Do the Chinese Exchange Rate and Trade Policies Violate International Rules?

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Abstract: China is accused of pursuing anti-rest-of the-world policies that cause the massive trade deficit of the US and the decline of its manufacturing industry. Specifically China is accused of adopting an exchange rate policy whereby a weak currency is maintained to the detriment of the rest of the world and in violation of the IMF rules. The Chinese are also accused of saving too much for the good of the rest of the world and adopting an export-led growth model. The exchange rate and trade policies of China represent, according to some, a violation of WTO rules. These accusations are discussed, reaching the conclusion that there is nothing immoral or illegal about Chinese policies.

Keywords: China, WTO, Currency Manipulation, Export-Led Growth

1. Introduction

China has been in the firing line since the US shifted its attention from the trade deficit with Japan to the trade deficit with China. The US accuses China of adopting immoral and illegal exchange rate and trade policies that have caused the massive US-China bilateral trade imbalance. Specifically China is accused, among other things, of choosing an improper exchange rate regime, currency manipulation, refusal to revalue an undervalued currency, saving too much and consuming too little, and hurting the world economy by adopting a policy of export-led growth. China is typically portrayed as violating the IMF and WTO rules by pursuing these policies.

Take, for example, Ensinger (2010) who argues strongly that “the U.S. must be more forceful in tackling China’s currency manipulation, export controls, discriminatory domestic procurement policies and trade-distorting subsidies”. He concludes that “if China’s unfair trade practices are not addressed, China will continue to gain ground on the U.S. economically, meanwhile the U.S. will continue to accumulate debt and cede ground to China in other areas”. Likewise, Goldstein and Lardy (2009) recommend that China “disavow any strategy of competitive undervaluation of the yuan that might be aimed at dealing with reduced global demand for Chinese exports”. They call for a rejection of export promotion measures, even if such steps are technically consistent with China’s WTO obligations.

The objective of this paper is to analyze these allegations and argue that none of them is valid and that China’s policies are neither illegal nor immoral. It is suggested that China is pursuing policies that are suitable to its stage of development and that countries typically adopt economic policies deemed suitable for their domestic economic conditions (which naturally change over time). The allegations made against China are discussed in turn.

2. Exchange rate regime choice

Exchange rate regime choice is governed by the international monetary system in operation at the time and by the underlying country’s own circumstances. Under the present system, countries have a choice of

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adopting their preferred exchange rate regime. Article IV of the revised IMF articles allows countries to "tie their currencies to any external anchor with the sole exception of gold"—meaning fixed exchange rates. China adopted a fixed peg to the dollar in 1984 at around 8.28—that system remained in operation until July 2005, when the Chinese revalued their currency and declared a move to a basket peg. What in fact happened was that the Chinese moved to a crawling peg against the dollar whereby the yuan is allowed to appreciate gradually while introducing some uncertainty to curb speculation (Moosa, 2008; Moosa et al., 2009). That policy was interrupted briefly by the global financial crisis, but there is nothing illegal about it as it is well within the IMF rules.

China bashers deny China the right to choose its exchange rate regime under the current international rules. For example, Mussa (2007) described as a "logical absurdity" the proposition of unilateral sovereign authority to determine a country's exchange rate because the exchange rate involves two currencies and hence two countries. What is absurd is in fact Mussa's argument because a country can, if it chooses, fix its exchange rate against the currency of another country. To preserve a system like this, the fixed rate must be defended against market forces, which may or may not succeed. Countries with a dual exchange rate regime fix their exchange rates at two different levels. This system is may not be easy to maintain but it is perfectly legal.

Williamson (2003) puts forward a similar bizarre idea by arguing that "exchange rates are inherently the business of more than one country", which means that "a small country can expect that the rest of the world will allow it to choose its exchange rate without too much interference, but large countries have to recognize that their partners have a legitimate interest in what they choose because their choice influences those partners' effective exchange rates". This argument is based neither on legal principles nor on sound economics. From a legal point of view, there is nothing in the IMF rules saying that exchange rate regime choice depends on country size. From an economic point of view, if the arguments for and against flexible exchange rates are applied to the case of China we will find, on the balance of the pros and cons, that China is better off with fixed exchange rates (see, for example, Moosa, 2012a).

Westmore (2010) argues that "efforts by successive US administrations to persuade China to adopt Western-style currency policies, which would involve permitting the Renminbi to rise, increasing imports into China and reducing Chinese exports, have been completely unsuccessful". It is not obvious what the term "Western-style currency policies" means but it sounds like free floating (if this is the case, why are they called "Western" when the same policies are adopted by Japan and Korea?). But even free floating is no guarantee that the yuan will appreciate further, now that it is at about its equilibrium value or slightly overvalued (The Economist, 2011b, 2012a). And even if that happened there are at least seven reasons why the hoped for positive effect on the US trade balance will not materialize (see, for example, Moosa, 2012b). Of course one has to wonder why an "Eastern" country like China is expected to adopt "Western" policies (unless, of course, China is an "Eastern" country while Japan is a "Western" country).

Robert Mundell stridently defends the Chinese exchange rate policy of pegging the yuan to the US dollar, arguing that he had always supported a fixed rate policy (Dukes, 2005). He actually advised China to keep its exchange rate fixed as long as the dollar is stable and presented 12 reasons why revaluing the yuan would be a bad idea for China, Asia and the world, including the assertion that a possible move to float the yuan "would delay the convertibility of the Chinese currency, cut down on the inflow of foreign direct investment, reduce economic growth greatly, aggravate the non-performing loans situation in Chinese banks, hurt the profitability of Chinese enterprises, increase the unemployment rate, add more deflation distress in rural sectors and reward speculators, all of which would add to instability in China and Asia and hurt the worldwide economy".

A stable exchange rate between the dollar and yuan may be in the interests of the US and China, given the potential for cross-border investment. Pegging the yuan to the dollar has been an important element of the stabilization policies pursued since China opened up to the rest of the world. This is because a dollar peg provides a monetary anchor for price stability by linking domestic monetary policy to the inflation rate of a large, non-inflationary economy, which—according to Obstfeld (2006)—has been an important benefit of dollar pegging for China. In the meantime China is allowing its currency to appreciate against the dollar, but only gradually. Shengjun (2010) argues that "all the signs indicate that the central bank [of China] will ensure that the currency appreciates gradually, say by between 2% and 5% a year". In the long run, the yuan is likely to be an international currency when it becomes fully convertible once the Chinese economy has undergone full transformation into a market economy. At that time, floating will make a lot of sense.

It is not clear why China bashers refuse to acknowledge the fact that countries have the right to choose their exchange rate regimes and defend them, if they can, against market forces. Wyplosz (2010) correctly argues that "the nominal rate is in the hands of the Chinese authorities, who have opted for a fixed exchange rate regime", which "is perfectly compatible with IMF principles". On balance, there is more for China in fixed than in flexible exchange rates, at least for the time being.

3. Currency manipulation

China is accused of currency manipulation just because it is exercising a legitimate right to adopt a fixed exchange rate regime and defend it via intervention in the foreign exchange market and by other means. From time to time, the US Treasury issues a list of "currency manipulators", countries that satisfy certain criteria (the list, of course, does not include the US despite intentional efforts to keep the dollar weak via quantitative easing). Mitt Romney, the Republican nominee for the 2012 presidential election, has repeatedly promised (or threatened) that "on his first day in office he will have China branded as a currency manipulator" (The Economist, 2012e).

Wyplosz (2010) suggests that calling what China is doing "manipulation" is "not just outside any legal norm, it would also concern the tens of other countries that also peg their currencies to the dollar – and (why not?) those that maintain fixed exchange rates vis-à-vis currencies like the euro". Even some of those who think that China is doing something wrong do not accuse China of currency manipulation. For example, Spruk (2010a) argues that "it would be foolish to mark China as currency manipulator and an ultimate source of US trade deficit and manufacturing loss". Zakaria (2010) is against the allegation of currency manipulation, making the interesting remark that "the US imports more than it exports from 90 countries around the world", which is not due to "currency manipulation by those countries" but rather "a result of fundamental choices we [Americans] have made as a country to favour consumption over investment and manufacturing". Persaud (2010) argues that "for the average American voter familiar with floating currencies, the whole idea of a fixed exchange rate smells of manipulation, but in fact it is easier to manipulate a floating exchange rate than a fixed one".

Accusing China of currency manipulation is preposterous and indicative of extreme naivety. Of course China manipulates its currency because it has chosen to adopt a system of fixed exchange rates, which is allowed by international rules. Until 1971, the Bretton Woods Agreement of 1944 required all countries to have fixed but adjustable exchange rates while floating was outlawed. That did not prevent some countries, such as Canada, from experimenting with floating exchange rates. What is important here is that it was a requirement for all countries to "manipulate" their currencies to be compliant with the agreement. In 1971 the US dismantled the Bretton Woods system by abolishing the convertibility of the dollar into gold. After a period of turmoil (during which countries did what they thought was best for their economies), the

Jamaica Accord of 1976 gave countries the freedom to choose from an exchange rate arrangement menu ranging from the very fixed to the very flexible regimes. China has chosen to use a fixed exchange rate regime, which requires "manipulation"—that is, maintaining the regime via intervention and other means. Unless there is a new international agreement that outlaws fixed exchange rates, no one should complain about China's "manipulation" of the exchange rate.

The Economist (2012e) describes Mitt Romney's threat to label China a "currency manipulator" on his first day in the White House as "doubly daft". It is unjustifiable economically, now that the Chinese current account is shrinking, while politically it "would needlessly inflame the prickly Chinese during their leadership transition". It is indeed 'doubly daft".

4. Refusal to revalue the yuan

Those calling on China to float the yuan, or to introduce more flexibility in the exchange rate, want a measure like this to be preceded by a big revaluation of the yuan. For example, Williamson (2003) refers to a "first step revaluation" before moving away from a dollar peg, while Roubini (2007) thinks that "China should allow its currency to appreciate significantly and move to a regime of more flexible exchange rates". This accusation involves the claim that China indulges in "competitive devaluation" or what Geithner calls "competitive non-appreciation" (The Economist 2010a). Johnson (2010) argues that "it is in the interests of both the United States and global economic prosperity that China allows its currency to appreciate". How and why is of course a mystery.

To start with, China revalued its currency in July 2005 and has been allowing it to appreciate gradually since then. This behaviour is not consistent with "competitive devaluation" or "competitive non-appreciation". It is more than that—what China bashers want is a big revaluation to be introduced immediately, which does not make much sense. If the exchange rate is allowed to be determined by the market, then the market should put the exchange rate at the "right level", in which case there is no need for a big revaluation.

The argument for a big revaluation is motivated by the belief that the yuan is still undervalued and that this undervaluation is hurting not only the US but also China itself and the world economy at large. Dunaway (2010) blames China for the slow recovery of the world economy since the global financial crisis because the yuan is undervalued against major currencies. Likewise, Bivens and Scott (2006) claim that "Chinese currency policies affect more than just bilateral trade between China and the United States". Refusal to revalue the currency, they say, "is one of the primary impediments to resolving global trade imbalances that threaten both individual and the global economies".

Williamson (2003) presents arguments against the reasons suggested by China for resisting revaluation. He responds to the argument that China's current account surplus has recently diminished by saying that although the surplus has fallen, it is still a surplus rather than the deficit that is appropriate for a country in China's situation. He responds to the argument that a revaluation would threaten Chinese growth by suggesting that growth does not depend solely on demand and that supply limitations are constraining Chinese growth. If a current account deficit implies that a country is living beyond its means, it is not clear how a deficit is appropriate for China.

Goldstein and Lardy (2009) argue that refusal to revalue the yuan will sustain its undervaluation, which causes the following problems: (i) distortion of domestic investment decisions; (ii) undermining of government efforts to transition to more consumption-driven growth; (iii) retention of investment and human resources in the lowest value-added industries, thus impeding the growth and expansion of both services and industries that China seeks to develop; (iv) failure to resist protectionism; (v) attraction of growing criticism of what are deemed to be beggar-thy-neighbour policies; and (vi) the perpetuation of the undervaluation of the currency by large-scale intervention in the foreign exchange market will need to be accompanied by continued sterilization of the resulting increases in the money supply. Notwithstanding the fact that these claims are no more than rhetoric, the underlying assumption is that the yuan is still undervalued, which most likely is not so (Moosa and Ma, 2012). If it is not so, then a big revaluation will make it overvalued, which is what China is worried about.

China has been reluctant to allow massive currency appreciation (or a big one-off revaluation) because it is wary of the fear of overvalued currency. Japan experienced a long period of stagnation after the 1985 Plaza Accord whereby a substantial appreciation of the yen was engineered. Chinese officials have repeatedly declared that reforms to re-balance the Chinese economy away from its current dependence on exports are well underway and that the yuan is being allowed to appreciate gradually (which no one can deny). Chinese Premier Wen Jiabao warned that if China is forced to revalue its currency too fast, there will be social unrest, bankruptcy for export-dependent companies and "disaster for the world" (Beattie et al., 2010). Robert Mundell argues that a rash revaluation might see the yuan appreciate in the short run but in the long run, it will go in the opposite direction. He also warns that currency instability will bring great uncertainty to Sino-US trade (Dukes, 2005).

Apart from the economic arguments against forcing China to revalue its currency and change the exchange rate regime, Thomson (2008) points out that by forcing China to do something like that the US runs the risk of "solidifying its position as a coercive hegemon". At a time when it is perceived and resented as a bully, Thomson argues that the US cannot afford to "increase resentment by coercing China to pursue an economic agenda that is counter to its own autonomous policy goals".

It is rather strange that some economists, let alone politicians and journalists, argue that the yuan is still undervalued despite the appreciation that has taken place since China abandoned the strict peg to the dollar in 2005. According to The Economist (2012a), "China's currency is 30% stronger in real trade-weighted terms than in 2005". Chinese officials insist that the yuan is now close to its fair value, but the US still demands more appreciation because although China's trade surplus with the rest of the world is shrinking, its surplus with the US is expanding. What the US refuses to admit is that the US-China trade imbalance has nothing to do with the exchange rate (for example, Moosa, 2011, 2012a, 2012b). Another fact that is overlooked is that the US trade deficit with China is exaggerated because "official data grossly overstate US imports from China" (The Economist, 2012b).

5. Saving and consumption

China is accused of hurting the world economy because the Chinese save (and consequently invest) too much and consume too little. Instead of tackling the US trade deficit by taking measures to reduce excessive spending and encourage saving in the US, the Chinese are expected to be prolifigate to eliminate the US deficit. Then the Chinese are actually spending more, but not on American goods, which would not solve the US-China deficit problem. Demand from China for German high-quality manufactured goods (such as luxury cars) was one factor that propelled the German economy in the period following the global financial crisis.

Those who think this way forget the fact that China is still a developing economy that needs a lot of growth. They do not realize that the high saving rate is rooted in Chinese history and culture. For example, Kapoor (2010), who describes Chinese consumers as "notorious savers", attributes Chinese saving habits to the "Confucian values of thrift and frugality". She also identifies, as three key factors, young demographics, big expenses (such as weddings) and medical and post-retirement costs. We know from macroeconomics that growth is propelled by investment (hence the need for saving) and that there is no such thing as consumption-based growth. Thompson (2008) makes this point clear by arguing that "it is investment, and not consumption, that is generally thought to provide the foundation for sustained economic growth". As a developing country, China is not alone in having a high saving rate as this is a phenomenon that is typically observed in emerging countries. The Economist (2010b) highlights the importance of saving, stating that ".. emerging economies, as a group, still save more than they invest, which explains why global imbalances—notably the controversial surplus in China and deficit in America—remain so big". It is noteworthy that Kapoor's description of Chinese consumers as "notorious savers" is an insult to Chinese generousity.

The Chinese justifiably indulge in precautionary saving "due to the need to provide for healthcare, basic education and retirement, given the lack of sufficient public provision of these services" (Cappiello and Ferrucci, 2008). Xiao (2010) argues that "it is no secret that even high- and middle-income Chinese parents need to save for many years or decades to pay for their children's expensive overseas education". In any case, these are domestic issues on which China has the last say in accordance with its national economic interests.

If we look at the issue from the investment side, China is always advised by ideologically-driven pundits to "balance its economy by investing less and consuming more", otherwise "diminishing returns on capital will cramp future growth; or, worse still, massive overcapacity will cause a slump in investment, bringing the economy crashing down" (The Economist, 2012c). However, China's overinvestment problem may be grossly overstated as suggested by the available evidence. It is the same story all over again: the Chinese currency is undervalued because it has a massive current account surplus or because (faulty) measures of misalignment say so, and China overinvests because of a high ratio of capital spending to GDP, etc. It is all about inaccurate figures and misleading indicators. For example, The Economist (2012c) argues that the capital spending to GDP ratio is misleading because the figures are not adjusted for inflation and because they include purchases of existing assets, such as land, that are inflated by the rising value of land and property. If we look at gross fixed capital formation we find that it has grown much slower than the ratio of capital spending to GDP. Furthermore, The Economist (2012c) quotes some studies showing that China's capital stock per capita is less than 8% of the US and 17% of Korea's. These studies also show that China still has less than one-quarter as much capital per capita as the US had achieved in 1930, when it was at roughly the same level of development as China today. The evidence, according to The Economist (2012c) indicates that "China has not seriously overinvested".

6. Export-Led growth

China is blamed for hurting the rest of the world by depending on exports, which is rather strange. Exports represent one side of a transaction that can be completed only if another country is willing to import (it takes two to tango). Take, for example, the argument put forward by Roubini (2011) who suggests that "the traditional Chinese model of economic growth required the US and a few other countries to be consumers of first and last resort, spending more than their income and running ever-larger trade deficits—so that China could be the producer of first and last resort, spending less than its income and building ever-larger trade surpluses". Roubini, therefore, blames China for the fact that the Americans choose to spend too much and live beyond their means. He further argues that China's growth model is "now challenged, if not altogether broken, because the excessive accumulation of private and public debt and deficit by the US has forced a painful deleveraging: the over-indebted US consumer needs to spend and consume less, import less, and save more to reduce debt”. Well, if the Americans decide to consume less and save more that is good for them, but it is nothing to do with China. Roubini advises China to “radically change its broken growth model in the direction of reduced exports, investment and savings, and increased consumption”. In other words, Roubini advises the Chinese to follow the American example and live beyond their means, borrow and over-indulge in consumption.

The same argument is put forward by Goldstein and Lardy (2009) who suggest that China should reduce excessive reliance on investment and external demand to sustain economic growth and rely instead on services and domestic demand. It is not clear what “reliance on services” means. Does it mean that China should again follow the American example, abandon manufacturing industry and shift to services? It is rather ludicrious to claim that the Chinese model (of growing by exporting goods that people need and want to buy) is broken while the American model of leveraged over-indulgence is the way forward.

Spruk (2010b) argues that China’s export-led growth model has tremendously affected the macroeconomic performance of developing countries. He makes the same recommendation: “without shifting the major engine of growth from export-boosting exchange rate undervaluation to consumption-based growth, Chinese economy will no longer be able to sustain high productivity growth rates”. This argument and similar ones do not only involve flawed economic reasoning, they also ignore history and they are hypocritical (even selfish). Britain and America have not grown and developed to what they are now by depending on the consumption of services. Japan and Korea have grown to what they are now by depending on export-led growth. Harbaugh (2004) argues that the promotion of exports has allowed China to move rapidly into new industries that might not otherwise have developed—this must have been good for the rest of the world.

Vistesen (2010) does not see anything wrong with export-propelled growth—rather, he thinks it is the way forward for the US. His argument is as follows: “we are all rapidly ageing and soon will hit the threshold where we effectively become dependent on external demand in order to achieve economic growth, pay pensions, build roads etc”. In addition to the demographics, Vistesen argues, “the US economy has over-spent and over-borrowed to the extent that the amount of private sector and public sector leverage implies that [the two sectors] are simply tapped out”. Hence, he argues, “we cannot rely on the US consumer anymore” and that “the US economy now needs to export more than she imports in order to turn the boat around”.

No one disputes the proposition that China cannot sustain double digit growth for ever, particularly by depending on exports. And no one would argue against the proposition put forward by Zhu and Kotz (2010) that “China’s growth trajectory poses a number of serious problems including environmental destruction, rising inequality, a high degree of exploitation of the migrant labour force, and weak oversight of product safety” and that put forward by Scott (2008) that “China engages in extensive suppression of labor rights”. But change will come naturally and gradually, and change will come from abroad as much as from within China—remember the decision to import less from China (hence reduce Chinese exports) belongs to foreign consumers, not to the Chinese government.

7. Violation of WTO rules

It has been suggested that China’s exchange rate policy is as much a violation of the WTO rules as the Chinese violation of intellectual property rights (for example, Palley, 2005). The underlying reasoning is that an undervalued currency works as an import tax and export subsidy. Ahn (2010) argues that for China to be violating the WTO rules as enshrined in the Agreement on Subsidies and Countervailing Duties (SCM Agreement), several conditions must be met (in practice they are not met). Staiger and Sykes (2009) dispute the idea of equivalence between the alleged currency undervaluation and import tax/export subsidy because “currency devaluation does not alter export volumes, and in the short run, its effects depend on firms’ invoicing decisions”. Hence they advise policy makers to take care before turning to trade sanctions as a remedy. However, politicians seem to love the idea of equivalence to which they attribute the loss of US manufacturing jobs. As a result, various proposals for action against China have been put forward in the US Congress over the past few years.

US Politicians have been insisting that the Treasury Department should refer the matter to the IMF and require the US trade representative to bring a formal complaint to the WTO so that China’s alleged currency undervaluation is treated as a source of dumping or countervailable subsidies that would permit the imposition of anti-dumping or countervailing duties on Chinese imports. In March 2012 President Barack Obama signed a bill that restores the US government’s power to impose tariffs on countries like China and Vietnam “where their goods are reckoned to be subsidised or dumped on American markets” (The Economist, 2012d).

The problem, of course, is that of translating the magnitude of exchange rate misalignment (which cannot be measured with a reasonable degree of accuracy) into equivalent import tariffs and export subsidies that could then be evaluated under the rules of the WTO. Matto and Subramanian (2008) suggest that the WTO should be enforced to “discipline cases of significant undervaluation that are clearly attributable to government action”, rationalizing this suggestion in terms of the trade consequences of undervaluation (the import tariff and export subsidy argument). Likewise, Bergsten (2007) suggests that the US should file a WTO case against China’s currency intervention as an exchange rate subsidy and/or as a violation of the WTO rules. Well, does this mean that the US should be disciplined for hurting Australian retailers as a result of deliberate action to keep the dollar weak through quantitative easing?

Staiger and Sykes (2009) offer three reasons for caution with respect to this issue: (i) exchange rate adjustment does not necessarily imply real trade effects; (ii) the claim that undervaluation is equivalent to a tariff or subsidy is not by itself sufficient to establish a case for WTO- or WTO-consistent action; and (iii) estimates of exchange rate misalignment are not reliable for the quantification of WTO-relevant effects. They argue that “one simply cannot make a leap from equilibrium exchange rate models, which may suggest that China’s currency is undervalued by some percentage, to the proposition that China’s policies are the real economic equivalent of an illegal import tariff increase and an illegal export subsidy in that same percentage”.

It is not claimed here that China does not violate WTO rules—it does like almost every other member of the WTO. Between 2001 (when China joined the WTO) and 2005, China was a party to two of the 93 trade disputes that were taken to the WTO. In the period 2005-2010 China was involved in 26 out of the 84 cases filed with the WTO (The Economist, 20011a). In 2009 China was accused of restricting the exports of certain industrial raw materials, which China defended on the grounds of its desire to conserve the limited supplies and to protect the environment from the pollution resulting from their extraction. China may be in violation of the WTO rules in this case, but so were all of the countries that banned some food exports in 2008 when food prices soared. This, of course, is totally different from accusing China of violating WTO rules because its currency is allegedly undervalued.

8. Conclusion

Those who blame China for the problems facing the world economy and accuse the Chinese of economic wrong-doing should instead be grateful for the contribution China has made to the great moderation, often claimed to be a product of global capitalism. China did not do this by following blindly the Washington Consensus (another set of "Western" policies). Rodrik (2004) argues that "China reformed its incentives in a two-track manner by grafting a market system on top of a central planning system, rather than abandoning the latter all together". China is important for the world economy not only as a producer of manufactured goods but also as a consumer. The Economist (2010c) makes this clear by arguing that "it is hard to exaggerate the Chinese economy's far-reaching impact on the world, from small towns to big markets".

Policy change in China will come, but only gradually. It is up to the Chinese to determine when to introduce changes to domestic economic policy. Frankel and Wei (2007) correctly argue that "everything we know about Chinese government officials, from their history of economic reforms to their own words, points to policy change that is gradual". Even the much wished-for appreciation of the yuan will materialize if not by changes in the nominal rate, then through inflation.

It remains to say that the best way to make China a foe is to treat it as one. Referring to Mitt Romney's threat to be firm against China, The Economist (2012e) makes the justifiable proposition that "for the chief executive of the world's biggest economy to start by picking a fight with the second-biggest economy would be plain stupid".

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