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GROVER: Reckless trade policy

Time for America to stand up for itself

COMMENTARY

By Eric Grover

China's tilting of the commercial playing field with America across a broad range of industries has provoked political ire. Sen. Lindsey Graham, South Carolina Republican, was right if understated when he remarked that difficult work lies ahead in addressing U.S. concerns over China's trade policies.

Critics accuse China of keeping its currency, the renminbi, artificially weak, hurting U.S. exporters and increasing America's trade deficit with China. President Obama said an undervalued renminbi "artificially inflates the price of U.S. goods." Treasury Secretary Timothy F. Geithner said Mr. Obama thinks China manipulates its currency. Sen. Debbie Stabenow, Michigan Democrat, decried Chinese "cheating." Sen. Charles E. Schumer, New York Democrat, with 16 Democratic and Republican co-sponsors, plans to introduce the Currency Exchange Rate Oversight Reform Act of 2010, intended to circumscribe Treasury Department latitude in determining that a currency "misalignment" exists and is willful, and to require punitive consequences to "force" realignment.

A stronger renminbi, however, may not accomplish what critics want. It would punish American consumers and exporters buying Chinese goods, and make Chinese imports less expensive. And, the Cato Institute's Daniel Ikenson notes what matters is how Americans and Chinese respond to price changes in goods they sell each other. Between July 2005 and July 2008, the renminbi appreciated 21 percent against the dollar, yet America's imports from China grew 39 percent and the trade deficit with China increased $66 billion.

China's failure to open its markets is more cut and dried. As part of joining the World Trade Organization (WTO) in 2001, China made specific commitments to open up its domestic goods and services markets. It has not honored them.

China imposed discriminatory tariffs on imported auto parts when their number or value exceeded certain thresholds. In 2006, the United States, Canada and the EU brought a WTO complaint. In 2008 the Geneva-based trade organization ruled the tariffs were inconsistent with China's WTO commitments. China appealed and lost. In September 2009, China eliminated the discriminatory tariffs. It was China's first loss of a WTO case.

In April 2007, the U.S. initiated WTO complaints against China over its lax protection of intellectual-property rights (IPR) and impediments to American entertainment publishers selling in China. The U.S. music and software industry's 2008 losses owing to Chinese piracy were estimated at $3.5 billion. In 2009, the Geneva-based trade organization ruled China censored and restricted imported books, movies and music, violating its WTO commitment. It ruled in favor of the United States on two of three IPR counts. It held that China's counterfeiting of CDs, DVDs and software not meeting its "content review" standards and the auctioning off of seized counterfeit goods after simply removing fake brands were violations, but denied the charge that China's threshold for bringing piracy cases was too high. China agreed to abide by the IPR ruling, but appealed the decision on market access for entertainment products. The appeal was rejected in December 2009.

In agriculture in 2003, China banned U.S. beef imports in response to a case of bovine spongiform encephalopathy. In 2007, the World Organization of Animal Health designated the U.S. a "controlled-risk country," indicating its beef was safe. Nonetheless, China still hasn't reopened its market to U.S. beef. Arguably, this, too, is a WTO violation.

Until recently, little attention was paid to China's egregious protection of its domestic retail card payment systems.

Chinese banks have 1.88 billion debit cards and 190 million credit cards outstanding, on which cardholders made 19.7 billion purchases last year. But they can't buy domestic card payment network services from American Express, Discover, JCB, MasterCard or Visa. China UnionPay (CUP) enjoys a protected card-payment-network monopoly. And merchant processors such as First Data and Global Payments, which have joint ventures in China with British banks Standard Chartered and HSBC respectively, can't compete with CUP and Chinese banks providing domestic card acceptance to merchants.

While not always a free-market champion, Mr. Schumer rightly said, "The Chinese have been flouting the rules of the WTO and free trade ... for too long." The Bush administration should have acted. U.S. Trade Representative Ron Kirk now says the Obama administration is considering bringing a WTO action against China over its failure to open up its domestic card payments market. It's high time.

By Dec. 11, 2006, China's entire domestic credit and debit card market should have been open to foreign payment networks and processors. But there has not yet been a single domestic MasterCard or Visa payment transaction in China, almost nine years after it joined the WTO and three years after it pledged to have completely opened its domestic retail cards market.

While Chinese banks co-brand payment cards with MasterCard and Visa, it's only for use overseas where CUP's acceptance network is weak. Similarly, foreign merchant processors only provide card acceptance for MasterCard and Visa payments by tourists and business travelers visiting China.

In stark contrast, the U.S. retail card payments market is open to participation by foreign firms and ferociously competitive at every stage of the value chain. China's monopoly network CUP, Japan's JCB, Canada's largest network Interac and even Europe's third-largest network, Cartes Bancaires, are free to compete in the United States and to process payments wherever they deem most efficient. British RBS Worldpay and Canadian Moneris provide card acceptance to U.S. merchants. British banks Barclays, HSBC and RBS issue credit cards to U.S. consumers.

Unfettered competition by foreign firms would invigorate China's domestic card payments market. Roughly half of all Chinese payment cards are inactive, and many of the rest are used primarily for ATM cash withdrawals. The fiercely competitive, innovative and open U.S. market has richer consumer and merchant value propositions with 15 times more card purchases per capita.

China's ban on American, European and Japanese firms from its domestic credit and debit card market violates the letter and spirit of its WTO commitments, harms Chinese consumers and merchants, and hurts businesses such as Amex, Discover, First Data, Global Payments, JCB, MasterCard and Visa. Dialogue with no credible possibility of punitive consequences won't change China's conduct. Successful WTO complaints have borne fruit in other sectors. The United States should bring a card-payments WTO action against China unilaterally, or, possibly, with Japan and the EU.

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