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TRADE

Chinese president to face big issues in U.S.

When China's president makes his first state visit to Washington this week, public attention will be focused mostly on economic disputes.

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WASHINGTON - As Chinese President Hu Jintao prepares to visit America this week, he knows he'll face hostile fire on trade and the global economy.

Congress is threatening to impose import tariffs, the Treasury Department is considering branding China a currency manipulator, and the U.S. trade representative just filed a complaint accusing China of distorting global trade in auto parts.

While the United States remains concerned about a range of political and security questions involving China, this year public attention is focused mostly on economic issues. Despite its growing wealth and the leverage that brings, China has a public-relations problem in its largest market, the United States.

Frank Vargo, the vice president of international affairs for the National Association of Manufacturers, is blunt: "I think they've blown it . . . As far their image is going, it's certainly going downhill."

That's tough talk from a group with many members who have robust operations in China, now the world's hottest developing market.

We have members who say, "Well, China is our biggest market. Don't upset the relationship," Vargo said. But now, he said, all members agree to say with one voice that China's economy should be "as market driven as possible."

One key area where China's economy isn't "market driven" is its exchange rate. Most developed nations let international markets determine the value of their currencies. The Chinese government, however, fixes the value of its currency against the dollar.

ARTIFICIAL VALUE

Critics charge that China's fixed currency, combined with extremely low wages, makes Chinese-made goods artificially cheap in the global market, at the expense of goods made in America and other nations whose currency values are set in open markets.

The fixed exchange rate, pegged around 8 Chinese yuan to the dollar, is a primary reason for last year's \$202 billion U.S. trade deficit with China, an all-time high.

Hu could ease tensions, President Bush said, by telling Americans on his visit, which begins Tuesday, that China is willing to revalue its currency.

Sens. Charles Schumer, D-N.Y., and Lindsey Graham, R-S.C., are sponsoring legislation that would slap a 27.5 percent tariff on Chinese goods if China doesn't significantly revalue its currency. The proposal has bipartisan support, but Schumer and Graham say they'll wait until fall to see whether China acts on its own before they seek congressional passage.

If the United States imposed tariffs on Chinese goods, it could provoke a trade war that could harm both economies. Cheap Chinese electronics and garments snapped up by U.S. consumers hold down inflation, which helps Americans stretch paychecks further.

China also spends in ways that affect ordinary Americans.

Since 2001, China increasingly has invested in U.S. Treasury bonds, despite low rates of return. It held some \$262.6 billion in U.S. Treasuries as of January, the Treasury Department reports.

Many U.S. economists think that China isn't buying them simply as investments. Because Treasury bond rates serve as benchmarks for American commercial loans, by accepting low T-bill rates, the Chinese government is helping to keep U.S. bank rates down on consumer loans and home mortgages. That lets American consumers borrow more, boosting U.S. growth and permitting greater American consumption of Chinese imports.

SYMBIOSIS

James Sasser, the U.S. ambassador to China from 1995 to 1999, describes the U.S. and Chinese economies as increasingly symbiotic.

"As the two economies have become much more intertwined and mutually dependent on each other, what you're seeing is American business and financial interests moving in the direction of trying to keep the era of good will going," said Sasser. "They don't want any sharp disputes that can have economic fallout with the Chinese."