THE HILL

WTO myths blocking China currency progress

By Alan Tonelson and Kevin L. Kearns - 09/14/10

This week's congressional hearings on China's exchange-rate policy have great potential to begin eliminating dangerous U.S.-China economic imbalances and thereby promote real U.S. economic recovery and global economic stability. But first, legislators must scrap two myths about the World Trade Organization largely responsible for keeping U.S. China policy in procedural and legal limbo for years.

The first myth concerns what kinds of currency manipulation bills might conform with the WTO's rules and regulations. Passing legality tests is naturally important for Americans – and of course, for their lawmakers! But the question is unanswerable because the WTO is not at bottom a legal-judicial institution. Instead, like all the major international organizations the United States has joined since the end of World War II, the WTO is a political organization. Power and interests govern what matters in Geneva, not jurisprudence.

The WTO does look and operate superficially like the American courts to which it's typically likened — using cases and tribunals and rulings. But the differences are far greater.

The rule of law overseen by U.S. courts, and which is such a justifiable source of national pride, works so well mainly because the nation possesses the prerequisites of a bona fide legal system. The United States constitutes a genuine political community with a strong consensus on acceptable and unacceptable behavior, and on procedures for adjudicating disputes. That's why most Americans are rightly confident of getting a fair shake in legal proceedings.

But the world trading system's members hold highly diverse economic and commercial priorities, reflecting equally different economic conditions, values and experiences. Widespread assumptions about the post-Cold War global triumph of U.S.-style capitalism overlook the major on-the-ground differences between doing business in America, China, Brazil or Germany. And these differences often entail the fundamental issue behind most WTO disputes — government's proper economic role.

Without a global consensus on acceptable trade-related behavior, a belief in universally embraced rules for regulating such behavior and in a corps of impartial magistrates has been stillborn. As a result, politics, not statute or precedent, inevitably drives WTO rulings. And seeking legally clear-cut answers to questions about the WTO-compatibility of various China currency bills is bound to be fruitless. For WTO members, the acid test of American laws is whether they serve these members' national interests.

The paramountcy of politics undercuts a second big WTO myth befogging U.S. China policy: The view that Washington should tackle currency manipulation multilaterally, by filing a WTO suit, as the House Ways and Means Committee has promised to explore at its hearing. This option, however, ignores the unmistakable nature of the organization's politics. Although the WTO's 150-plus members don't agree on much, they strongly agree that growing largely by wracking up big trade surpluses with the United States is a demonstrably successful economic strategy. Therefore, they have aimed to keep America's markets much wider open to their goods than their own markets are to America's.

With so many other WTO members manipulating their currencies for trade advantage as well, and using various other subsidies so extensively, why would they permit a ruling that hands the United States such a powerful market-opening battering ram?

Many major trading powers are loudly criticizing China's undervaluation of the Yuan. But these countries just had a chance to send Beijing a very powerful currency message — when the equally political International Monetary Fund issued its annual assessment of the Chinese economy. Rather than vigorously protest China's mercantilism, the fund's directors — who represent the major donor governments — pointedly weakened the staff's description of Yuan undervaluation. Washington can expect similar results from a WTO case.

After eight years of complaints about currency manipulation, Congress must take China policy out of procedural and legal limbo and deal with substance. If legislators believe China's currency manipulation is damaging America's economy for reasons completely unrelated to market forces and that to counter this transgression is imperative, they should support a floor vote on strong responses — especially the Currency Reform for Fair Trade Act (H.R. 2378), which Ways and Means also has promised to examine, and its Senate counterpart, the Currency Exchange Rate Oversight Act (S. 3134). If legislators believe China's currency manipulation is acceptable, or less important than other benefits they perceive from current U.S.-China relations, they should oppose such measures.

Such clear stances, moreover, would also enable lawmakers to send a message that voters are clearly clamoring to hear — that they, too, are fed up with business as usual in Washington.

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