

By Mark Drajem

June 27 (Bloomberg) -- The largest U.S. manufacturers' association brushed aside the objections of multinational companies such as Caterpillar Inc. to back a proposal that would allow new duties on Chinese imports to compensate for that nation's currency policy.

The economic policy committee of the National Association of Manufacturers voted 75-46 to support legislation in Congress that would expand duties on Chinese imports. The executive committee of the 14,000-member trade group must now decide if it will ratify that vote.

"It's no surprise that we have members divided on this issue," said Pat Mears, director of international affairs for the association. "What this vote does say in the larger sense is that there is frustration that more needs to be done" about the trade deficit with China.

The National Association of Manufacturers, which has backed the Bush administration in pushing for free-trade agreements, is at the fault line among American industry on trade with China. While China is one of the fastest growing export markets for the U.S., it also ran up a record trade surplus of \$201.6 billion with the U.S. last year.

Such companies as Caterpillar, General Motors Corp. and Intel Corp. see China as a burgeoning market and low-cost source of materials and parts. Smaller, U.S.-based manufacturers say that subsidized imports from China are putting them out of business. Under pressure from these U.S.-based companies, the manufacturers association has put pressure on the Bush administration to get China to raise the value of its currency, making its exports more expensive. China's currency hasn't appreciated enough to satisfy the trade group.

'Ultimate Objective'

"The ultimate objective here is to get China to revalue," said Peter Morici, a University of Maryland economist who participated in today's meeting.

China's currency gained 0.04 percent to 7.9991 per dollar as of 3:30 p.m. in Shanghai, bringing gains to 1.4 percent since being revalued on July 21, according to data compiled by Bloomberg. Morici and other U.S. economists say the yuan is as much as 40 percent undervalued.

The manufacturers' committee voted in favor of a bill proposed by

Representatives Tim Ryan of Ohio, a Democrat, and Duncan Hunter of California, a Republican, that would let U.S. companies petition for duties on imports to compensate for the effect of an undervalued currency from the exporting nation.

Proponents of the bill say that, unlike the measure proposed by Senators Charles Schumer, a Democrat, and Lindsey Graham, a Republican, to put across-the-board tariffs on imports, this legislation is consistent with the rules of the World Trade Organization.

Its legality was one part of the debate today, Mears said. "It almost surely would have a case filed against it" in the WTO, Mears said. "Unlike the Schumer-Graham bill, it's not on its face WTO inconsistent."