How much will Chinese flex money muscle?

Stronger yuan promises implications for U.S.

By MICHAEL E. KANELL
Cox News Service

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

China said Thursday that it will no longer peg its currency exclusively to the dollar. Instead, the yuan has been revaled slightly and is to be linked each day to a basket of currencies, with 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 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 strengthen only in daily increments of no more than 0.3%, with a monthly cap of 6%.

The Chinese government may halt those increments any time, or may pull back the value of the yuan by buying more dollar.

If China keeps a grip on the currency, any long-term effects will be minor. But if the door yawns wide and the yuan grows stronger, that new identity would spread across the global 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 how they pay here for something made by foreign labor - a shirt or car - or how much they pay for a hotel room overseas.

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

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

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

Still, for manufacturing, the concern is acute.

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

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

But manufacturing output is up: Many companies have benefited from sending work overseas, he said. "A significant change would give us a cost advantage over people who are totally in China, because we could bring work back here,

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

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

The sudden change in Chinese policy has spurred concerns about long-term interest rates as those used for mortgages. Those rates have been held down partly by Asian bank purchases 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 Thi

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 politiciat proclaim, China's decision to alter its peg could be the pin that finally pricks America' economy."

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