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Wider trade gap could propel China currency bill

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By [Doug Palmer](#)

WASHINGTON (Reuters) - New government data on Thursday showing the U.S. trade gap with China grew nearly 12 percent in the first half of 2011 is likely to fuel efforts in Congress to get tough with China's currency practices.

But that drive could fall short again, sparing President Barack Obama a major diplomatic headache as he prepares to host Chinese President Hu Jintao and other regional leaders at an annual summit in Honolulu in November, analysts said.

The bilateral trade gap totaled \$133.4 billion for the six months through June, compared to \$119.4 billion in the same period last year, despite repeated U.S. and Chinese government pledges to bring trade into balance.

The deficit with China for June alone was \$26.7 billion, largest since September 2010 and the fifth largest on record.

Many U.S. lawmakers and manufacturers blame the huge deficit on unfair Chinese trade practices. They complain that China deliberately undervalues its currency to give its companies a big price advantage in international trade.

"Cracking down on unfair trade practices -- including currency manipulation -- should be at the top of the trade agenda. Instead, it's been sidelined and there are no clear indications from House or Senate leaders that it is a legislative priority," said Scott Paul, executive director of the Alliance for American Manufacturing.

In a sign China could be about to shift its yuan policy to contain domestic inflationary pressures, the People's Bank of China Wednesday and Thursday allowed the biggest two-day rise in the yuan reference rate since February 2008.

Still, Paul complained that China has taken only "baby steps" since loosening its currency from a peg against the U.S. dollar over a year ago.

VOTE SAID PROMISED IN SENATE

Just before Congress adjourned for its August recess, Senator Charles Schumer said Senate Majority Leader Harry Reid promised a vote on China currency legislation this year.

Schumer, a member of the Senate Democratic leadership, also argued Congress should consider China currency legislation in conjunction with expected votes on three trade deals with South Korea, Colombia and Panama.

"The issue of currency dwarfs these three trade agreements combined, and I think we have an obligation to our American workers and our American prosperity to address it," Schumer said during Senate Finance Committee work on the pacts.

Last year, the House of Representatives passed a bill treating "undervalued currencies" as an export subsidy. The bill, which died in the Senate, would have allowed U.S. companies to seek countervailing duties on a case-by-case basis against imports that benefit from China's currency practices.

Since then, control of the House has switched from Democrats to Republicans, whose leaders have shown little enthusiasm for China currency legislation.

In a bid to force action, Democrats have filed a "discharge petition" to require House leaders to schedule a vote on the currency bill, which was reintroduced by Democratic Representative Sander Levin this year. So far, they have collected 173 of the 218 signatures needed to force a vote.

Not surprisingly, the names are all Democratic because whichever party is in the majority tends to resist discharge petitions. But there are 54 Republican co-sponsors of the actual bill, indicating it would pass if put to a vote.

Republican presidential hopeful Mitt Romney has accused Obama of failing to get tough on China and has promised to do better if elected next year.

Although a pale shadow of earlier legislation threatening a 27.5 percent tariff on all Chinese goods, approval of the bill would still inflame relations with China and raise the risk of trade retaliation, analysts said.

"I'm hopeful that it won't go beyond talk. Picking a trade fight with China is the last thing our economy needs," said Dan Griswold, trade studies director for the Cato Institute.

Despite the bilateral trade gap, U.S. exports to China have risen dramatically in recent years. In 2010, China was the third largest market for U.S. exports.

Jeff Schott, a senior fellow at the Peterson Institute, said the bill passed last year by the House would have a "fairly modest" economic impact if it became law.

He agreed "there's a good chance you'll hear a lot of talk" about China currency in coming months. "Whether they'll pass legislation on it is another matter," he said.

(Editing by [Mohammad Zargham](#))

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