

US Congress presses China on currency

By James Politi and Richard McGregor



The US Congress is renewing a push to penalise China over its currency, potentially forcing the White House to choose between angering its Democratic base and upsetting its delicately balanced relations with Beijing.

The Senate is expected to vote on anti-China trade legislation on Monday, with the bill likely to pass with overwhelming bipartisan support, before being sent to the House of

The White House has given mixed signals. Jay Carney, White House press secretary, said on Friday the administration was “reviewing” the bill and shared “concerns” about the currency.

The bill would require the commerce department to use estimates of currency undervaluation when calculating so-called countervailing duties, imposed against imports deemed to be state-subsidised.

On Sunday, China’s official news agency said the US was resorting to an old habit of deflecting blame on to China.

“This has become a common practice – whenever the [US] economy is slow, whenever an election is nearing, voices in the United States pressing for the rise of the renminbi are all over,” Xinhua said in a commentary.

Although the legislation has been drawn more tightly than previous such bills, which simply proposed levying an across-the-board tariff on Chinese imports, many trade lawyers think it would still be vulnerable to legal challenge at the World Trade Organisation.

The Obama administration has maintained pressure on Beijing to allow its currency to appreciate, while also shifting the emphasis in bilateral talks to other issues, such as state subsidies and government procurement in China.

Administration officials have pointed to the fact that the renminbi has been appreciating at an annualised rate of about 10 per cent this year against the dollar, once China's high inflation is taken into account.

China still tightly manages its currency, buying all the dollars that flow into the country and then reinvesting them abroad, largely in US-denominated assets such as Treasury bills.

The Peterson Institute for International Economics estimates this policy, which has left China with swollen foreign exchange holdings of \$3,200bn, costs Beijing about \$240bn a year.

“To put this cost in perspective, \$240bn is considerably larger than China's trade surplus of \$183bn last year and is about 4 per cent of China's GDP in 2010,” according to a paper by the institute's Joseph Gagnon.

“Moreover, this cost does not include the implicit tax on the banking system associated with China's reserve holdings, which are passed on to Chinese households through depressed interest rates on savings deposits.”

With the presidential election looming in the US next year, and anti-China sentiment running deep across large swathes of the public, the White House may find itself under pressure to adopt a tougher approach.

In an unusual act of defiance, the Democratic-controlled Senate has chosen to consider the China currency legislation before debating Barack Obama's \$447bn jobs programme, the president's top domestic priority.

Assuming the Senate passes the legislation, the White House's ability to skirt a tough decision on whether to veto the bill depends on the Republican-controlled house.

“The delicate handling of the China issue depends on a relationship of trust between House Republicans and the White House, and so we’re in trouble,” says Phil Levy, a trade policy analyst at the American Enterprise Institute.

So far, House Republicans have been reluctant to take up China currency legislation in this Congress, even though some in their party supported a similar bill that passed in the lower chamber last year.

One House Republican aide said he did not think it would be brought for a vote “anytime soon”.

A spokesman for Dave Camp, the chairman of the ways and means committee who backed last year’s House bill against China, said: “While currency is certainly an issue, solely looking at currency manipulation misses the larger points. Camp will continue looking aggressively at China’s abuses this fall.”

But that could change – especially if Republicans opposed to trade liberalisation raise their voices and the echoes of the campaign trail become louder.

Mitt Romney, a leading Republican contender for the presidency, has been highly critical of China on trade.

Ryan McConaghy, an economic policy analyst at Third Way, a centrist Democratic think-tank, does not see the issue causing such dramatic political problems.

“It’s more of a timing issue. They are trying to stay on message with jobs. I don’t think it’s necessarily the case that they don’t want to see it come to [Mr Obama’s] desk,” he said.