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A Label With More Bark Than Bite

By SUDEEP REDDY

Presidential candidates from both parties have promised for two decades to label China a "currency manipulator," as Republican contender Mitt Romney has frequently said he would do on his first day in office.

But it is a designation with more bark than bite. That is one reason U.S. presidents have avoided applying the label since 1994, preferring to press China privately on currency issues.

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Labeling a country a currency manipulator merely requires the U.S. to start negotiations on the issue with the offending country or through the International Monetary Fund. It doesn't require any trade actions or impose penalties against the alleged manipulator.

And while the declaration alone accomplishes little, the public slap risks angering another government and triggering a trade war.

The economic effects "would be very dicey. The politics would be completely messy," said Arvind Subramanian, senior fellow at the Peterson Institute for International Economics.

Many U.S. unions and lawmakers have complained for years that Beijing manages the value of its currency, the yuan, so it is lower than it would be if determined by markets, making Chinese exports cheaper.

Mr. Romney says marking China as a currency manipulator would "allow me as president to be able to put in place, if necessary, tariffs where I believe that they are taking unfair advantage of our manufacturers."

He could fix the label on China and direct the Commerce Department to consider a manipulated currency as a subsidy or other unfair trade practice in its evaluation of trade disputes. The U.S. could try to apply tariffs on Chinese products. But China could also fight the U.S. through the World Trade Organization, which does not consider exchange rates when it adjudicates trade disputes.

Chinese leaders might argue they were being singled out unfairly. Dozens of other nations—including U.S. allies such as Israel and Japan—intervene in currency

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markets to manage their currencies' value.

China also could retaliate economically, slapping its own tariffs on U.S. products, blocking its government's purchases from U.S. suppliers or shifting purchases of major products to European companies.

President Barack Obama also pledged in his 2008 campaign to label China a currency manipulator, but instead has sought to persuade its leaders behind the scenes to change their policies. The yuan has risen 9% against the dollar since June 2010, when Beijing started allowing greater appreciation of its currency.

Some economists outside the Obama administration say the yuan now is close to being appropriately valued against the dollar. The IMF this year changed its description of the currency to "moderately undervalued" from "substantially undervalued."

Many predict Mr. Romney, if elected, would soften his stance.

"He would probably have to walk back from that statement," said Eswar Prasad, a Brookings Institution economist and former head of the IMF's China division. "But walking back might imply a toughening up in some other dimension."

Some economists say Mr. Romney could push China in other areas, such as filing more trade challenges at the WTO or pressing China on U.S. companies' patent concerns.

Criticism about the real-world implications of Mr. Romney's assertions appears to have led him to soften his own tone recently. In Monday's presidential debate, Mr. Romney repeated his pledge to brand China a currency manipulator and force it "to play by the rules."

But be prefaced that with a more conciliatory message. "We can be a partner with China," he said. "We don't have to be an adversary in any way, shape or form. We can work with them. We can collaborate with them if they're willing to be responsible."

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