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Technology
Personal Finance
WorkPlace / Careers

How much will Chinese flex money muscle?

Stronger yuan promises implications for U.S.

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Posted: July 21, 2005

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

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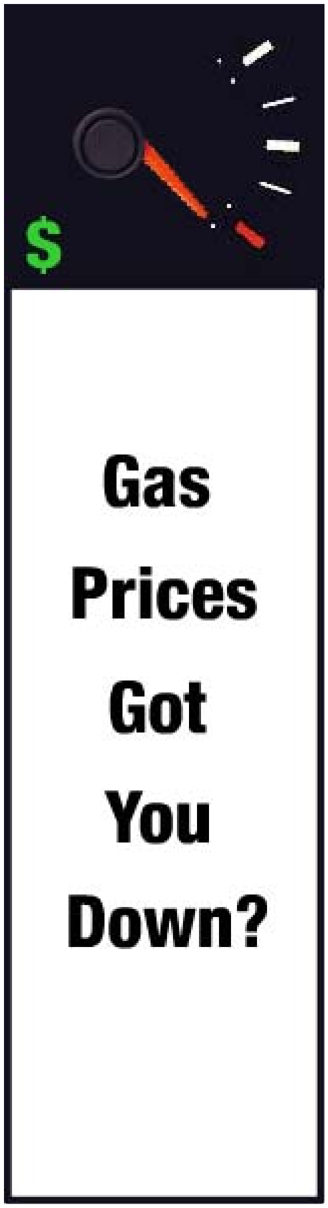
China said Thursday that it will no longer peg its currenc exclusively to the dollar. Instead, the yuan has been reval slightly and is to be linked each day to a basket of curren a cap to prevent it from rising too fast.

The immediate opening was tiny - just a 2% gain in the y value Thursday - but its symbolism was greater. For year leaders and manufacturers had complained that hitching t the dollar gave China an unfair trade advantage; for years said it would move the currency in its own time.

Beyond the 2% bump, the yuan is to be allowed to streng only in daily increments of no more than 0.3%, with a m of 6%.

The Chinese government may halt those increments any may pull back the value of the yuan by buying more doll

If China keeps a grip on the currency, any long-term effe be minor. But if the door yawns wide and the yuan grows stronger, that new identity would spread across the globa economy, making winners out of losers and losers out of



and reshaping trade in unpredictable ways.

For most people, exchange rates mean little more than ho they pay here for something made by foreign labor - a sh or car - or how much they pay for a hotel room overseas.

But currency calculations also help set how much our ho products fetch overseas, which is why American manufa have been wailing for years about the Chinese peg and si by other Asian countries.

Some U.S. companies benefit from the arrangement. For a stronger yuan and weaker dollar make U.S. goods chea overseas - and Chinese goods more costly here.

In a Duke University survey, 15% of companies said a C currency change would help them; 11% said it would hu wash," Duke economist Campbell Harvey said.

Still, for manufacturing, the concern is acute.

U.S. manufacturing has lost millions of jobs the past five the contest against lower-cost competition.

A stronger yuan makes Chinese products more costly, so China's currency strengthens, the better the chances to st manufacturing losses in the United States.

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

The average hourly pay in a Chinese factory is 64 cents, with $21.11 in the U.S., according to Joseph Quinlan, ch strategist for Bank of America's Investment Strategies G cost advantage will remain in favor of Chinese manufacturers for some time to come,'

Burl Finkelstein, vice president at Kason Industries in Newnan, Ga., which has contra Chinese factories to make parts, said that by itself, a currency change can't make up fo costs. "We spend more on our lighting per employee than they spend on labor in Chin said.

Still, with transportation and other operating expenses higher, a currency shift could b benefits of sending work overseas, he said. "A significant change would give us a com advantage over people who are totally in China, because we could bring work back he said.

The sudden change in Chinese policy has spurred concerns about long-term interest ra as those used for mortgages. Those rates have been held down partly by Asian bank pu of U.S. bonds. China holds nearly $1 trillion in U.S. securities.

But a stronger yuan might mean fewer dollars in China, which might mean fewer purc
U.S. securities. That notion nudged bond prices lower, which sent interest rates up Thu

Pessimists worried that it was the start of a trend, and that climbing rates would bring
the boom in housing, the economy's most dependable growth engine since 2001.

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

From the July 22, 2005, editions of the Milwaukee Journal Sentinel