

On Capitol Hill: Democrats Likely to Move Against China

Democratic control of the 110th Congress that convenes in January makes trade sanctions against China more likely, but a legislative effort to redress the U.S.-China trade imbalance could kill the golden goose of China's market for U.S. chemical makers and other major exporters. So says Sushan Demirjian, international trade director at the American Chemistry Council. "Action on China is one of the things that many people think is going to happen with the Democrats in the majority on Capitol Hill." Democrats return to legislative power with a long list of pent-up policy objectives, including action against China for what many in both parties see as grossly unfair trading and currency practices by the Beijing government. Those concerns and demands for congressional action are likely to be aggravated by the recent report by the U.S.-China Economic and Security Review Commission, which found that five years after China was admitted to the World Trade Organization, Beijing had fallen woefully short in fulfilling promises to improve human rights, curb product counterfeiting, and revalue its currency, the yuan. On China's currency policy, the commission found that Beijing's continuing refusal to allow the yuan to fluctuate according to market conditions provides Chinese manufacturers a 40 percent price subsidy for exports. In addition, by keeping its currency undervalued, China is effectively imposing a tariff of up to 40 percent on U.S. exported goods. "There are people out there who are steaming mad about this," says Hank Cox, vice president at the National Association of Manufacturers, referring in particular to China's undervalued currency, "but we just don't see a legislative fix for it." A legislative fix that was sponsored this year by Senators Lindsey Graham (R-NC) and Charles Schumer (D-NY) would have imposed a 27.5 percent tariff on all imports of Chinese goods until the Beijing government revalues its currency by at least 10 percent. Another bill introduced this year would have set up a mechanism for U.S. exporters to seek compensation for export losses due to China's undervalued currency. Neither bill advanced in the Republican-controlled Congress. Demirjian says Democrats with support of some Republicans are likely in January to look instead to amend existing U.S. trade law to allow imposition of countervailing duties against non-market economies (that is, government-controlled economies such as China's) that subsidize their exports. There is also talk among Democrat congressional circles of pressing for a formal U.S. complaint to the World Trade Organization about China's broad failure to curb violations of intellectual property rights in product piracy and counterfeiting. Those legislative and international efforts to force China to play fair also pose a risk for Congress and U.S. policy makers. "China is a huge market for us, and that means we have limited options," says Demirjian. It will require a fine legislative touch to craft a response that could move China closer to its World Trade Organization obligations without triggering a broader trade conflict with the Beijing government.

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