

Rising Yuan Won't Save U.S. Manufacturing

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WASHINGTON (AP) — Despite its latest public pushback, China is expected to soon let its currency rise against the dollar, a long-sought goal of U.S. manufacturers.

For the U.S., that shift could boost exports and potentially raise the prices of imported Chinese goods. The undervalued Chinese currency has made Chinese goods cheaper for American consumers. But it's hurt U.S. companies by making their products costlier in China.

Still, any changes will likely be slow, economists say. Don't expect to see higher prices on store shelves or large jumps in U.S. exports anytime soon. The U.S. economy won't benefit much in the short run.

A gradual increase in the value of China's currency, the yuan, would be "a move in the right direction," said Nariman Behraves, chief economist at IHS Global Insight. "But it won't be a big boost to the recovery."

China has pegged the yuan to the dollar since 2008. U.S. manufacturers argue that peg keeps China's currency undervalued by 25 percent to 40 percent and gives the Chinese an unfair advantage. In 2005, Beijing let the yuan gradually rise. But it resumed the peg three years later as the global financial crisis worsened.

President Barack Obama said Tuesday he thinks the yuan is undervalued. Obama said he urged President Hu Jintao, in a meeting Monday, to "move towards a more market approach."

"It is actually in China's interest to achieve this," Obama said, "because over time, China's going to have to shift away from an economy that is solely oriented" towards exports and move to an economy that emphasizes "domestic consumption and production."

Earlier Tuesday, in a statement released in Beijing, Hu rejected U.S. calls for China to let its currency rise in value against the dollar. Reforms of China's currency system "won't be advanced by any foreign pressure," he said.

But Behraves said he wasn't discouraged by Hu's remarks.

"China wants it to look like they're going to do this because they want to do this, not because we're pressuring them," Behraves said.

Hopes for an imminent change in China's exchange rate had risen after a surprise stop by Treasury Secretary Timothy Geithner in Beijing last week for talks with Chinese economic officials en route back to Washington from India.

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Geithner, speaking at a conference Tuesday of the American Society of News Editors, said the administration planned to be "very forceful and aggressive" in promoting changes in China's economy that would treat American companies fairly.

"It is very important that over time they move to a more flexible exchange system," he said. "I believe, as I have said, that they will decide to do that."

American manufacturers said that Hu's comments underscored the need for a tougher U.S. approach. They called for Congress to pass legislation that would impose trade sanctions on Chinese products unless Beijing moved faster to revalue its currency. The Alliance for American Manufacturing, said the U.S.-China trade deficit has cost 2.4 million manufacturing jobs.

Sens. Charles Schumer, a New York Democrat, and Lindsey Graham, a South Carolina Republican, along with 12 other senators, have proposed legislation to impose trade sanctions on China if it doesn't act.

If China does end the peg, it would likely allow only a gradual appreciation in the yuan, perhaps 5 percent a year, economists said. That's unlikely to cause large price increases in the United States or create many jobs, they said.

Many Chinese companies that depend on exports would likely cut their prices to compensate for some or all of a currency revaluation. That's what happened from 2005 to 2008, when China ended an earlier peg to the dollar and allowed the yuan to rise by about 20 percent.

In response, Chinese companies reduced their profit margins, sold at a loss and took other steps to suppress price increases, said Frank Vargo, vice president for international economic affairs for the National Association of Manufacturers. As a result, import prices from China rose only about 6 percent during that period, Vargo said.

And if Chinese goods become costlier, some U.S. retailers will likely turn away from China and import items such as clothes, toys and electronics from other countries. Many of those goods are no longer made in the United States.

"A very larger share of what we buy from China isn't produced in the United States and is unlikely to ever be produced in the United States," said Nicholas Lardy, a China expert at the Peterson Institute for International Economics.

Separately, the Commerce Department said Tuesday that the U.S. trade deficit for February increased 7.4 percent to \$39.7 billion. Exports edged up 0.2 percent. Imports jumped 1.7 percent.

The politically sensitive deficit with China fell to \$16.5 billion in February, the lowest level in 11 months, but was still the biggest trade imbalance the United States has with any country.

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