ADVERTISEMENT


China lets currency rise in value

By MICHAEL E. KANELL
The Atlanta Journal-Constitution
Published on: 07/22/05

The jade gates have cracked open, and now it's a question of how wide they will swing.

China will no longer peg its currency exclusively to the dollar, its government said Thursday. Instead, the yuan has been revalued slightly and will now be linked each day to a basket of currencies — with a cap that prevents it from rising too fast.

The immediate opening was tiny — just a 2 percent gain in the yuan's value Thursday — but its symbolism was far greater. For years, U.S. leaders and manufacturers had complained that hitching the yuan to the dollar gave China an unfair trade advantage; for years, China responded by saying it would move the currenc time.

Beyond Thursday's 2 percent bump, the yuan will be allowed to strengthen. But it will do so only in daily increments of no more percent, with a monthly cap of 6 percent.

The Chinese government can halt those increments at any time, or it can pull back the value of the yuan by buying more dolla

If China chooses to keep a grip on the currency, any long-term effects could be minor. But if the door yawns wide and the yua stronger, that new identity would spread across the global economy, making winners out of losers and losers out of winners ar trade in unpredictable ways.

For most people, exchange rates mean little more than how much you pay here for something made by foreign labor — a shirt — or how much you pay for a hotel room overseas.

But currency calculations also help set how much our homemade products fetch overseas, which is why American manufactur wailing for years about the Chinese peg — and similar links by other Asian countries.

Some U.S. companies benefit from the arrangement. For example, a stronger yuan and weaker dollar make U.S. goods cheap and Chinese goods more costly here.

In a Duke University survey, 15 percent of firms said they would be helped by a Chinese currency change, while 11 percent sa

"It's a wash," said Duke University economist Campbell Harvey.

Still, for manufacturing, the concern is acute.

U.S. manufacturing has lost millions of jobs in the past five years in the contest against lower-cost competition. In that same pe manufacturing has gone from 530,500 to 439,000 jobs, according to the National Association of Manufacturers.

A stronger yuan makes Chinese products more costly, so the more China's currency strengthens, the better the chances to ste manufacturing losses here.

But manufacturing output is up: Many companies have boosted production by using cheaper labor overseas.

The average hourly pay in a Chinese factory is 64 cents, compared with $21.11 in the United States, according to Joseph Qui market strategist for Bank of America's Investment Strategies Group. "The cost advantage will remain in favor of Chinese man some time to come."

By itself, a currency change cannot make up for labor costs, said Burl Finkelstein, vice president at Kason Industries in Newna contracts with Chinese factories to make parts. "We spend more on our lighting per employee than they spend on labor in Chi

Still, with transportation and other operating expenses higher, a currency shift could blunt some benefits of outsourcing, he sai change would give us a competitive advantage over people who are totally in China, because we could bring work back here."

Georgians like outlook

Georgia exports to China have soared in recent years.

The value of exports shipped to China through Savannah surged 84 percent last year, led by kaolin clay, paper products and c Robert Morris, spokesman for the Georgia Ports Authority.

"This move by China only improves the outlook," he said.

Yet the value of China imports was twice that of the exports — a gap replicated nationally. The United States last year ran a $ deficit with China alone.

But even as the trade deficit undermines U.S. job growth, cheaper Chinese goods have been a boon to consumers — especia the largest single importer from China. A modest change in the yuan is not expected to change that, not with Wal-Mart's reput squeezing suppliers.

"Many Chinese exporters will eat part of the 2 percent by reducing their prices slightly, and Wal-Mart will eat the rest, resulting profitability," said Harvey, the economist at Duke.

But if the change becomes too large to swallow, it could mean lower profits for discounters, higher prices for consumers and ir larger economy.

End of bubble?

The sudden change in China policy now has spurred concerns about long-term interest rates, like those used for mortgages. T have been held down partly by Asian banks buying U.S. bonds.

China now holds nearly $1 trillion in U.S. securities.

But a stronger yuan might mean fewer dollars in China, which might mean fewer purchases of U.S. securities. That notion nud lower — which sent interest rates up Thursday.

The Federal Reserve has finally found a way to push long-term rates higher — by outsourcing the job to China, said Barry L. F market strategist of the Maxim Group. "The ultimate impact of [Thursday's] events will depend upon how quickly and how muc central bank] decides to sell off some of their U.S. Treasuries."

Pessimists worry that it was the start of a trend, and that climbing rates would bring an end to the boom in housing — the ecor dependable growth engine since 2001.

"The implications for America are enormous," said Peter Schiff, president of Euro Pacific Capital in Newport Beach, Calif. "Far panacea that American politicians proclaim, China's decision to alter its peg could be the pin that finally pricks America's bubb

Ads by Google

Currency Trading
Currency Rate Forecasts Where Will Rates Be In 2005?
www.refcofx.com

Trade Currency Futures
Strategies and monthly picks for trades. Complete course. Tapes.
www.ez-gains.com/currency

US Forex Trading Online
Foreign Exchange Trading Service Commission Free Offers!
us.price-paradise.com

Pick any subscription. Only $10 per month. Subscribe now!

© 2005 The Atlanta Journal-Constitution | Customer care | Advertise with us | Visitor Agreement | Privacy Statement | Permissions