Obama Warns China Against 'Skirting The Rules'

Julie Pace, Associated Press

WASHINGTON (AP) — President Barack Obama warned China Tuesday that it would not be allowed to gain a competitive advantage in world trade by "skirting the rules."

Making an election-year pitch to American workers, and businesses as well, Obama announced Washington has brought a new trade case against Beijing. The goal is to pressure China, a rising Asian economic power, to end its restrictions on exports of key materials used to manufacture hybrid car batteries, flat screen televisions and other high tech-goods.

"If China would simply let the market work on its own, we'd have no objection," Obama said during remarks in the White House Rose Garden. "But their policies currently are preventing that from happening. And they go against the very rules that China agreed to follow."

The U.S., working in conjunction with the European Union and Japan, asked the World Trade Organization Tuesday to facilitate talks with China over its curtailment of exports of what's known as rare earth minerals. Obama cast the fresh action against China as part of a broader push to level the playing field for U.S. companies.

"When it is necessary, I will take action if our workers and our businesses are being subjected to unfair practices," Obama said.

With the U.S economy slowly recovering from recession, Obama has sought to bring a renewed focus on Chinese policies that could hinder U.S. expansion. He used an executive order last month to create a new trade enforcement agency — the Interagency Trade Enforcement Center — to move aggressively against China and other nations.

But Obama's posture on China has already surfaced as an election-year issue, with Republican front-runner Mitt Romney criticizing him for refusing so far to cite China for manipulating its currency. Romney has said he would label China a currency manipulator on his first day in office, a move that could lead to trade sanctions against Beijing.

China has a stranglehold on the global supply of 17 rare earth minerals that are essential for making high-tech goods, including hybrid cars, weapons, flat-screen TVs, mobile phones, mercury-vapor lights, smartphones and camera lenses. The materials also are used in the manufacture of tiny motors, such as those used to raise and lower car windows and in consumer electronics.

China has reduced its export quotas of these rare earth minerals over the past several years to cope with a growing demand during rapid business expansion at

home, although Chinese officials also cite environmental concerns as the reason for the restrictions. U.S. industry officials suggest it is an unfair trade practice that violates rules established by the WTO, a group that includes China as a member.

Administration officials said Beijing's export restrictions give Chinese companies a competitive advantage by providing them access to more of these rare materials at a cheaper price, while forcing U.S. companies to manage with a smaller, more costly supply.

"America's workers and manufacturers are being hurt in both established and budding industrial sectors by these policies," U.S. Trade Representative Ron Kirk said in a statement. "China continues to make its export restraints more restrictive, resulting in massive distortions and harmful disruptions in supply chains for these materials throughout the global marketplace."

On Tuesday, a Chinese foreign ministry spokesman defended Beijing's curbs on rare earth production as necessary to limit environmental damage and conserve scarce resources.

"We think the policy is in line with WTO rules," the spokesman, Liu Weimin, said at a briefing.

He rejected complaints that China is limiting exports. "Exports have been stable. China will continue to export, and will manage rare earths based on WTO rules," Liu said.

The spokesman noted that China has about 35 percent of rare earth deposits but accounts for more than 90 percent of global production. "China hopes other countries can shoulder responsibility for supplies and can find alternative resources," he said.

Rare earth minerals are scattered throughout the Earth's crust, but only in small quantities, making them hard to mine. However, rich deposits of these rare earth oxides are in China, giving it command of the market.

The U.S. has just one rare earth mining company, the Colorado-based Molycorp Inc. There are also working mines in Australia, and a proposed one in Malaysia.

Under the terms of the WTO complaint, China has 10 days to respond and must hold talks with the U.S., E.U. and Japan within 60 days. If an agreement cannot be reached within that time frame, the U.S. and its partners could request a formal WTO panel to investigate Chinese practices.

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