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Trying to Make China More Like Us

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By JOHN BUSSEY

What's the flap over the U.S. Export-Import Bank really about?

It's tied to a conflict at the center of global trade: Should the U.S. strive to fight more like China, or should it strive to make China more like the U.S.?

What's the flap over the U.S. Export-Import Bank really about? It's about a conflict at the center of the global trade battlefield: Should the U.S. strive to fight more like China, or should it strive to make China more like us? Photo: Reuters.

On the face of it, the answer seems simple. Forget trying to out-subsidy China Inc. That's a battle the U.S. and the Ex-Im Bank—which provides financing for overseas customers of U.S. exporters such as Boeing, BA +0.23% General Electric GE -0.29% and Caterpillar CAT +0.22% —will never win. In that tangle, the Ex-Im Bank is a pea shooter at an artillery duel.

Instead, it makes more sense for the U.S. to challenge China head-on in the World Trade Organization and similar venues. The goal should be to eliminate China's extensive subsidies for business and to heed free-market rules. In other words, make China a more normal trading partner.

Here's the tricky part: Until the U.S and its trade allies effectively mobilize to do that, it's best to hang onto every pea shooter in the arsenal. And that includes the Ex-Im Bank, which lately has come under fire.

"We don't want unilateral disarmament," says John Murphy at the U.S. Chamber of Commerce, which supports the Bank. "China has 10 times the export financing we do." It would be ideal if everyone agreed to restrain the practice. "But we aren't going to see that in our lifetime."

"If you're looking at what we're facing right now, there's not a lot of optimism that China is going to become more like us," adds John Neuffer of the Information Technology Industry Council, a trade group.

On Tuesday, the Senate rejected a short-cut effort to extend the life of the Bank beyond the expiration of its authority May 31. Reauthorization now faces a slog through Congress.

The Bank's proponents say its loan guarantees and other financing help close deals for U.S. exporters that might not otherwise happen because they often involve customers that don't qualify for commercial loans. They also note that other countries have similar agencies and that the taxpayer-backed Ex-Im Bank helps the U.S. stay competitive and boost exports.

And they add this: Relying on a purist notion of free markets, with the U.S. at the vanguard, to compel China's state capitalism to change its ways—well, that's wishful thinking. China is operating in its own self interest, as any nation would. You need to fight fire with fire.

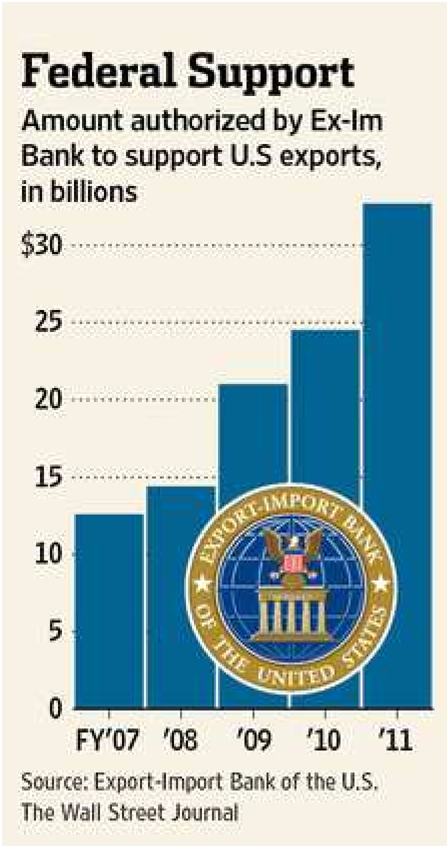
Bank opponents say taxpayers shouldn't be in this business, that commercial banks can handle the load, and the Ex-Im Bank disproportionately benefits the politically-connected corporate elite in the U.S. Indeed, 45% of the Ex-Im Bank's loan exposure is tied to Boeing deals (wags call it "Boeing's Bank"). A spokesman for Boeing says recent weakness in commercial banks has made Ex-Im Bank financing all the more important.

The CATO Institute finds the Bank itself problematic. "The Ex-Im Bank claims to correct market failure," it says, "but it introduces distortions into the economy and inserts politics into what should be purely commercial decisions."

One example of a distortion: The airlines' trade association sued the Ex-Im Bank, arguing it provided preferred financing to Air India, which bought Boeing jets and then undercut Delta's business to Mumbai. A spokeswoman for the Ex-Im Bank says the suit is without merit.

The bank also has its internal distortions. Products for which it's providing financing must have 85% U.S. content and must be shipped on U.S.-flagged vessels. Those strictures can raise costs and kill deals.

For all the attention given the Ex-Im Bank, it accounts for a tiny fraction of U.S. exports. It isn't going to make much difference in America's subsidy battles with China or do much to change China's behavior.



The U.S. has a better shot at affecting the trade relationship though the WTO and other legal mechanisms. Washington's new Trade Enforcement Unit is supposed to serve that effort.

And yet nations still aren't sure-footed with these more powerful tools.

Consider examples of the good, the bad and the ugly in just the past few days:

The good: The U.S., the European Union and Japan do the smart thing and join forces in a dispute with China, this one over China's export restrictions on rare-earth minerals. This powerful alliance has taken its complaint to the WTO.

The bad: The U.S. places a small tariff of 2.9% to 4.7% on imports of Chinese solar panels, contending that Chinese producers got unfair subsidies from their government. The tiny tariff isn't likely to affect imports or send an effective signal about subsidies, though the penalty may get stiffer in May. China says this is U.S. protectionism.

The ugly: In a dispute with the European Union over emission caps for airlines, a Chinese official threatens to cut off purchases of Airbus aircraft. That violates the spirit and, it can be argued, the letter of WTO rules. Europe's trade officials don't publicly challenge China over the matter or invoke the WTO. The U.S. is similarly silent.

"That was a smoking gun," says a China critic. "If the U.S. is concerned about this sort of behavior, it needs to call it out publicly and tell the Chinese to knock it off."

In the diverse arsenal the U.S. needs for its trade fights, it seems there's room for more finger wagging, too.