



## US-China trade tensions rising ahead of Xi visit

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WASHINGTON, Feb 7, 2012 (AFP) - A barrage of complaints over Beijing's allegedly discriminatory trade policies awaits Chinese Vice President Xi Jinping, the country's leader-in-waiting, when he visits Washington next week.

Trade tensions between the world's two largest economies are on the rise as President Barack Obama seeks to spark economic growth and create jobs -- and bids for re-election -- by attacking the deep US trade deficit with China.

Analysts say Obama's pledge last month to launch a trade enforcement unit likely to focus on China and a new sweeping complaint against Beijing by the US auto parts industry are bringing the two sides closer to a trade war.

Xi arrives on Tuesday for a get-to-know-you visit with Obama, with a full range of political issues on the agenda.

His trip comes three weeks after Obama singled out China in his annual State of the Union address as a major problem for the US economy and tied it to the country's high jobless rate.

"I will not stand by when our competitors don't play by the rules," Obama said.

"It's not right when another country lets our movies, music, and software be pirated. It's not fair when foreign manufacturers have a leg up on ours only because they're heavily subsidized." "Our workers are the most productive on Earth, and if the playing field is level, I promise you -- America will always win." The move to set up what will likely be a high-level, China-focused trade task force was just Obama's latest effort to boost US manufacturers against the Chinese export juggernaut.

Tit-for-tat trade actions have been building since the Obama administration levied countervailing duties (CVD) against allegedly subsidized Chinese tires in 2009.

"The Chinese were pretty upset about that," said Dan Ikenson of the Cato Institute. But they appealed the case to the World Trade Organization and lost.

Now the US has levied counter-veiling and anti-dumping duties against some two dozen Chinese products, from tires to steel bars and frozen shrimp, and has lodged WTO complaints over Chinese solar panels, wind turbines and other products.

China has responded with its own punitive duties on imported US chicken and luxury cars and WTO counter-complaints.

Washington has repeatedly pressed Beijing over its undervalued yuan, a policy which critics say favors Chinese exporters.

But China has only given in slightly, letting the currency appreciate at an extremely slow pace that has not satisfied Washington.

The trade gap remains huge: the US ran a \$272 billion deficit with China in the 11 months through November 2011, eight percent higher than a year earlier.

Chinese imports account for 40 percent of the total US deficit.

Analysts say they expect the trade actions will only pick up.

"The Obama administration will not stand by when our competitors don't play by the rules," an administration official told AFP when asked if the situation was escalating, repeating the president's State of the Union warning.

"We will continue to identify and address unfair trade practices to ensure that China and every other country play by the rules." The US presidential election campaign has only heightened the rhetoric -- Republicans seeking their party's nomination to square off with Obama in November are all bashing China and the White House over the trade gap.

China economy expert Huang Yukon of the Carnegie Endowment for International Peace said the words are not harmless, especially as Xi will have to demonstrate his own toughness to the Chinese people should he be named president.

"The rhetoric has a life of its own. That's why the fears of a trade war are real," he said.

But he added, "I don't think it will go away as long as there is high unemployment in the United States, and as long as the US trade deficit remains so high." But the US tactics against China have run into snags. US fair trade enforcers have been able to take advantage of China's official status as a "non-market economy".

Ikenson says that label gives officials much more leeway in making a case that China is subsidizing or dumping a product, or both.

"It's very subjective," he said. "It's much easier to find dumping in the Chinese case because of the methodology employed." But in December, a US federal court of appeals ruled that if China is not a market economy, US law does not allow it to label government payments as "subsidies", and so CVDs cannot be levied.

Then on Monday in a WTO case the US was forced to give up another methodology, known as zeroing, that also made it easier to rule that a country like China was dumping underpriced products into the US market.

Both were significant setbacks to the US campaign on Chinese trade. Ikenson said the appeals court ruling could reverse all US CVD cases against China and Vietnam.

The Commerce Department and the US Trade Representative have appealed to Congress to urgently rewrite US laws to allow the CVD claims against China.