

## **China bashing is back with a bang**

The filibuster procedure in the US Senate has been used over many years to prevent decisions on many sensible matters. Next week, however, members of the upper legislative house may override the filibuster to support a deeply dangerous idea.

The Senate's Democratic leadership has caved in to the demagogues and scheduled a vote on legislation designed to punish China for manipulating its currency, various incarnations of which have been floating around Capitol Hill for years.

A small mercy is that successive iterations of the legislation have become progressively less extreme. The earliest – an across-the-board tariff on all Chinese imports – has been dropped. Now the commerce department would be required to include assessments of currency undervaluation in calculating “countervailing duties” against allegedly subsidised imports.

Nonetheless, the bill remains a bad idea. No doubt Chinese currency manipulation has contributed at least partly to global imbalances. But the calculation of exchange rate misalignments is a highly uncertain business, and incorporating them into trade policy will involve endless debates – and most likely perpetual World Trade Organisation litigation – about the methodology of macroeconomic modelling.

Moreover, such actions are likely to escalate, taking the “currency wars” into a new and highly litigious theatre of battle. Brazil, whose problems with an appreciating currency would have been better addressed by tightening fiscal policy rather than complaining about other countries, has even suggested rewriting WTO law to address exchange rate issues.

It is not surprising that Democrats are lining up to support the bill – the bulk of the congressional party long ago abandoned free trade. More disappointing is that Barack Obama's White House has declined to disavow the bill.

Equally disturbing is the likelihood that the Republicans will join them in this pre-election year. Mitt Romney, the front-runner for the Republican presidential nomination, has adopted a China-baiting platform, further marginalising free-trade opinion inside the party.

Those concerned with the future of the global trading system should oppose this bill. **Currency misalignment is a problem, but clumsy and most likely WTO-illegal legislation is not the way to deal with it** – especially when the world is still struggling to maintain confidence in the face of the global financial crisis.