Strong US dollar impacts world trade

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By Jack Freifelder in New York(China Daily USA)

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A surging dollar could widen the US trade deficit substantially this year, and its rise is already hurting US exporters.

The dollar is nearing parity with the euro for the first time since 2002, a move that has drawn the attention of economics experts.

Gary Hufbauer, a senior fellow at the Peterson Institute for International Economics in Washington, said the strong dollar would "curb exports and boost imports" for the US.

"The dollar move probably will widen the US trade deficit by $100 billion in 2015, compared to 2014, and more in 2016," Hufbauer wrote in an e-mail to China Daily on Wednesday. "This will knock maybe three-tenths of a percent off US growth, and cost the US 500,000 jobs that might otherwise have been created in 2015.

"It's not the end of the day for multinational corporations or small- to medium-sized enterprises, but it is a stiff headwind," he wrote.

Even with a weaker growth scenario for the yuan -down about 3 percent against the dollar - China's currency is "still strong" when compared with the yen, the South Korean won and the euro, Hufbauer said.

"I'm expecting the euro to hit the dollar before the saga is over," Hufbauer wrote. "The big question is whether the RMB will devalue against the dollar."

Barry P. Bosworth, an economist with the Brookings Institution, told China Daily that changes in the exchange rates will have "a substantial effect" on the trade balance for the US.

"The current appreciation could push the trade balance by as much as 3 percent of GDP," Bosworth wrote in an email to China Daily.

The euro is down about 5 percent this month, to $1.05, according to Bloomberg News.

David Dollar, a senior fellow at the Brookings Institution's John L Thornton China Center in Washington, said the strength of the dollar benefits a number of developing countries because of their export relationships with the US.

"This environment makes it easier to export to the United States, and you're seeing that from a lot of Asian economies," Dollar said. "For example, China's exports to the US went up at an extremely rapid rate in the first two months of the year.

"Now the dollar is strengthening, and at some point the Fed will raise interest rates," he said. "It's impossible to predict where exchange rates are going to go, but the most likely scenario is that the dollar will continue to strengthen against major currencies. I would expect the RMB to be pretty stable against the dollar this year."

The increasing strength of the dollarhas hampered some US exporters' future investment plans, said John Graham, a finance professor at the Duke University Fuqua School of Business.

"If you look at the whole US economy, it's reasonably strong right now," Graham told China Daily. "There's going to be a dampening of exports over the next year because of the strong dollar. It's pretty straightforward; a stronger dollar means the price of an export (from the US) goes up."

Graham, who also served as director of the Duke University/CFO Magazine Global Business Outlook Survey, which was released on Wednesday, said China is a market that companies want to be in for the long run.

The survey polled more than 1,000 business executives worldwide about their thoughts on US dollar strength.

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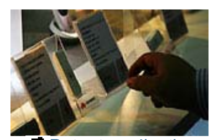

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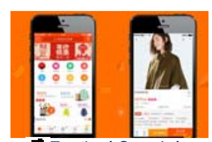

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Two out of three US exporters - those with at least one-fourth of their total sales overseas - said the strength of the dollar has had a negative impact on their businesses, according to the survey.

And nearly one-fourth of exporters, in industries that range from construction, to healthcare and manufacturing, have plans to "reduce their capital spending" as a result of the dollar's impact on business climates overseas, the report said.

Graham said: "The dollar has not appreciated quite as much against the Chinese currency as some others, so the effect would be a bit mitigated." If there's a project that was going to try to finish by 2015, maybe they'd pause and push that into 2016 or 2017 — more of a deferral than a permanent cancellation of these capital-spending programs."

Campbell R. Harvey, a professor at Duke University's Fuqua School of Business who founded the quarterly survey, said in a Wednesday statement: "We are in a midst of an ugly contest to see whether the euro zone, Japan or Canada can depreciate the most against the US dollar, and China is probably next. US exporters are being punished by these competitive depreciations and this will lead to lower profits and less employment."

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World_Reality wrote 2015-3-13 14:02

China's GDP in 2014 was $10.4 trillion versus US's $17+ trillion. As US-China trade deficit is still huge in China's favour, any sizable yuan depreciation will be treated as economic threat by the US despite China has limited influence in the foreign exchange market played by WW speculators including G7 central banks. That's why China may not want to repeat the "RUSSIAN FOREIGN EXCHANGE RESCUE CAMPAIGN MISTAKE which lost tens of billions without intended success". Russia failed to realize that US

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