Tensions Rise Over Trade With China

With Treasury Secretary Timothy Geithner in Beijing today and President Obama planning to meet with Chinese Premier Hu Jintao in Washington next week, Members of Congress have been voicing their frustration over trade and economic policies that many believe are contributing to America's large balance-of-trade deficit and a loss of U.S. manufacturing jobs.

China's policy of keeping its yuan artificially low to keep its exports cheap has put the United States at a competitive disadvantage, critics say. Obama has postponed a planned April 15 decision on whether to brand China a currency manipulator, which would likely result in a formal complaint to the World Trade Organization, with the possibility of economic sanctions to follow.

"There's definitely some tension" between the White House and Members of Congress over issues involving trade with China, Sen. Robert Casey (D-Pa.) told the online news source Politico. Pennsylvania's steel industry has been devastated by low-priced Chinese imports, but Casey and others on Capitol Hill are also vexed by reports the Obama administration has allowed economic stimulus money for a windmill farm in Texas to be used to buy Chinese turbines.

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"I think they'd be wise to try to make sure they're doing a better job getting dollars in the hands of U.S. manufacturers, creating U.S. jobs, as opposed to saying well, 'Some of the money is going to go overseas; that's just the way it is,'" Casey said. The state's other Senator, Republican-turned-Democrat Arlen Specter described U.S.-China trade relations in rather pointed language in an interview with Fox News: "We have a real problem with the Chinese," said Specter. "They are very shrewd, and customarily they outmaneuver us. They take our jobs. They take our money, and then they lend it back to us and own a big part of America. So let's watch exactly … what's happening."

Specter and Casey, along Senators Sherrod Brown, Democrat of Ohio, and Kansas Republican Sam Brownback are supporting legislation sponsored by Senators Charles Schumer (D-N.Y.) and Lindsey Graham (R-S.C.) to impose penalties and tariffs on any country with a "misaligned" currency, Politico reports. Senators Debbie Stabenow (D-Mich.), Jim Bunning (R-Ky.), and Rep. Paul Ryan (R-Wis.) want to clarify and streamline the process for accusing a country of currency manipulation before the World Trade Organization. But Obama may be reluctant to bring the issue before the WTO, since Washington is relying on Chinese cooperation in pressuring Iran to drop efforts at developing a nuclear weapons capability. And relations between the United States and China have already been strained over Chinese restrictions on Internet freedom and a $6.4 billion proposed U.S. arms sale to Taiwan, the White House has ample reasons to try to cool the rhetoric.

Geithner's visit, meanwhile, and his scheduled meeting with Vice Premier Wang Qishan has increased speculation that Washington and Beijing are nearing an agreement about currency exchange rates, though Chinese officials have publicly denied undervaluing the yuan. The United States and other Chinese trading partners have claimed currency manipulation by Beijing has made it easier for the Chinese to sell cheaper products in overseas markets and more difficult for other countries to sell in China.

China has created or maintained trade barriers, both legal and illegal, since its entry into the World Trade Organization in 2001, according to a recent study released by Economic Policy Institute, a pro-labor union think tank. Between 2001 and 2008, the United States suffered a net loss of 2.4 million jobs, mainly in manufacturing, according to the EPI study. The job losses have occurred in every congressional district, the study shows, one reason why Members of Congress have shown increasing concern about the effects of China trade.

"But the jobs impact of the China trade deficit is not restricted to job loss and displacement," wrote trade economist Robert Scott, author of the study. "Competition with low-wage workers from less-developed countries has also driven down wages for other workers in manufacturing and reduced the wages and bargaining power of similar workers throughout the economy." For a fulltime U.S. median-wage earner in 2006, these losses totaled approximately $1,400 per worker, Scott said. China is the most important source of downward pressure from trade with less-developed countries, the study found, because of its extremely low wages and because it was the source of nearly 40 percent of U.S. non-oil imports from less-developed countries in 2008.

In addition to currency manipulation, the report cites a number of other Chinese policies that favor exports over imports, including "massive direct subsidization of export production" and non-tariff barriers to imports. Suppression of labor rights by the Chinese government has also held down the cost of manufacturing, making the Chinese products more competitive in global markets, the report said. China exported $337.5 billion of goods to the United States in 2008, more than five times the U.S. exports of $67.2 billion to China. Overall the U.S. trade deficit with China has grown from $84 billion in 2001 to $270 billion in 2008, with the greatest increase in computers and electronic equipment and parts. But the report also notes that China is rapidly diversifying its export base and expanding into higher value-added products like aircraft and auto parts. "The United States has had a trade deficit with China in advanced technology products (ATP) throughout this period, but it increased more than six-fold, from $11.8 billion in 2002 to $74.0 billion in 2008," the reports says.

The greatest job losses attributed to trade with China between 2001 and 2008 occurred in California, where a net loss of 370,000, out of an employment base of 16.5 million, equaled 2.23 percent of the total work force. But New Hampshire, with a loss 16,300 jobs, had the highest percentage of its workforce affected, with 2.35 percent of its jobs lost as a result of Chinese imports, the study found. Conservative columnist Pat Buchanan, who won New Hampshire's first-in-the-nation presidential primary in 1996, told the *New Hampshire Union Leader* the study confirms the warnings he sounded about the nation's trade policy.

"Manufacturing and industrial capacity is a major component of a nation's military power," Buchanan said. "We are more dependent now on foreign nations than we've been since the early 19th century. For what? The junk down at the mall?" But John Frisbie, president of the U.S.-China Business Council, claimed the EPI study is "based on the faulty assumption that every product imported from China would have been made in the U.S. otherwise." Often, he said, the jobs being displaced are in the countries of other competitors.

"Think about the television in your home," Frisbie said in a USCBC press release. "The label on the back probably says ‘Made in China.’ Fifteen years ago the label likely would have said ‘Made in Japan’ — but it was still an import." Frisbie continued, "Much of what we import from China replaces imports from other countries, not products we make in the U.S. today." Daniel Ikenson of the Cato Institute, an organization promoting free trade, points to what he describes as a faulty assumption that imports do not create or support jobs in the importing country.

"But U.S. producers — purchasing raw materials, components and capital equipment — account for more than half of the value of U.S. imports annually, according to the U.S. Bureau of Economic Analysis," Ikenson wrote in an op-ed piece for the *Wall Street Journal*. "Those imports support U.S. jobs in a wide range of industries." He also argues that forcing China to upgrade its currency will mean higher prices for those American consumers who can least afford to pay them.

"Higher prices at Wal-Mart and Target — two of the biggest retailers that bring Chinese goods to U.S. customers — will be felt especially hard by lower-income Americans," Ikenson said. "Trade sanctions would in effect amount to a regressive tax."

But some Members of Congress, facing high unemployment and unhappy constituents at home, want to put pressure on China even if that might hurt U.S. business interests that regard the world’s most populous nation as a growing market for the coming decades — and even if it may result in China cutting back on its purchase of U.S. Treasury bonds that underwrite a large part of our government’s deficit spending each year. The United States now borrows from China to the tune of $789 billion a year. Former President Bill Clinton, whose campaign fundraising from Chinese sources was a national scandal during his time at the White House, is fond of saying that getting tough with China is no easy matter for America’s policy makers, since China has become our nation’s banker. As Clinton often asks his audience: "When was the last time you got tough with your banker?"