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#POLITICS

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Senators eye October action on China yuan

Doug Palmer



<p>One-hundred Yuan notes are seen in this picture illustration in Beijing March 22, 2011. REUTERS/Jason Lee</p>

WASHINGTON (Reuters) - A bipartisan group of U.S. senators on Thursday predicted the Senate would overwhelmingly pass a bill next month to crack down on China currency practices they blame for millions of lost American jobs.

“When countries like China manipulate their currencies, that’s not competing. That’s cheating,” Senator Sherrod Brown told reporters at a news conference to unveil the bill.

The legislation combines two earlier bipartisan measures -- one championed by Democratic Senator Charles Schumer and Republican Senator Lindsey Graham; the other by Brown, a Democrat, and Senator Olympia Snowe, a Republican.

Schumer said he expected the bill to pass “resoundingly” early in October when lawmakers return from a break.

“Economists of all stripes agree: China illegally subsidizes their industries, they underpay their workers, they skirt environmental regulations and ignore the tenets of global trade rule after trade rule,” he said.

“They get away with economic murder, and thus far our country has said, ‘Oh, we don’t care,” Schumer said.

The bill is sure to increase tensions with China, although it would have a long road to travel before becoming law. Policymakers are already worried Europe’s debt crisis could undermine global growth; a trade war would be further trouble.

China’s Foreign Minister Yang Jiechi, attending a United Nations meeting in New York, did not directly address the currency issue but urged restraint.

“Economic and trade issues should not be politicized and trade and investment protectionism should be rejected,” he said in a speech to business leaders.

Key Republicans in the House of Representatives have indicated a go-slow approach to the China currency issue, and Schumer acknowledged President Barack Obama does not support the bill.

The bill’s sponsors, which include Republican senators Jeff Sessions and Richard Burr and Democratic senators Robert Casey and Debbie Stabenow, argued an undervalued Chinese currency had created an unfair trade playing field for U.S. producers.

“This is about making sure we are exporting our products instead of our jobs,” Stabenow said.

House Democrats seized on the Senate action to demand Republican leaders schedule a vote in their chamber.

“This legislation has broad bipartisan support in the House and there’s no excuse for inaction,” said Representative Sander Levin, the top Democrat on the House Ways and Means Committee.

COULD LEAD TO DUTIES ON CHINESE PRODUCTS

A main provision would direct the Commerce Department to treat currency undervaluation as a subsidy under U.S. trade law. That would allow companies to seek countervailing duties on Chinese goods on a case-by-case basis.

The House passed that same provision last year on a bipartisan vote of 348-79. Since then, control of that chamber has shifted from Democrats to Republicans, who are more closely aligned with business interests that argue for open trade.

But Levin, the House bill’s chief sponsor, has reintroduced the legislation and it currently has 145 Democratic and 56 Republican co-sponsors. That is just 17 short of the 218 votes needed for House passage.

The left-leaning Economic Policy Institute estimated in a report this week that the huge U.S. trade gap with China has cost the United States 2.8 million jobs over the past decade.

The U.S.-China Business Council, which represents American companies that do business with China, said the report was based “on the faulty assumption that every product imported from China would have been made in the U.S. otherwise.”

A group of 51 business and farm groups, including the U.S. Chamber of Commerce and the Business Roundtable of corporate chief executives, also have warned of the possible adverse effects of passing a bill.

“Legislation that would increase tariffs on imports from China is unlikely to create any incentive for China to move expeditiously to modify its exchange policies,” the groups said in a letter to lawmakers on Wednesday.

“Rather, it would likely have the opposite effect and result in retaliation against U.S. exports into China -- currently the fastest-growing market for U.S. exports.”

PUSH BACK FROM CHINA

China rejects criticism that it deliberately undervalues its yuan currency to give its companies a price advantage in international markets. It says it is committed to moving to a more flexible exchange rate, but at its own pace.

Last week, China’s Foreign Ministry urged U.S. lawmakers not to resort to “excuses” for trade protectionism after U.S. Senate Democratic leader Harry Reid said he planned to push legislation to pressure China to loosen its currency controls.

The bill would also change a law that requires the Treasury Department to evaluate every six months whether any country is manipulating its currency for an unfair trade advantage.

Instead, it requires the Treasury to identify countries with “fundamentally misaligned” currencies -- a lower threshold -- and establishes actions that designation would trigger, some immediately and others after 3 months or a year.

Companies would not have to wait for that to ask the Commerce Department to impose countervailing duties. However, such a finding would strengthen their case, Schumer said.

One immediate consequence would be mandatory U.S. opposition to any changes in the governance structure of the International Monetary Fund that would benefit a country with a currency deemed to be fundamentally misaligned.

After a year, the U.S. Trade Representative’s office would be required to file a case at the World Trade Organization and the Treasury Department would be required to consult with the Federal Reserve and other central banks to consider remedial intervention in currency markets.

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