

**AMERICA LOOKS TO CHINA:
TRADE AND
CURRENCY ISSUES (II)**

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Executive Summary

1. The American economic community is itself divided on the causes of the China-U.S. trade deficit with no particular school of thought gaining ascendancy over another, thus providing space for non-expert views and biases.
2. This gap can be exploited for short-term gain with minimal risk to the credibility of American politicians and it should not be entirely surprising that this is happening with increasing frequency.
3. Nonetheless, some prominent American economists are indeed telling Congress that if the U.S. reviews its overall medium-term situation, its search for causes of U.S. lopsided imbalances needs to focus more on Germany and Japan and the rest of non-China Asia.
4. Despite this, American economists nearly unanimously argue that the Yuan is undervalued though their estimates vary wildly. This gap can be exploited by both American politicians and Chinese special interest groups.
5. Estimates regarding the “true” value of the Yuan are speculation. The currency has never been freely traded on the international market and as such, insufficient data exists to make such calculations reliably. China also maintains capital controls.
6. Some of America’s leading economists do not necessarily view America’s trade deficit with China as a negative. Rather, they claim that the deficit and surplus relationships help China sustain its high growth rates while easing inflationary pressures and enhancing living standards in the U.S.

7. American economists seem to concur that China is on the path to increasing domestic consumption. This will almost inevitably involve the appreciation of the Yuan.
8. As such, it could be reasonably argued that market forces responding to general Chinese domestic policy directives will result in a significant appreciation of the Yuan thus rendering aggressive bilateral or multilateral policy mechanisms unnecessary or even counter-productive.
9. America's top investment banks tend to be less demanding regarding Yuan appreciation and provide more concise analysis regarding costs and benefits for both China and the U.S. This is despite the fact that this issue impacts them directly, something which distinguishes them from American politicians.
10. One commonality amongst all American economists is that none of them have provided a clear set of criteria for the classification of "currency manipulator", "currency mercantilism", and other labels that have been placed on China and other Asian countries.
11. As such, this entire debate cannot be said to be rooted in economics. Rather, it is a political problem that will be resolved by statesmen rather than economists and businesspeople.