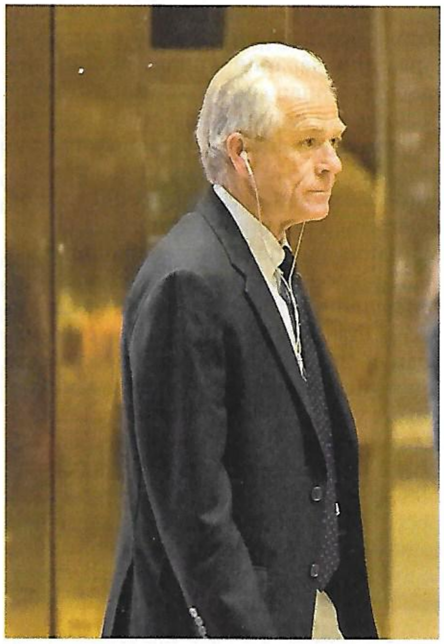


The trade guns of Navarro

▸ they have suffered "serious injury", but need not prove any unfair practice by the foreign firms.

Mr Trump's trade team may be reliving the experience of the Reagan administration, which in 1983 slapped an extra 45% tariff on imports of motorcycles in response to a petition from Harley-Davidson, an American manufacturer. Mr Trump has referred to this as having had a "big impact". But as a trade-enforcement tool, section 201 has drawbacks. Proving a case can be tricky, since there is a high legal threshold for proving injury and the adjudicator, the International Trade Commission, is an agency respected for its independence. (The Department of Commerce, which makes rulings on anti-dumping, is seen as a softer touch.) Moreover, indiscriminate use of the provision will provoke other countries into retaliation. In 2002 America tried to slap tariffs of 30% on steel in violation of the World Trade Organisation's (WTO) rules, but was forced to retract when faced with the threat of $2.2bn-worth of tit-for-tat tariffs on exports ranging from sunglasses to orange juice.

The second weapon in the arsenal, section 301, is "scarier" than 201, says Kim Elliott, a trade expert. "The grounds for taking action are less well-defined." It allows the administration to take action against "unfair" trade practices. America used to invoke this section to hit its trade opponents before disputes could be dealt with by the General Agreement on Tariffs and Trade, the WTO's precursor.

Since the establishment of the WTO in 1995, the section has fallen into disuse, on the understanding that it could be implemented if a WTO ruling went in America's favour and authorised tariffs on a trading partner that was breaking the rules. The fear, however, is that this week's mention of section 301 implies the Trump administration might start going outside the global rules of the WTO system. Intensifying the alarm is that an entire section of the strategy document focuses on defending American "national sovereignty over trade policy". It also emphasises that a WTO ruling against America need not automatically lead to a change in American law or practice.

The document complains about the weakness of WTO rules. The implicit target is China. In one of the most important of several disputes which are currently working their way through the WTO courts, China challenges America's refusal to treat it as a "market economy". If the WTO granted China "market-economy status", it could limit the level of WTO-compliant tariffs America could impose on its exports.

The echoes of the Reagan glory days seem to ignore how much the world has changed since the 1980s. Then the main object of America's trading ire was Japan, an ally, which was both far smaller and often loth to retaliate when hit with trade measures. China is bigger and happier to fight back. For all its flaws, the WTO may be the best defence against an all-out trade war. In the words of Carla Hills, a USTR in the early 1990s: "without the WTO it would be the law of the jungle." ■

Currency manipulation

Biting at the champs?

SHANGHAI

By America's own rules, China is not a currency cheat

SINCE his election as president, Donald Trump has not softened his criticism of China over its alleged meddling to control the value of its currency, the yuan. On the contrary, he has called China "the grand champion" of currency manipulators. The kindest interpretation of this is that Mr Trump is out of date, as his own government could tell him.

America's Treasury makes a six-monthly assessment of the foreign-exchange policies of its big trading partners. The criteria it uses to identify currency manipulators are regarded by many economists as inadequate. They do not include, for example, the domestic purchasing power of a currency. Nevertheless, even by those flawed criteria, China is far from the champion. Indeed it seems to have quit the tournament altogether.

The Treasury uses three measures: whether the country runs a sizeable surplus in trade with America; whether its current-account surplus exceeds 3% of GDP; and whether it spends more than 2% a year to buy foreign assets to suppress the value of its currency. Over the past year, no country has checked all three boxes. China, in the latest report, only met one condition (running a big bilateral surplus in its trade with America).

The Treasury, does not publish a league table of its trading partners. If it did, it would illustrate just how slippery the idea of currency manipulation is. *The Economist* has used the measures to develop a crude scoring system, to establish which countries would be in Mr Trump's firing line if his government's measures were applied consistently (see chart).

Using the current-account metric, we award one "manipulation point" to countries with surpluses at the 3% threshold, two points to economies with surpluses at 6% of GDP, and so on. Similarly, we award one manipulation point for each 2% of GDP spent buying foreign assets to depress the value of its currency. We do not include bilateral trade with America in the scoring: the value of currencies affects trade globally, and some countries such as Mexico run hefty trade surpluses against America but have deficits with the rest of the world.

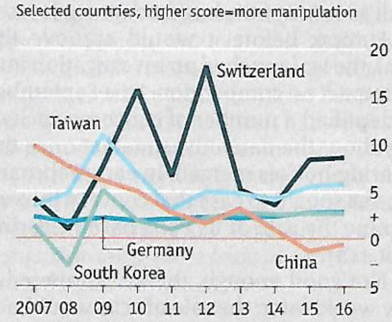
Awkwardly for America, two of its friends in Asia have recently scored more highly than China: South Korea and, most clearly, Taiwan. But the highest score of all goes to Switzerland, by dint of its whopping current-account surplus and its hefty foreign-currency purchases. This illustrates one of the method's flaws: in terms of the goods and services that it can actually buy, the Swiss franc is in fact among the world's most overvalued currencies.

As for China itself, it has been fighting to prop up the yuan in the face of capital outflows, and its score is in fact negative: it has, in other words, raised the price of its currency, not lowered it. Over the past decade, the scoring system shows that China has done progressively less to distort the yuan's value. That is reflected in the International Monetary Fund's verdict that the currency is "no longer undervalued". Or, as Mr Trump might put it: Loser! ■

Exchange controls

Currency-manipulation score*

Selected countries, higher score=more manipulation



Source: *The Economist*

*Based on current-account balances and foreign-asset purchases relative to GDP