

China's Currency

Time out!

The single-minded focus from some quarters on China's currency is a distraction. Yes, an exchange rate that better reflects and responds to trade flows is important. Yes, a multilateral, comprehensive look at global imbalances is necessary. But China's exchange rate is not the significant factor in the US trade deficit that some make it out to be.

As noted above, much of what we import from China we used to import from elsewhere. If we didn't import it from China, we would go back to importing it from Japan or South Korea or Taiwan—and pay more for it.

Further, the RMB has appreciated nearly 20 percent since 2005 as a result of steady engagement and negotiation. Raising tariffs or threatening sanctions inconsistent with international rules will likely only undermine our progress so far, if PRC leaders see themselves as being punished for having been responsive over the past three years. This is particularly true during this time of global economic stress.

In addition, despite the nearly 20 percent appreciation in the RMB, the price of imports from China has not increased significantly. Clearly, there are other factors that make China's exports to the United States cheaper than those produced in other countries or, in some cases, domestic products. If those factors are due to unfair trade advantages, we should go after them with the appropriate trade tools. But focusing on the exchange rate to solve the trade deficit is the wrong approach.

It also is important to note that US companies selling to China never cite the exchange rate as a competitive barrier—and our 300 percent growth in exports to China since the beginning of the decade

underscores that. Every year, USCBC surveys its members on the barriers that impact their business with China. The exchange rate never comes up as an issue harming their sales.

When China is found to be flouting international trade rules, we should first seek direct dialogue to resolve the issue. If good faith dialogue fails, we should use available trade tools, such as World Trade Organization (WTO) cases, when well-defined and winnable, to seek redress. The US government has done this recently with WTO cases on China's export subsidies, auto parts import barriers, financial news services market access barriers, and intellectual property rights enforcement shortcomings.

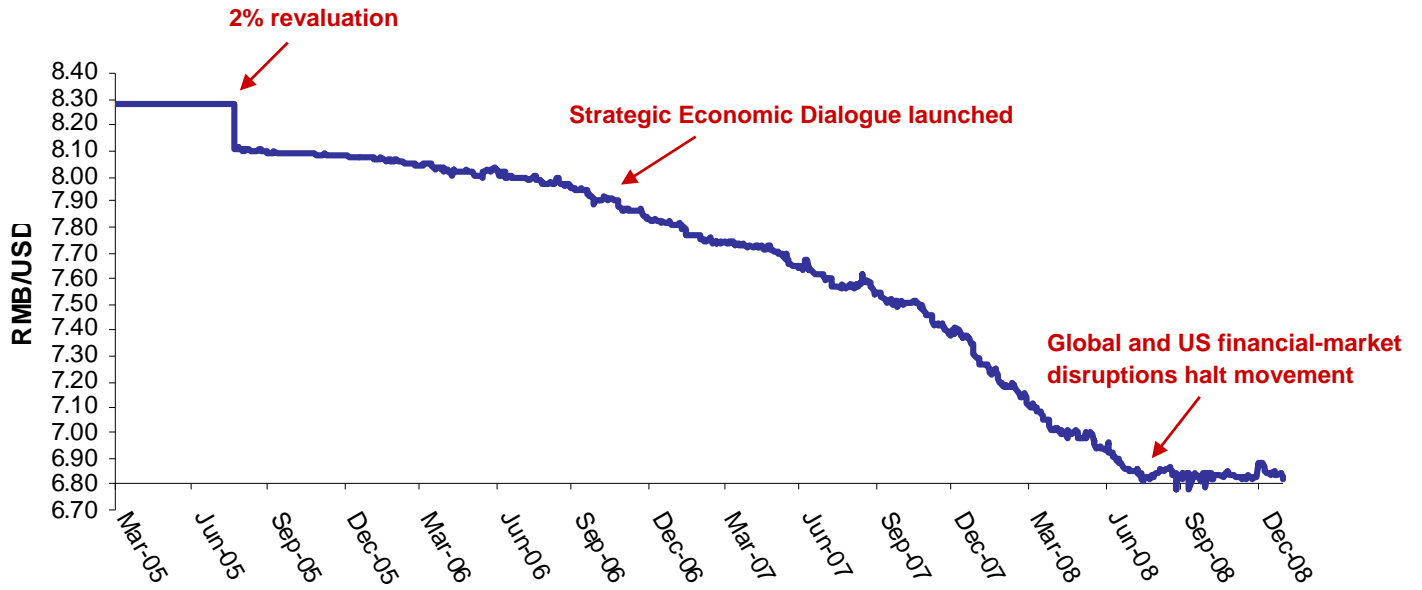
USCBC supports an exchange rate that better responds to China's global trade flows. And, China needs to be at the table for the all-important discussions on addressing the current global financial imbalances and regulatory challenges.

But we are deceiving ourselves if we think that "fixing" China's exchange rate will solve our economic challenges, eliminate the trade deficit, and reverse a decades-long decline in manufacturing jobs due to productivity increases.

Action Plan

- Increase emphasis on multilateral discussions to enhance progress already made toward bringing the RMB's value in line with the global marketplace.
- Continue to link progress on the RMB exchange rate to the development of a more robust financial services sector that would be capable of handling a more fully convertible currency.

Renminbi (RMB) Appreciation since July 2005



Total RMB appreciation against the US dollar: 18%

Note: Noon buying rates

Source: Federal Reserve Bank of New York