

# Congress seeks to level trade imbalances

## Where critics see protectionism, others see hope of more sustainable commerce.

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As Congress considers how to tackle America's gaping trade deficit, a central question is this: Will the cure be worse than the problem?

In both the House and Senate, bills are emerging designed to penalize nations – China foremost – that allegedly have promoted their exports by illegal means.

Critics of such measures warn that they create at least the appearance of protectionism and risk reversing a long and beneficial global march toward expanding commerce.

Supporters say Congress needs to act to maintain American living standards at a time when other nations increasingly manufacture cutting-edge products, not just toys and textiles. They argue that a tougher approach to enforcing current laws can help stabilize a global economy that has become dangerously imbalanced.

Those two worldviews are clashing this week in the halls of Congress. Legislation introduced Wednesday, for example, aims to deter other nations from manipulating the value of their currencies to make their exports more competitive in world markets.

The debate isn't about whether trade is good, but about how to best secure America's economic interests in an increasingly global economy.

"It's no longer a matter of free trade versus protection, which is really the old paradigm," says Scott Paul, who heads the Alliance for American Manufacturing, a group lobbying for a tougher approach toward trade-law enforcement. "The momentum [for enforcement] has never been greater than it is now."

The political climate

It's unclear whether the growing momentum will result in new laws regarding trade this year. But analysts say that several reasons factors make it a real possibility:

- Since China joined the World Trade Organization early this decade, its exports to the US have dwarfed its imports from the US. Those Chinese exports approached \$300 billion last year, compared with US shipments to China of about \$55 billion.

- Many new members of Congress, mostly Democrats, arrived in Washington vowing to level the playing field of global trade.

- Patience with the Bush administration is wearing thin. The President and Treasury Secretary Henry Paulson last year launched a "strategic economic dialogue" with China, but so far it has not borne the kind of quick fruit that many lawmakers hoped it would.

All this explains a flurry of trade-related activity on Capitol Hill at a time when Congress is also busy on matters such as Iraq and immigration. One bill introduced Wednesday is backed by two pairs of prominent Senators that had previously been considering rival bills. Sens. Max Baucus (D) of Montana and Chuck Grassley (R) of Iowa joined Charles Schumer (D) of New York and Lindsey Graham (R) of South Carolina to unveil legislation that would prod China to allow its yuan currency to float higher in value.

Meanwhile, Sens. Chris Dodd (D) of Connecticut and Richard Shelby (R) of Alabama said they plan to introduce their own legislation on the issue. Many economists say China has been spending large sums to hold the yuan's value down to promote exports. The moves by lawmakers came as the US Treasury refrained Wednesday from citing China as a currency manipulator in a scheduled report.

The White House is also running into congressional opposition as it seeks approval for a newly negotiated free-trade accord with South Korea.

The House of Representatives is considering its own bipartisan currency bill, and the House Committee on Science and Technology held a hearing Tuesday on the "offshoring" of US jobs. The hearing focused on how global companies are increasingly setting up research and development operations – not just production– in developing nations.

Alternatives to protection?

But other trade advocates argue that Congress can take a harder line without pushing the "protectionist" button and putting a damper on global commerce.

"China is actually engaging in illegal currency manipulations," says Robert Scott, an economist at the liberal Economic Policy Institute in Washington. The US, he argues, has every right to enforce existing trade laws with China and other trade partners regarding subsidies and other violations of World Trade Organization rules. "I don't think there's any chance it's going to cause a trade war" with retaliation by other nations, he says. "They're incredibly dependent on us for their exports."

Legislation in Congress could actually help restore needed balance to the global

economy. Although a trade deficit is not itself a problem, some economists say that for US imports to exceed exports by such a large amount is unsustainable.

Easing that imbalance may involve some difficult adjustments on all sides. But waiting is not an option, argues Alan Tonelson, a researcher at the US Business and Industry Council, which represents about 1,500 manufacturers. "These trade barriers [and subsidies] have resulted in global trade flows so lopsided ... that the entire international economy is genuinely at risk if they continue."

Whether it's called a trade war or not, the punitive measures against China are a possibility in Europe as well as in the US.

This week, European Union Trade Chief Peter Mandelson warned that "impatience and anger is going to rise" if Beijing is unresponsive.

Amid all the wrangling over trade policy, one challenge for policymakers is that global corporations have made huge commitments to producing goods in China. Many of China's exports are the exports of Fortune 500 firms. While some say this means Congress should tread lightly, others say it calls for a fresh lens on trade.

"In this new era of globalization the interests of companies and countries have diverged," former IBM executive Ralph Gomory told the House panel on offshoring Tuesday. Proposed solutions include not just trade policies but also funding for science education and research to maintain US prowess in innovation. Mr. Gomory, now president of the

Alfred P. Sloan Foundation in New York, adds another proposal: Tax incentives for companies that create high-value jobs at home.