US-China tensions rise over subsidies
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The US on Friday launched a major trade dispute with China over alleged subsidies for manufacturing exports in an escalation of economic tensions with Beijing.

Susan Schwab, the US trade representative, said: “Our decision to bring this case to the World Trade Organisation comes after our efforts at dialogue failed.”

The escalation by the Bush administration follows pressure from the new Democratic majority in Congress and for tougher action over a record annual trade deficit with China of $214bn.

The US filing alleges China “uses its basic tax laws and other tools to encourage exports and to discriminate against imports of a variety of American manufactured goods”.

“The subsidies at issue are offered across the spectrum of industry sectors in China - whether in steel, wood products, information technology, or others,” said Ms Schwab.

The action by the Bush administration was viewed as part of a strategy to win Congressional approval for the renewal of the president’s fast-track trade negotiating authority when it expires on June 30.

The executive negotiating authority is viewed by White House advisers as necessary to advance their economic agenda during President George W. Bush’s last two years in office.

Edward Alden, a senior fellow at the Council on Foreign Relations, said: “It’s a smart move politically, though practically it’s a far bigger and more complicated case than anything the US has attempted against China so far.”

Sander Levin, chairman of the trade subcommittee in House of Representatives, said: “This case represents a step in the right direction, but it must be part of a much more aggressive program to take actions against violations of WTO obligations.”

Max Baucus, chairman of the Senate finance committee, said: “I hope that today’s action is a signal that the US trade representative will take more vigorous action in the future when China or any other country fails to abide by trade agreements.”

Daniel Griswold, an analyst at the Cato Institute, a conservative think tank, said the case would “give the US leverage with China to compel it to change its tax laws”.

“I think this strategy does carry the risk that it will create tensions and maybe even harden the Chinese position,” he said.

The dispute process allows time for the case to be resolved through dialogue and was several steps away from a “full-blown trade war”, the analyst said.

US manufacturers welcomed the dispute and urged the White House to pursue the case to its conclusion.
John Engler, president of the National Association of Manufacturers, said: “Pursuing WTO cases like this one helps respond to widespread concern that trade is unfair and that the system does not work for us.”

The US case may target the range of export tax rebates offered by China to local firms, many of which were introduced in the late nineties in the wake of the Asian financial crisis. The rebates were aimed at shielding Chinese exporters from the impact at the time of rapidly depreciating currencies in Asia, which made the goods of their regional rivals cheaper on overseas markets.

China has cut the rebates in some sectors in the last two years, but many remain, despite booming exports and a swelling trade surplus with both the US in particular and the world as a whole.

The US action also appears to attack the range of incentives offered by the both the central and local governments in China to attract foreign investment.