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Eye on China, House Votes for Greater Tariff Powers

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WASHINGTON — The House of Representatives sent an unusually confrontational signal to the Chinese leadership on Wednesday, voting overwhelmingly to give the Obama administration expanded authority to impose tariffs on virtually all Chinese imports to the United States.

The move, which could affect more than $300 billion in goods this year, was made in retaliation for the country’s refusal to revalue its currency.

The bill passed 348 to 79 and included the support of 99 Republicans, a highly unusual bipartisan vote at a time when large numbers of House Republicans have rarely joined Democrats on an economic issue. House Speaker Nancy Pelosi, who has long pressed China trade issues, personally gaveled the vote closed. Nonetheless, prospects for Senate approval are unclear.

The action was intended to hand President Obama new leverage in what has become a major flashpoint between the world’s two largest economies. While tariffs have been placed on specific products, like steel and tires, because of evidence of unfair export subsidies, the threat of putting sizable tariffs on a country’s entire line of exports to the United States is highly unusual — and, some argue, of dubious legality under international trade law.

It reflects both election-year politics over a loss of American jobs and great frustration over unfulfilled promises by China to allow its currency to rise in value, which would make Chinese goods less competitive in the United States.

The Obama administration never took an emphatic position on the legislation and some officials say that, if passed, signed into law and challenged at the World Trade Organization, it might well be struck down. But this is a case where the symbolism may be more important than the legal niceties, and for that reason, the White House has been of two minds about the bill.

Mr. Obama has tried to use the rising public anger over China’s trade advantage to argue to Chinese leaders that the United States would no longer tolerate deliberate currency manipulation, a point Mr. Obama made repeatedly in a meeting last week with Wen Jiabao, China's prime minister. He did so again on Wednesday in Des Moines, where one businessman asked the president about the issue.

"The reason that I'm pushing China about their currency is because their currency is undervalued," he said, adding: "People generally think that they are managing their currency in ways that make our goods more expensive to sell and their goods cheaper to sell here. And that contributes — that's not the main reason for our trade imbalance — but it's a contributing factor to our trade imbalance."

But in conversations with Congress, the Treasury secretary, Timothy F. Geithner, and other officials have warned of the danger of touching off a trade war, in which China blocks American goods in retaliation, that could hurt both economies.

The risks go beyond trade. Mr. Obama is pressing China for help on cutting exports to Iran, managing a dangerous leadership transition in North Korea and some kind of accord on curbing carbon outputs that contribute to global warming. He is also coming up with what one senior administration official called on Tuesday "new rules of the road" over disputed maritime territory.

But in Beijing, and on Capitol Hill, all that pales in comparison to the currency dispute, which is often portrayed in the Chinese news media as an effort to curb China's growth, and thus its power.

Eswar S. Prasad, a professor of trade policy at Cornell, called the legislation "a shot across the bow that indicates a clear escalation from overheated rhetoric about Chinese currency policy to more substantive action."

While it is unlikely there will be a trade war, he said, "there is now a real risk that a cycle of tit-for-tat trade sanctions could spin out of control and cause some real, if not lasting, damage."

Under the bill, Mr. Obama would not have personal control to turn sanctions on or off. The legislation would make it easier for the Commerce Department to place duties on imports from countries that have "fundamentally undervalued" currencies — defined as "protracted, large-scale intervention" in foreign exchange markets; an undervaluation of at least 5 percent; persistent global current account surpluses; and "excessive" foreign asset reserves.

Traditionally, only direct subsidies to an industry, rather than the indirect help that comes from an undervalued currency, have been considered a reason for retaliatory tariffs. Because so many countries have managed their currency rates for so long, it is unclear that the W.T.O. would uphold any American efforts to make the manipulation of a currency a justification for action.

While the bill did not mention China by name, the criteria were clearly written with China, the largest creditor of the United States, in mind.

In response, the official Xinhua news agency quoted China's commerce ministry spokesman, Yao Jian, as saying: "Starting a countervailing investigation in the name of exchange rates does not conform with relevant W.T.O. rules."

But later in the day the Chinese Foreign Ministry was more emphatic about its displeasure, saying the House effort could harm economic ties between the two countries. "We firmly oppose the U.S. Congress approving such bills," Jiang Yu, a ministry spokeswoman told reporters in Beijing. "We urge the U.S. congressmen to be clearly aware of the importance of China-U.S. trade and economic relations, resist protectionism so as to refrain from any damage to the interests of both peoples and people around the world."

So far the administration has been reluctant to pursue retaliation against China. The Treasury Department has repeatedly declined to formally declare China a currency manipulator. And last month, the Commerce Department decided not to investigate allegations that China's currency practices amounted to an improper export subsidy.

"The United States does not gain leverage in these negotiations by doing things China doesn't find credible," said Marc L. Busch, a political scientist at Georgetown. "The Chinese are aware that this is just not going to fly."

But the Obama administration may have few other options and few allies. Europeans are largely uninterested in the problem: the euro has weakened because of the sovereign debt crisis, limiting European incentives to get involved. Japan is intensely interested, and this month intervened in the currency markets for the first time since 2004, moving to devalue the yen unilaterally.

But in the House, the politics of the moment seemed more important than the long-run economic strategy of managing economic relations with China.

Representative Sander M. Levin, Democrat of Michigan and chairman of the House Ways and Means Committee, said that "China's persistent manipulation of its currency" had resulted in a "tilted field of competition" and the loss of as many as 1.5 million American jobs.

"This manipulation is one of the causes of outsourcing of our jobs — manufacturing and other good jobs," he said. "Talk hasn't worked."

The top Republican on the committee, Representative Dave Camp of Michigan, said that the Obama administration had been insufficiently engaged in securing international pressure on the Chinese; that the bill would not promote Mr. Obama’s goal of doubling American exports over five years; and that other issues — like China’s tolerance for violations of intellectual property rights — were as significant as the currency undervaluation. Even so, Mr. Camp said, “I will vote for this bill because it signals to China that Congress’s patience is running out.”