

latimes.com/business/la-fi-china-xi-currency-20120215,0,6612292.story

**latimes.com**

## Focus shifts from China's currency to its other trade policies

**With the yuan rising in value, attention shifts to China's moves to protect its lucrative market from foreign domination while nurturing its own companies to compete globally.**

By Don Lee and David Pierson, Los Angeles Times

9:22 PM PST, February 14, 2012

Reporting from Washington and Beijing

America's trade deficit with China hit a record high last year, unleashing a chorus of howls from U.S. labor and other groups ahead of this week's visit by Chinese Vice President Xi Jinping. But it's become increasingly difficult to point the finger at one of Washington's primary targets for that trade imbalance: the Chinese currency.

Long deemed a cornerstone of unfair Chinese trade practices, the yuan has gained steadily in value against the dollar in recent years, reducing much of the advantage that a cheaper currency gives Chinese exporters in selling their goods overseas. In fact, the International Monetary Fund is now considering lifting its label of the yuan as "substantially undervalued" after it rose 8% against a basket of currencies last year, adjusted for inflation.

But even as China's currency takes on less importance in the U.S. economic and political debate over China, bilateral trade tensions have intensified. The focus has shifted to Chinese practices that many American companies and trade experts agree are more onerous and threatening to the future of U.S. economic security.

Perhaps foremost among these is China's move in the last few years to erect various rules and policies aimed at protecting its increasingly lucrative market from foreign domination while nurturing its own national champions to compete globally.

"There's been a significant shift in top-level Chinese economic strategy away from attracting multinational foreign direct investment to unfairly supporting Chinese-owned companies," said Rob Atkinson, president of the Information Technology and Innovation Foundation, a nonpartisan Washington think tank.

In a forthcoming report, the organization documents about 20 types of policies devised to enhance

advertisement



the web is what you make of it

China's "indigenous innovation." They include rules pressuring foreign firms to share technology with Chinese companies or the state to do business in China.

"The fundamental challenge facing us is market access," said James Bacchus, a Washington-based attorney and former Florida congressman and chairman of the appellate body of the World Trade Organization. "The singular focus by the U.S. [on the Chinese currency] has been misplaced."

President Obama has acknowledged as much in his administration's dealings with China. Even as Obama continues to bring up China's currency situation, as he did in his private meeting Tuesday with Xi, he has taken more cases to the World Trade Organization and sought to get tougher with China on a broader range of economic issues, including piracy and illegal government subsidies.

Obama's new budget for 2013 proposes \$26 million for an interagency enforcement unit, with a staff of 50 to 60 people who would respond to unfair trade practices. Obama specifically named China as a potential target in his State of the Union address.

In welcoming Xi in the Oval Office on Tuesday, Obama said China should follow the "same rules of the road" in the world economic system as everybody else, noting that with "expanding power and prosperity also comes increased responsibilities." Obama also raised the importance of human rights.

Xi, in remarks later at a State Department luncheon hosted by Vice President Joe Biden and Secretary of State Hillary Clinton, said his talks with Obama and Biden were largely about economic and trade relations. The Chinese vice president, who is expected to lead China from late 2012 through 2022, didn't mention specific issues, saying the two countries should cooperate more and "strive for greater balance in trade and investment."

Xi is expected to give his major policy speech Wednesday at a Washington hotel before leaving later in the afternoon for Iowa. He will conclude his weeklong visit in Los Angeles.

Some U.S. manufacturers, trade unions and lawmakers insist that China's government-controlled currency remains a major thorn in the side of American businesses and the U.S. economy.

"Yes, there's progress, but it's not enough," said Drew Greenblatt, president of Marlin Steel Wire Products in Baltimore.

He said a free-floating yuan would mean its value would rise relative to the dollar, giving his Chinese customers greater buying power to purchase more of his American-made goods. Last year, exports accounted for 25% of Greenblatt's total sales, but just 1% went to China, he said.

Many analysts would agree that China's yuan is still undervalued, but nowhere near the 30% to 40% that labor groups and critics routinely argued over the last decade. Since mid-2005, the yuan has risen about 30% against the greenback, or 37% when adjusted for inflation, said Eswar Prasad, a professor of trade policy at Cornell University and a former IMF economist.

With the slowdown in demand for Chinese goods during the recession and the recent appreciation of the yuan, China's current account and trade surpluses — a measure of the global imbalance created by China's economic policies — fell sharply from 2007 to last year.

Still, the U.S. merchandise trade deficit with China surged last year to \$295 billion. The main driver is increased American demand, said Derek Scissors, a China specialist at the Heritage Foundation.

"The second factor is poor access to the Chinese market," he said. "Beijing protects state-owned enterprises from competition, keeping American goods and services away from Chinese consumers."

Indeed, economists say, it would be misguided to treat currency appreciation as a panacea. China is hard-wired for exports, boasting structural advantages such as economies of scale, cheap credit and government subsidies.

"Currency is just part of the equation," said Patrick Chovanec, an associate professor at Tsinghua University's School of Economics and Management in Beijing. "Back in the 1980s, Japan agreed to double the value of the yen but it didn't have an impact on the trade imbalance because there were structural factors preventing that change."

American businesses in China hope the strengthening yuan will shift attention in Washington to what they consider are more pressing concerns.

Only 17% of U.S. companies in China considered yuan appreciation one of their greatest risks, according to a 2011 survey by the American Chamber of Commerce in China.

Respondents said they were more concerned about an economic slowdown, labor costs, increased Chinese protectionism and a breakdown in Sino-U.S. relations.

Earlier in the week, the chief executives of 45 American solar energy companies sent a joint letter to Obama, urging him to discuss with Xi a brewing trade fight over Chinese solar panel imports, saying thousands of U.S. jobs are at risk.

"In our mind, it's a distraction," Christian Murck, the Beijing-based president of the chamber, said of the focus on China's exchange rate. "The things that matter more to us are intellectual property rights, market access and that the Chinese economy move forward with a renewed focus on reform and opening rather than stagnate."

[don.lee@latimes.com](mailto:don.lee@latimes.com)

[david.pierson@latimes.com](mailto:david.pierson@latimes.com)

*Tribune correspondent Christi Parsons in Washington contributed to this report.*

Copyright © 2012, [Los Angeles Times](http://www.latimes.com)