

Title:

US Threatens China with Massive Tariffs

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556

Summary:

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Article Body:

In a surprise move, Democrats and Republicans have written a bill threatening China with a heavy tariff increase on its exports to the United States unless Beijing ceases intentional manipulation of the yuan and agrees to strengthen the currency significantly against the dollar in the near future.

Currently, three US Senators Charles Schumer of New York, Lindsey Graham of South Carolina, and Tom Coburn of Oklahoma are in China on a fact finding mission. Depending on what they uncover there, the three senators may put the tariffs to a vote by the congress by the end of the month.

Why is the valuing of China's currency so important to these senators and the US? The senators are arguing that China is manipulating and unfairly undervaluing its currency by 40%. The senators are also saying that this has led to a major loss of jobs within their states and a \$202b trade deficit with China.

The senators have made it clear that if China refuses to allow a significant revaluing of its currency then they will table the Schumer Graham China Free Trade bill that will levy a hefty 27.5% tariff across the board on all imports from China. The US Senators also boldly proclaimed that they have enough votes to get the bill passed quite easily and also to overturn a presidential veto.

Senator Graham stated that he wanted to see China to adhere to global trade rules and emphasized his point by saying "The best way, I believe, to have stability to bring about real reform is to adopt rules where everyone will play

the same." He went on to say "If you want instability, have one group doing it this way; another group doing it that way. My goal is to sell the idea that stability is best achieved when all the countries play by the same rules."

The senators are putting up a strong and united front while in China, but meanwhile the Bush administration has made it clear that they oppose import tariffs. Specifically the Treasury Department and Federal Reserve have voiced opposition to these bills. Many economists in the US fear that if this bill is passed China could retaliate triggering a trade war that would send the US Dollar into a downward spiral.

Others are concerned that China could also sell off its huge holding of US Treasury Bonds causing US interest rates to sky rocket. Many people in the US and international community are viewing this recent set of threats as political posturing to address an audience concerned about job losses in the United States. Many are of the opinion that this problem is not entirely China's fault.

The Chinese position opposes tariffs, but that they will allow flexibility for adjustment of their currency that would not include a mass revaluation move all at once. The Chinese have explained their position by citing the need for national banking and foreign exchange system reform to be able to cope with the risks and fluctuations entailed with revaluing their currency.

The Chinese are resentful of the preaching of the US regarding this situation. The Chinese feel it is not their fault that the US cannot save and invest at a more robust pace. The Chinese have made it clear that they will move toward revaluing their currency at their own pace.