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Group Readies Trade Complaint That Cites Yuan --- U.S. Manufacturers Say Currency Manipulation Gives China Pricing Edge

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A coalition of manufacturing groups plans to file a trade complaint with the Bush administration against China for allegedly manipulating its currency to gain product-pricing advantages in violation of global trade laws.

The complaint, which is being organized by the National Association of Manufacturers, or NAM, a powerful lobbying group in Washington, would represent another difficult Chinese trade issue for the Bush administration, which already is faced with deciding how to handle an appeal from textile manufacturers to limit the import of China's textile products.

Separately, several U.S. House of Representatives members Wednesday introduced a nonbinding resolution calling on the Bush administration to use "all tools" available to combat what they called "illegal currency manipulation" by China, Japan, South Korea and Taiwan.

In a recent trip to China, Treasury Secretary John Snow urged Beijing leaders, without success, to revalue the yuan. Chinese unwillingness to address the issue prompted the trade groups' decision to prepare a complaint, the trade group said.

Jerry Jasinowski, president of the NAM, said in a statement that the organization is joining with other industrial and agricultural groups and labor unions to develop a so-called Section 301 trade action against China.

Scot Montrey, a spokesman for the trade group, said that preparation of the complaint is in the early stage, but that the coalition is intent on alleging that China's policy of pegging the value of its currency to the U.S. dollar is an unfair trade practice.

The complaint, which would be the first aimed to settle a currency dispute, would be filed initially with the U.S. Trade Representative's office for investigation before being authorized for filing at the World Trade Organization by the Bush administration. The complaint could lead to WTO negotiations and could prompt trade sanctions if a settlement couldn't be reached.

After addressing the trade group's members in a private session Wednesday, Grant Aldonas, U.S. Commerce Department undersecretary for international trade, said in a media briefing that it will be important for the manufacturing coalition to prepare a strong factual case to support the complaint.

He added that even discussion of filing a case would likely put pressure on the Chinese to enter serious talks with U.S. authorities to resolve the matter.

With regard to congressional action, Mr. Aldonas also indicated that legislation isn't the best approach. "The legislative solution is a relatively blunt instrument," he said, adding that he prefers a negotiated resolution.

The "sense of Congress" resolution asserts that currency manipulation by China, Japan, South Korea and Taiwan has contributed "significantly" to the loss of 2.7 million U.S. manufacturing jobs since the summer of 2000. The resolution also says China in particular has severely hurt U.S. exports by holding its currency at "40% below its market value."

Illinois Republican Rep. Don **Manzullo**, chairman of the House Small Business Committee, who introduced the bill, said that economists estimate currency manipulations give Asian products a 15% to 50% competitive advantage over U.S. manufacturers. The NAM believes these manipulations account for two-thirds of the U.S. trade deficit with Asian countries.

Asian companies have invested hundreds of billions of dollars setting up manufacturing in China. Supplying those companies with components, together with sales to a growing domestic market in China, has meant booming Chinese exports for all of them. China is now the No. 1 export destination for Taiwan and South Korea and is fast becoming that for the rest of Asia as well.

Asian companies operating in China are concerned that a volatile currency in China could disrupt their economic position. Several Asian countries have resisted the weakening of the dollar. China, Hong Kong and Malaysia have systems that keep their currencies in lockstep with the U.S. currency.

But in much of the rest of Asia, central banks since the spring have been buying massive amounts of dollars on currency markets to keep their currencies steady. That is when comments made by Mr. Snow were taken to signal acceptance, or even promotion, of a weaker U.S. dollar and the greenback's slide accelerated.

The falling dollar puts all those economies into a precarious position -- if Asia acted as a bloc, governments would likely allow their currencies to appreciate, just as the European Central Bank has accepted the appreciation of the euro against the dollar.

But places such as South Korea and Taiwan have the potential to be hit twice by a weakening dollar; not only do they face lower revenue from exports to the U.S., they also have to worry about the effect of the weakening yuan on their overseas sales.

South Korea, for example, competes head-to-head with China on about 30% of its exports. Allowing its currency to strengthen against the dollar would make Korean goods look more expensive to U.S. customers, unless Korean companies kept their U.S. prices steady and swallowed the currency losses.

Still, South Korea and others have opted for intervention to maintain the status quo, rather than piling on as critics of the Chinese currency system. That is because their economic relationship with China is now so intertwined that any change could be damaging.