

Exchequer

The China-Hating Season Is Upon Us

By [Paul Ryan](#)

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It must be an election year: Washington has noticed that the brutes in Beijing still aren't reading their Bastiat, and a World Trade Organization complaint is in the works. I do not think that the Obama administration, even if it knew what to do, would be willing to do what it takes to radically improve U.S. economic competitiveness vis-à-vis China, since he was carried to Washington upon a great swell of votes from the less productive corners of the fruited plain, but it's nice to have inscrutable foreigners to blame. Really, what would Washington do without the Chinese?

On the one hand, it is good that the United States and China are members of a free(ish)-trade convention, giving them a forum at the WTO for resolving differences. WTO rules are arcane and convoluted, but the organization enjoys reasonable credibility in settling disputes that arise under its purview. As China becomes a more mature and normal country, it is important that it learn to comply with the obligations into which it has freely entered. (Not that the people of China can be said to have "freely entered" into anything, but you know what I mean.) U.S. China hawkery does tend to ebb and flow with election cycles, one cannot help but notice.

So, free trade would be a good thing, and free(ish) trade under the WTO is probably a second-best outcome preferable to other politically available options. So, rah-rah for us.

Sort of.

I cannot help but notice that our own customs regime is an embarrassment. ("Not as bad as in China!" isn't exactly a ringing endorsement of public policy.) For example: We charge a relatively straightforward protectionist duty on imported passenger cars and special-purpose vehicles, depending on various features (interior capacity, size of engine, number of engine cylinders, etc.), but then, of course, we mess with it. Some car parts get attached post-import, so Mercedes-Benz is required to do a separate parts-duty calculation for the aluminum roof racks that are permanently affixed to M-class sport-utility vehicles. (Read all about it here.) Never mind the 2.5 percent duty — consider the trade consequences of the fact that Mercedes-Benz has to go to the federal government for an official ruling about its roof-racks before it can do business. It's not just the cost of the tariff per se, but the cost of compliance, too — Mercedes sells five different classes of SUVs and crossovers in the United States, with multiple models in most classes.

So, Mercedes-Benz gets hassled, but sometimes imported parts get preferential customs treatment. If you're Nissan Forklift, you get to participate in the foreign-trade zone program that allows for delayed or reduced duties on imported parts — provided, of course, you are doing your business in the home district of a sufficiently powerful member of Congress. American mercantilism is a lot like Chinese mercantilism, but less patriotic. It's the makework fallacy as national policy.

Lest you think that there is anything other than straightforward protectionism going on, take the program administrators at their own word:

This event was notable in that it opens the door for a new industry sector to lower its Customs-related costs through the Foreign-Trade Zones Program. How does this event benefit the the Marengo area? "By utilizing the FTZ program to level the playing field with its overseas competitors, Nissan Forklift can be more competitive. This results in job retention, and capital investment; and both of these lead to increased economic activity in Marengo as well as providing much needed support to the U.S. manufacturing base," says Craig Pool, President of the Foreign-Trade Zone Corporation.

Clear enough? U.S. trade policy provides publicly funded benefits for rent-seeking business interests and acts as a tax on U.S. consumers of foreign goods and many domestic goods containing foreign components. There is little or no evidence that it accomplishes anything that makes the U.S. economy more productive, or that it improves wages or employment. But it is a good way for congressman to send goodies back to the district.

And it is not as though the United States is totally shut out of the Chinese market: It's worth noting that the best-selling passenger vehicle in China is a Buick — weirdly enough, a Buick is a status symbol in China. Consumer preference still matters, and in many sectors in which the Chinese economy is relatively open to imports, the United States is outperformed by other countries.

So, sure, make China play by the WTO rules — but don't expect to get too much out of it.

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