

## T S Vishwanath: Currency wars at WTO

The relationship between exchange rate volatility and international trade needs careful deliberation by member countries

T S Vishwanath / March 15, 2012, 0:59 IST

Hurt by an appreciating currency that has slowed the economy considerably, Brazil, the world's sixth-largest economy, has hit out at the developed world for "unleashing a tsunami of cheap money that was cannibalising" developing countries.

The Brazilian real has reportedly been the fastest-appreciating currency in 2012 — it saw a near 10 per cent appreciation till March 2012. The economy grew by around three per cent in 2011 compared to an over seven per cent growth in the previous year. Brazil has been complaining of the "currency wars" for over a year now. The latest salvo came from Brazilian President Dilma Rouseff who criticised developed countries for keeping interest rates low and providing cheap loans that have led to a large inflow of foreign investors into Brazil's high yielding assets, thereby appreciating the currency.

Brasilia has taken the third decision this month to control the rise of the Brazilian real by extending a six per cent tax on foreign loans and bonds issued abroad by local companies to include lending with a duration of as long as five years .

Brazil has also taken the issue of the "currency war" to the World Trade Organisation (WTO) where it submitted a proposal for discussion. In May 2011, the WTO Working Group on Trade, Debt and Finance discussed for the first time the relationship between exchange rates and international trade based on a Brazilian proposal. Brazil argued that exchange rates influence the foreign trade performance of countries, forcing them to intervene to keep the currency at a reasonable level that will help the economy.

Brazil's proposal had drawn attention to the declaration in the Marrakesh Final Act, which led to the WTO. The declaration states that "greater exchange rate stability, based on more orderly underlying economic and financial conditions, should contribute towards the expansion of trade..." Brazil had, in 2011, suggested a plan for the working group on trade, debt and finance. The plan proposed to:

- Request the WTO to review available literature and research, particularly in the light of the financial crisis that started in 2008.
- Undertake a dedicated workshop with the participation of selected economists, as agreed by members. This workshop is to be held later this month.
- Share concrete experiences and case studies by WTO member countries on a voluntary basis.
- Commission a study that provides an input into the current debate.

The issue of currency manipulation has been an important area of discussion

among countries. The US has been continuously pushing China on its currency interventions and has been urging Beijing to look at measures that will bring the renminbi to levels that will stop hurting its industry. Other countries, too, have raised this issue with China.

Brazil, too, had imposed considerably higher tariffs on automobiles imported from China when there was a surge of imports. With global trade becoming extremely competitive, governments have been intervening and introducing policies that benefit industry. Developed countries, especially Europe and Japan, have in the last one year taken measures to provide cheaper loans to companies. Countries are becoming more protectionist and the depressing global economic situation is making the process difficult.

The best way forward on this issue will be to see how countries can find solutions that do not take away the right to articulate policies that are needed to combat a slowdown, while at the same time keeping the impact of such policies on international trade to the minimal. There is a serious need for a debate before coming up with solutions to resolve this difficult problem.

The workshop at the WTO, later this month, is expected to look at various situations on the currency problem. It is expected that there would be a lot of pressure on China to put forward its view point on the currency issue.

Though the WTO may not be in a position to regulate the intervention of currencies by member countries, it would provide a good platform to look at how different interventions by governments are changing the global market place. There is a clear need for greater coordination among countries to keep international trade healthy and transparent.

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