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Will Currency Manipulation Bill Ignite Trade War With China

By Amy Bingham

With the Senate poised to pass legislation today to coerce China to reevaluate its currency, speculation abounds as to whether the bill is an effective way to deal with China's currency manipulation.

The bill does not specifically mention China, but it makes it easier for the Treasury Department to label a country's currency misaligned, allowing it to impose tariffs on Chinese imports to make up for the deflated price.

It has bipartisan support in the Senate, but members of both parties are skeptical of the legislation in the House of Representatives as well as in the White House.

"For the Congress of the United States to pass legislation to force the Chinese to do what is arguably very difficult to do I think is wrong, it's dangerous," House Speaker John Boehner said. "You could start a trade war."

And while President Obama said China has been "gaming the trading system to its advantage," he cautioned that the Senate bill may violate international trade laws.

"My main concern ... is whatever tools we put in place, let's make sure that these are tools that can actually work, that they're consistent with our international treaties and obligations," Obama said. "I don't want a situation where we're just passing laws that are symbolic, knowing that they're probably not going to be upheld by the World Trade Organization."

Supporters of the legislation claim that it will pressure China into raising the value of its currency, making American products more competitively priced with Chinese goods, which would increase demand for American exports. This increase in exports would lead to more jobs, particularly manufacturing, which have been disproportionately affected by the recession.

“We can’t force China’s central bank to immediately raise the value of their currency, but we could make the costs of not doing that so high that China has no choice,” said Scott Paul, the executive director of the Alliance for American Manufacturing.

Paul said that in order for America to pull out of the recession, it was “essential” for the United States to pressure China into allowing its currency, known as the yuan, to appreciate.

“Are there things that we can do to improve our own economy? Absolutely,” he said. “But my point is that even if we do those things, we invest in infrastructure, we get our fiscal house in order, all of those tasks are going to be infinitely more difficult unless China raises the value of the yuan.”

But opponents of the bill point out that trying to force China to reevaluate its currency could anger the Asian nation and inspire China to retaliate by imposing duties on U.S. imports or slowing the appreciation of its currency.

“It’s perfectly populist legislation,” said Dan Ikenson, a trade expert at the conservative Cato Institute. “The majority of Americans fear China’s economic rise. Then you have a Congress that isn’t well regarded, that can’t seem to deal with all of our real economic problems, so why not look for a scapegoat.”

Ikenson said the legislation would actually “imperil jobs” because there is “close to a 100 percent chance China will retaliate.”

“It’s just so not worth it,” he said.