

## U.S. Toughens Its Position on China Trade

*Steven R. Weisman*

Has the Bush administration's economic team run out of patience with China?



Doug Mills/The New York Times

Susan Schwab, the trade representative, said that the United States would press China over piracy of books, CDs, DVDs and other goods.

For years, President Bush has avoided confronting Beijing with sanctions or legal challenges to its trade practices, preferring to use diplomacy to press China to bring down its trade deficit with the United States, now at \$232 billion. But these days, the conciliatory approach looks as if it is being reconsidered, if not discarded.

The latest in a string of tough actions against China came on Monday, when the top American trade envoy, Susan C. Schwab, announced that the United States would take China to court at the World Trade Organization over suspected trade barriers and piracy of books, music, videos and other goods.

That action came after two other unfair trade complaints earlier this year, one last month threatening stiff new duties on certain imports, and the other in February, challenging China over its subsidies of manufactured goods.

Ms. Schwab said that even though negotiations had failed to solve trade problems, the latest steps "should not be viewed as hostile actions against China" and that resolving issues at the World Trade Organization in Geneva was "the normal way for mature trading partners" to handle differences.

The new policy risks angering or embarrassing those in Beijing who may be trying to reform economic policies as Washington wants. In addition, many trade experts worry that China might retaliate against American imports or cut back on cooperation sought by Washington on other issues, like diplomatic problems involving Iran, North Korea and Sudan.

Still, the new policy was widely seen by trade specialists and industry spokesmen as necessary to send a signal not only to Beijing but also to Democrats in Congress, who plan even tougher sanctions against China if the administration does not act.

The announcement by Ms. Schwab on piracy and trade barriers brought cautious praise from an array of Democratic trade hawks, from Senators Charles E. Schumer of New York to Sherrod Brown of Ohio, who won last year in part by taking a tough line on trade. Many Republicans echoed their endorsement. All said the action was overdue and in need of follow-up.

But even those who praised the administration's actions warned that more such efforts were needed.

"I've been sending letters to this administration for years urging these kinds of actions, and they've been ignored," said Representative Sander Levin, Democrat of Michigan and chairman of the trade subcommittee for the House Ways and Means panel. "Obviously the pressure has been building in this new Congress."

Within the Bush administration the new actions were defended less as a shift than a complement to the policy proclaimed by Treasury Secretary Henry M. Paulson Jr. since he took office last summer — that it is better to solve economic disputes by negotiation. But he has also warned China that it would be dangerous to ignore the restive mood in Congress.

Unlike Commerce Secretary Carlos M. Gutierrez, who praised Ms. Schwab's announcement on Monday, Mr. Paulson issued no public statement in support of it. Aides say that as a former Goldman Sachs executive with long business experience in China, he has been reluctant to be identified with punishments or threats.

Mr. Paulson, who has visited China three times in the last six months, is the instigator of a "strategic economic dialogue" with top Beijing leaders aimed at getting them to change Chinese policies and practices over the long term. People who have talked to the secretary about trade with China say he has been taken aback by the anti-China mood in Congress.

The Treasury chief signed off on the recent steps against China, however, according to administration officials.

"What the action today means is that Paulson realizes his approach will not deliver concrete results in time to avoid the risk of serious Congressional reaction," said C. Fred Bergsten, director of the Peterson Institute for International Economics, a policy institute in Washington.

"The problem is that the secretary's Chinese friends have not given him much help," Mr. Bergsten added, referring to the unwillingness or inability of Mr. Paulson's counterparts to move on issues as quickly as Washington wants.

Mr. Paulson has tried not to get into the specifics of trade issues like subsidies, the piracy of intellectual property in software, videos and pharmaceuticals or the welter of Chinese trade barriers on American goods and financial services.

The one issue he has spoken out on the most is currency, echoing the criticism of many economists that China's practice of buying huge amounts of dollars has kept the value of its currency, the yuan, artificially low in order to promote its own exports by making them cheaper.

But China has taken only moderate steps to allow its currency values to float on the open market. Many in the administration are known to be increasingly impatient over the lack of progress in this area.

The next test of the administration's tough new approach will be in late May, when a delegation of Chinese officials, led by Vice Premier Wu Yi, will come to Washington for another session of the strategic dialogue started by Mr. Paulson.

It is to be a second round of the talks begun in December, when the Treasury secretary took a team of cabinet members, and Ben S. Bernanke, the Federal Reserve chairman, to push the dialogue as the best way to solve problems.

At the time, Democrats said they would pause in their plans to push for tough measures against China to give the dialogue a chance to work. Now they say it has clearly failed and the more recent escalation is welcome.

What China will do next is an open question in the administration. The answer may not be clear until Mr. Paulson's economic meeting with the Chinese in May.

But many Chinese experts warn that the latest steps by the administration will not help persuade China to change its reliance on a low-valued currency and other restrictions on imports and investment. The power and influence of Communist Party leaders tied to the export sector is too great, they say.

"If the U.S. takes more actions against China, it will harm Paulson's dialogue with China and future trade meetings," said Chen Jianan, a professor of economics at Fudan University in Shanghai. But he said the most recent actions could compel both sides to negotiate.

In the meantime, China is considered likely to try to ease tensions, not by opening up its own markets, but by opening up its wallet and purchasing more American exports, whether planes or machinery or computer chips.

There are media reports in China that the leadership will announce new purchases in advance of the May meeting, just as they did before President Hu Jintao's visit to the White House last year.

Mr. Gutierrez, the Commerce secretary, has said repeatedly that the way to reduce the trade deficit with China, which now is about a third of the total trade deficit with other countries, is to export more. But Congress is considered unlikely to be impressed by a Chinese shopping spree.

All sides agree that the latest American actions portend a period of rough weather in United States-Chinese relations.

David Barboza contributed reporting from Shanghai.

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