U.S. free-traders sour on China

Action urged to slash imbalance

By Patrice Hill

The Washington Times--Sunday, December 12, 2010

Long-simmering trade tensions between the United States and China have broken out into open verbal warfare, with some highly respected and influential voices on trade now advocating an all-out economic war with the Asian giant.

At the center of the dispute is the gigantic U.S. trade deficit with China, which, at $226.8 billion in the first 10 months of the year and growing, is the largest such imbalance in the world. The bilateral imbalance came back with a vengeance in 2010 after retreating during the recession from all-time highs of around $260 billion.

Adding fresh fuel to the clash, the Commerce Department reported Friday the U.S. trade deficit with China for October marked a 20 percent increase from the same period last year. At that pace, the bilateral trade gap would total about $272 billion for the entire year.

By some estimates, the China-driven trade deficit cut potential growth in the U.S. economy in half from 4 percent to 2 percent in 2010 as consumers showered money on imports rather than U.S.-made goods — preventing the creation of millions of jobs had those purchases been directed at U.S. goods and services.

Private trade analysts who typically extol the benefits of free and open global commerce say the size and persistence of the U.S.-China imbalance call for new thinking.

In this Dec. 9 photo, construction workers in Shanghai push wheelbarrows past an energy-themed advertisement featuring a photo of President Obama depicted as Buddha. American lawmakers are pressing China for action on currency and high-tech trade in talks this week, and an impending Washington visit by President Hu Jintao has raised expectations Beijing might offer concessions. (Associated Press)

"It's the biggest challenge we face," said David Levy, chairman of the Jerome Levy

Forecasting Center, noting that fervent attempts by the Obama administration to persuade China to take action have proved largely fruitless over the past year.

"Every dollar of the trade gap is a dollar of wealth transfer" to the rest of the world, he said. While China boasts that its double-digit economic growth was an engine for the world economy during the recession, "on balance China is more of a caboose than a locomotive. It's sucking profits out of the world economy" with its persistent trade surpluses, he said.

The U.S. faces a "dilemma" over what to do because it has been unable to get substantial cooperation from China, Mr. Levy said. Unilateral action, including tariffs and other limits on Chinese imports, he said, runs the risk of triggering a potentially worldwide trade war.

China could retaliate not only by limiting imports of such vital U.S. exports as airplanes and heavy construction equipment, but also as the biggest buyer of U.S. Treasury bonds. It could trigger a financial crisis by boycotting purchases of U.S. debt at a time when the American budget deficit has surged to well over $1 trillion a year.

The frustration over what to do has led to increasingly blunt criticism and finger-pointing between the world's No. 1 and No. 2 economies. Even normally circumspect leaders such as Federal Reserve Chairman Ben S. Bernanke have entered the fray.

The Fed chairman in two recent appearances has lashed out at China's practice of linking the value of its currency to the dollar, saying that makes the Fed's job of steering the U.S. economy into a recovery harder while harming China's economy in the long run as well.

"Keeping the Chinese currency too low is bad for the American economy because it hurts our trade, it's bad for other emerging-market economies [that compete with China], and it's bad for China," Mr. Bernanke said on CBS's "60 Minutes" last weekend.

"Among other things, it means China can't have its own independent monetary policy. If they fix their currency to the dollar, they have to have essentially the same monetary policy as the United States," he said.

Mr. Bernanke argued that U.S. monetary policy right now is designed to help a struggling economy grow faster, while China already enjoys high growth rates. The Chinese, he said, are "risking inflation by importing U.S. monetary policy, and that's a problem for them. It's not even in their own interest," he said.

At the heart of the dispute is China's yuan, which U.S. policymakers and lawmakers complain is being kept artificially low by Beijing in order to make the country's exports cheaper and more competitive around the world.

Mr. Bernanke advised China to keep adhering to a more flexible currency policy it adopted this year under U.S. pressure, which has allowed the yuan to rise about 3 percent against the dollar. By some estimates, however, the Chinese currency still remains about 40 percent under what Mr. Bernanke described as an "appropriate market value."

In a separate speech, Mr. Bernanke — a renowned scholar of the Great Depression — noted that one of the developments that deepened the 1930s downturn and led to global trade wars was the unwillingness of countries with big trade surpluses — including the United States — to make adjustments to limit those imbalances. His remarks were clearly aimed at China.

The Fed chairman's unusual outspokenness appears to have been prompted by recent outbursts of criticism from top Chinese officials castigating the U.S. central bank for what Beijing views as too loose monetary policies.

The Fed's announcement last month that it would purchase $900 billion in U.S. Treasury bonds in the next six months to try to spur faster U.S. growth set off a decline in the value of the dollar on world currency markets and a rise in key commodities priced in dollars, such as oil and copper.

China's manufacturers are among the world's heaviest users of such raw materials, thus the Feds moves have angered and inconvenienced China.

"The biggest force undermining the dollar is the U.S. Federal Reserve," said Xiao Gang, chairman of the Bank of China's Board of Directors in a recent opinion piece.

"It is high time for them to reconsider," he said, calling the Feds easier-money policy "dangerous" because it runs the risk of setting off higher inflation.

China has been hit with a bout of inflation amid a rise in commodity prices and a red-hot property market, forcing the Chinese central bank to raise interest rates. Thus, the Fed's policy has complicated Chinese efforts to slow inflation.

Mr. Xiao accused the Fed of "beggar-thy-neighbor" policies because the decline in the dollar has forced other countries, such as South Korea and Brazil, to try to limit the rise of their own currencies to avoid losing their share of the lucrative U.S. import market.

But he defended China's policy of allowing only gradual gains in its own currency, saying a more aggressive shift in the exchange rate could be disastrous. He noted that Japan allowed its currency to rise too quickly in the 1980s, a move that contributed to its decades-long economic stagnation. He said China wants to avoid that fate.

The sharp exchanges between U.S. leaders and their Chinese counterparts come as labor unions, some U.S. businesses and prominent trade experts are calling for more aggressive action to counter China's export strategies.

A coalition of U.S. exporters and trade unions is pushing for Congress to enact a bill that penalizes China by enabling the Commerce Department to levy countervailing duties on Chinese imports if it determines that China's currency policy unfairly depresses the price of those imports.

The bill passed the House this fall, in a warning shot that prompted China to allow faster appreciation for a while. But that improvement proved transient and has once again tailed off as political pressure eased. Now the coalition is calling on the Senate to act on the legislation.

Lawmakers are adding to the pressure on the Obama administration in other ways. On Friday, 33 House members released a letter to Commerce Secretary Gary Locke and U.S. Trade Representative Ron Kirk demanding "meaningful objective commitments" with success criteria on such issues as intellectual-property rights and China's opening its markets to U.S. goods.

"These criteria should include commercially meaningful metrics, such as increased U.S. exports to and sales in China," read the letter, whose signatories included Reps. Sander M. Levin and Dave Camp of Michigan, the outgoing Democratic and incoming Republican chairmen of the House Ways and Means Committee.

Mr. Locke and Mr. Kirk will lead the U.S. delegation to talks Tuesday and Wednesday to the U.S.-China Joint Commission on Commerce and Trade (JCCT), a group that the House members said had failed to help U.S. companies get "commercially meaningful" access to China.

Adding to the heat, C. Fred Bergsten, the head of the widely respected Peterson Institute for International Economics, last week called on Congress and the administration not only to adopt the tariff legislation, but also to escalate the dispute by taking the U.S. case against China before the World Trade Organization.

"With policymakers failing to make progress on the critical issue of global imbalances, America has no alternative but to put China on notice," he said. "Trade is impeding rather than leading the recovery" in the United States.

China's trade surplus with the U.S. is speeding toward record levels again, while its "hoard" of foreign-exchange reserves earned through trade is growing faster than ever, re-creating the overheated financial conditions that helped cause the U.S. credit crisis and Great Recession, he said.

The U.S. needs to take action on its own to curb the trade deficit by slashing the U.S. budget deficit, as recommended by a presidential commission this month, Mr. Bergsten said. That would show China that the U.S. is serious about doing its part to stop overindebtedness and overspending — the chronic U.S. economic problems that have fed the trade deficit.

But beyond that, the burden for action should be squarely placed on China, Mr. Bergsten said.

The "stalemate," he said, has "intensified the feud over currencies and trade, rather than helped to resolve it. The Chinese say they will never move under foreign pressure."

But their actions reveal "they will do so only under such pressure," he said.