, to revalue the yuan. Chinese unwillingness to address the issue prompted the trade groups' decision to prepare a complaint, NAM said. Jerry Jasinowski, president of NAM, said in a statement that the organization is joining with other industrial and agricultural groups and labor unions to develop a so-called Section 301 trade action against China.

Scot Montrey, a spokesman for the trade group, said preparation of the complaint is in the early stages, but the coalition is intent on alleging China's policy of pegging the value of its currency to the U.S. dollar is an unfair trade practice.

The complaint, which would be the first aimed to settle a currency dispute, would be filed initially with the U.S. Trade Representative's office for investigation before being authorized for filing at the World Trade Organization by the administration of U.S. President George W. Bush. The complaint could lead to WTO talks and could prompt sanctions if a settlement can't be reached.

After addressing NAM members in a private session Wednesday, Grant Aldonas, U.S. Commerce Department undersecretary for international trade, said in a media briefing that it will be important for the manufacturing coalition to prepare a strong factual case to support the complaint. He added that even discussion of filing a case would likely put pressure on the Chinese to enter serious discussions with U.S. authorities to resolve the matter.

Mr. Aldonas said, however, that congressional action isn't the best approach. "The legislative solution is a relatively blunt instrument," he said, adding that he prefers a negotiated resolution.

The "sense of Congress" resolution, which could gain support, asserts that currency manipulation by China, Japan, South Korea and Taiwan has contributed "significantly" to the loss of 2.7 million U.S. manufacturing jobs since the summer of 2000. The resolution says China, in particular, has severely hurt U.S. exports by holding its currency at "40% below its market value."

"This illegal currency manipulation is costing U.S. manufacturers billions of dollars in lost exports while putting American workers on the unemployment line," said Rep. Don Manzullo, who is chairman of the House Committee on Small Business and one of several bill sponsors.

The Illinois Republican said that economists estimate currency manipulations give the Asian products a 15% to 50% competitive advantage over U.S. manufacturers. The National Association of Manufacturers believes these manipulations account for two-thirds of the U.S. trade deficit with Asian countries.

At issue is the practice of China and other Asian countries keeping their currencies in lockstep with the U.S. dollar.

In much of Asia, central banks since the spring have been buying massive amounts of dollars on currency markets to keep their currencies steady. The strategy was prompted when Mr. Snow sent signals that the U.S. would accept, or even promote, a weaker U.S. dollar.

Getting Asian countries to agree to stop supporting their currencies will be difficult. Asian companies have invested hundreds of billions of dollars to set up manufacturing in China. Supplying those companies with components, together with sales to a growing domestic market in China, has meant booming Chinese exports for all of them. Asian companies operating in China are concerned that a volatile currency in China could disrupt their economic position.

But places such as South Korea and Taiwan, and to a lesser extent Japan, have the potential to be hit twice by a weakening dollar. Not only do they face lower revenues from exports to the U.S., but they also have to worry about the effect of the weakening yuan on their overseas sales.

South Korea, for example, competes head-to-head with China on 30% or so of its exports. Allowing its currency to strengthen against the dollar would make Korean goods look more expensive to U.S. customers, unless Korean companies kept their U.S. prices steady and swallowed the currency losses.

Still, South Korea and others have opted for intervention to maintain the status quo, rather than piling on as critics of the Chinese currency system. That's because their economic relationship with China is now so intertwined that any change could be damaging.

-- Joseph Rebello of Dow Jones Newswires contributed to this article

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