



# WASHINGTON MONITOR

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## **Trade Briefs**

### **Pressure on U.S. to Confront China's Currency Policies**

There is growing pressure from within the U.S. to address what is seen as currency manipulation by trading partners. China is the main target, but a confrontation with China on currency policy would likely entangle other major U.S. trading partners, like Japan and Korea. Last week, legislation was introduced in the Congress seeking to address currency manipulation. In addition, the Department of Commerce (DOC) is considering investigating currency manipulation as a possible countervailable subsidy in the ongoing countervailing duty (CVD) investigation of Coated Paper. Finally, President Obama's statement on March 11, in which he asked that China move to a "more market-oriented exchange rate," further indicates that the U.S. is positioning itself in a more confrontational posture with regard to China. Also, last week, a number of significant voices in the American media suggested that the U.S. be more confrontational with China over its currency policies. Major outlets such as the *New York Times* and the *Washington Post* carried Op-Eds decrying what some analysts see as China's undervaluing of the *renminbi*. The criticisms come in response to the legislative proposal on currency manipulation as well as the fact that the U.S. Treasury Department is preparing its report on foreign currency policies.

One major issue in the U.S. discourse over trade in the coming months and years will be the allegation of currency manipulation on the part of foreign governments. This issue primarily involves China, since many in Congress believe that China has kept its currency artificially weak to encourage exports, thus leading to the massive trade deficit with China. Indeed, legislation introduced in the Congress on March 16, the "Currency Exchange Rate Oversight Reform Act of 2010," seeks to address currency manipulation. The legislation, which is similar to bills introduced in 2005, 2007 and 2009, identifies the undervaluing of currency by foreign governments as a substantial contributor to trade flow distortions, current account imbalances, and unfair trade competition. The legislation creates an entirely new framework for identifying "misaligned currencies" and puts in place firm requirements for executive enforcement. The legislation claims that this currency manipulation is actionable as a countervailable subsidy and can be offset by antidumping (AD) duties in a way that is consistent with the agreements of the World Trade Organization (WTO) and the International Monetary Fund (IMF). Obviously, this legislation would affect Korea as well as China to the extent that Korea was found to be manipulating its currency. This legislation was opposed by President Obama, and it never became law. However, it is an indicator that the Congress is moving toward acting against currency manipulation. President Obama's recent statement certainly indicates that he may be shifting on this issue.

One major factor in the U.S. response to foreign currency manipulation is the contents of the annual "Report to Congress on International Economic and Exchange Rate Policies." The report assesses global macroeconomic trends as well as exchange rate policies of specific countries, including Korea and China. According to the Omnibus Trade and Competitiveness Act of 1988, the Treasury is required to submit biannual reports on the international economic and exchange rate policies of the United States' major trading partners. The report must consider whether U.S. trading partners are manipulating their currency's exchange rate with the dollar in order to prevent effective balance of payment adjustments or to gain an unfair advantage in international trade. In the past, these reports have charged that China, Korea, and Taiwan have manipulated their exchange rates. However, since 1994, no economy cited in these reports has been found to be manipulating its currency according to

the standards prescribed in the Omnibus Trade and Competitiveness Act. The report for 2009 was no different from recent years; it was determined that no country met the standards of currency manipulation. It is important to understand, though, that the Omnibus Trade and Competitiveness Act's standards are quite high. Many of the economies discussed in the report maintain fixed exchange rate regimes or exchange rate policies that tie a home currency to a basket of currencies. The report appeared to give the benefit of the doubt to nations that are moving toward greater flexibility while not actually achieving a free-floating currency. The 2010 report, set to come out in April, is a major focus of those who would like to see the U.S. confront China and other nations over currency manipulation, as its conclusions are the official position of the U.S.

In addition to pushing for new legislation on currency manipulation, Congress has increased pressure on the Administration to use its existing powers to address the alleged currency manipulation by China. In response, DOC Secretary Gary Locke has stated that his Department may initiate an investigation into currency manipulation in the context of the Coated Paper CVD investigation.

The Administration clearly believes that a confrontation with China is not the preferred way to solve this problem. Like the George W. Bush Administration, it believes that this is a sensitive issue that needs to be worked out with China over time and that any confrontation could be counterproductive. However, with mounting pressure from Congress and the continuing trade imbalance between the U.S. and China, the Administration also understands that Congress is not going to wait forever before passing legislation which will deny the Administration flexibility on the issue. Consequently, the Administration is seriously looking at ways to defuse the pressure and give the Administration time to persuade China to change its exchange rate policies. It is also hoping that it can get other major trading countries such as the EU, Korea and Japan to join with the U.S. in putting pressure on China.

What precipitated the change in the DOC's position on conducting CVD investigations against China back in 2006 was legislation proposed that would have imposed a 27.5% tariff on imports of Chinese goods. In order to defuse the legislative effort, the Bush Administration decided that it would change its longstanding policy of not applying CVDs to non-market economies (NMEs) and begin to initiate CVD investigations against Chinese imports. This decision successfully defused the political pressure and gave the Bush Administration time to work on the exchange rate issue through normal diplomatic efforts rather than in the context of a confrontation with China.

The question now is whether the Obama Administration is considering a similar strategy to the Bush Administration's 2006 strategy of taking action which would defuse, at least temporarily, political pressure and allow it to say that it is taking steps to address the issue. This may be why Secretary Locke indicated that the Department of Commerce is considering investigating currency manipulation as a subsidy in the context of the Coated Paper investigation. This would essentially be a replay of late 2006 and early 2007 when the Department of Commerce initiated CVD investigations and USTR brought a series of complaints against China to the WTO for dispute settlement.

There has been a rising chorus in the U.S. media speaking out against Chinese currency manipulation over the past few weeks, seemingly in response to the legislative and executive attention to this issue. In particular, major and influential columnists addressed the issue last week. On Sunday, March 14, the *New York Times'* Paul Krugman wrote an Op-Ed,

“Taking on China,” in which he advocates a confrontation between the U.S. and China over China’s currency policies. Krugman suggests that China’s undervaluing of the renminbi over the past ten years is “the most distortionary exchange rate policy any major nation has ever followed.” Krugman says that this policy “seriously damages the rest of the world,” as other countries are “stuck in a liquidity trap” that imposes an “anti-stimulus” on their economies. Krugman suggests that the Treasury Department identify China as a currency manipulator in its upcoming report. Then, the U.S. should impose a surcharge on Chinese imports, and Krugman says that the surcharge should be as much as 25%. On March 18, the *Financial Times* published an Op-Ed by Arvind Subramanian of the Peterson Institute for International Economics (IIE), “The Weak Renminbi Is Not Just America’s Problem.” Like Krugman, Subramanian suggests that the Treasury designate China as a currency manipulator. Subramanian allows that China’s response would be fierce, but he suggests that the U.S. work through the WTO to create a new rule against undervalued exchange rates. Subramanian says that the IMF could act as the evaluator of when an exchange rate is undervalued and the WTO would act as the enforcer. On March 19, the *Washington Post*’s Sebastian Mallaby identified China as “responsible for protectionism and for politicizing the exchange rate.” Mallaby says that Beijing’s currency policy has led to unstable growth, and that “sooner or later, China needs to rely less on exports that foreigners cannot afford to buy.”

On March 16, the American Automotive Policy Council (AAPC), a coalition of the “Big Three” American automakers (Chrysler Group, LLC, Ford Motor Company, and General Motors Company), wrote a letter to Democratic leaders in Congress, asking them to take action against Japan and Korea for their currency manipulation. The AAPC alleges that these countries unfairly manipulate their currencies and thereby “enhance the competitiveness of their exports.” The AAPC says that the two countries’ currency interventions “contradict commitments made by the G20” group of nations this year, and that the Congress should challenge these “mercantilist practices.” While the domestic auto industry has always had considerable political power in Congress, the rise of sympathetic Rep. Sander Levin (D-MI) to Chairman of the House Ways & Means Committee means that statements like these carry considerable weight.

As the economy continues to languish, and Congress continues to feel the pressure of high domestic unemployment, it appears that the prospect of confrontation with China and other U.S. trading partners is becoming more likely. The combination of legislative momentum, the prospect of CVD action for currency manipulation, President Obama’s March 11 statement about wanting China to pursue a “market-oriented” currency policy, the broad condemnation of China’s trade policies, as well as the upcoming elections in November suggest that conflict between the U.S. and so-called currency manipulators is imminent.

The best indicator of future conflict could be President Obama and other parts of the executive branch such as the DOC. The President has broad authority on trade and on foreign policy, and it is unlikely that there will be a conflict with China unless he chooses to engage in one. This is not to say that Congress, the media, and industry groups cannot influence him; of course, they can. However, if Obama tries to squelch sanctions for currency manipulators as he has done in the past, it is considerably less likely that his party will force the issue. Therefore, the upcoming Treasury report could be a useful indicator of how Obama intends to handle the currency issue. If Treasury Secretary Tim Geithner names China as a currency manipulator, there an intense confrontation is more likely. If China is left off the list,

then Obama may have chosen to avoid confrontation in lieu of behind-the-scenes diplomacy. Also, if the DOC decides to consider currency manipulation a countervailable subsidy, the Administration may be seeking a strategy of defusing tensions.

## Dumping Watch

### Final CVD Determination on Chinese Seamless Pipe Aligned with Final AD Determination

On March 19, the Department of Commerce (DOC) gave notice that it was aligning the final determination in the countervailing duty (CVD) investigation of certain seamless carbon and alloy steel standard, line, and pressure pipe (seamless pipe) from China with the final determination in the corresponding antidumping (AD) duty investigation. On September 16, 2009, the DOC received a CVD petition from United States Steel Corporation and V&M Star L.P. concerning imports of this type of steel pipe from China. TMK IPSCO and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union also entered as petitioners. The petitioners alleged that Chinese producers and exporters of the subject merchandise received countervailable subsidies and that imports materially injure and threaten future material injury to an industry in the U.S. On October 15, 2009, the DOC initiated an investigation. On March 1, 2010, the DOC reached an affirmative preliminary determination in the CVD investigation and found that critical circumstances exist. The DOC calculated the following net countervailable subsidy rates: 11.06% for Tianjin Pipe; 12.97% for Hengyang; and 12.02% for all others. Now, in response to petitioners' request, the CVD and AD investigations will be aligned and the final CVD and AD determinations will be issued on the same date, July 6, 2010.

### Federal Register Notices

#### *International Trade Administration*

**[C-570-957] Certain Seamless Carbon and Alloy Steel Standard, Line, and Pressure Pipe from the People's Republic of China:** Alignment of Final Countervailing Duty Determination with Final Antidumping Duty Determination *75 FR 13255*, March 19, 2010.

**[C-533-839] Carbazole Violet Pigment 23 from India:** Final Results of the Expedited Five-year (Sunset) Review of the Countervailing Duty Order *75 FR 13257-13258*, March 19, 2010

**[A-552-801] Certain Frozen Fish Fillets from the Socialist Republic of Vietnam:** Final Results of the Antidumping Duty Administrative Review and New Shipper Reviews *75 FR 12726-12728*, March 17, 2010.

**[C-357-813] Honey from Argentina:** Rescission of Countervailing Duty Administrative Review *75 FR 12734*, March 17, 2010.

**[A-533-838, A-570-892] Carbazole Violet Pigment 23 from India and the People's Republic of China:** Final Results of the Expedited Sunset Reviews of the Antidumping Duty Orders *75 FR 12497-12498*, March 16, 2010.

**Manufacturing Council** *75 FR 12497-12498*, March 16, 2010.

**[A-570-962] Certain Potassium Phosphate Salts From the People's Republic of China:** Preliminary Determination of Sales at Less Than Fair Value *75 FR 12508-12514*, March 16, 2010.

**[A-351-825] Stainless Steel Bar From Brazil:** Preliminary Results of Antidumping Duty Administrative Review *75 FR 12514-12518*, March 16, 2010.

**Application(s) for Duty-Free Entry of Scientific Instruments** *75 FR 12175*, March 15, 2010.

**[A-533-840] Certain Frozen Warmwater Shrimp from India:** Preliminary Results of Antidumping Duty Administrative Review, Partial Rescission of Review, Notice of Intent to Rescind Review in Part, and Notice of Intent to Revoke Order in Part *75 FR 12175-12188*, March 15, 2010.

**[A-549-822] Certain Frozen Warmwater Shrimp from Thailand:** Preliminary Results of Antidumping Duty Administrative Review and Final Results of Partial Rescission of Antidumping Duty Administrative Review *75 FR 12188-12199*, March 15, 2010.

**[A-533-810] Stainless Steel Bar from India:** Preliminary Results of Antidumping Duty Administrative Review *75 FR 12199-12206*, March 15, 2010.

**[A-552-802] Certain Frozen Warmwater Shrimp From the Socialist Republic of Vietnam:** Preliminary Results, Partial Rescission, and Request for Revocation, in Part, of the Fourth Administrative Review *75 FR 12206-12217*, March 15, 2010.

### **The Week Ahead**

- The ITC has no scheduled meetings for the next week.
- On March 25, the Senate Finance Committee's Subcommittee on International Trade, Customs, and Global Competitiveness will hold a hearing to examine doubling United States exports, focusing on U.S. seaports.