

Effects of China's Currency Appreciation

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Introduction

There have been numerous calls by the US policy makers for China to allow its currency to float freely. Critics have pointed out that China policy of manipulating its currency preventing it from appreciating has given its manufacturers undue advantage. Both goods sold domestically and those exported by Chinese Manufacturer are relatively cheaper than those of manufacturers from economies whose Chinese currency is undervalued against; especially the US. This aspect has been accused of contributing majorly to the annual large US trade deficits. Probably due to pressure, China has been allowing its currency to appreciate. For instance it allowed its currency to appreciate against the US dollar by 21% from July 2005-2008 (although a 30.1 US trade surplus was still experienced). Although it halted the appreciation due to the global financial crisis, it later in June 2010 up to August 2011, allowed its currency to appreciate against the US dollar at lower pace of 6% (Morrison & Labonte, 2011).

What would be the real impact of Chinese currency appreciation on the two economies (China and US) is the question that begs for answer. Already there a conflicting views of the real benefits of such a scenario. On the case of China, it has been argued that an

appreciation would hurt the competitiveness of its exports. In the case of the US, the expected benefit as result of stronger currency are undermined by what opponents have describe as potential increase in the price of China's exports that would consequently affect American consumers and firms that use parts and component made from China. A stronger currency similarly might limit the ability investor to purchase US assets (Morrison & Labonte, 2011). Considering the Mixed re...

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...current trade deficit. Yes there will be benefits associated with increase global competitiveness of the US products. However, there are other factors not associated with Chinese currency affecting the US global trade competitiveness. A case in point is the fact that from 2005 to 2008 when China allowed it currency to appreciate by 21%, a 30.1% rise of US trade deficit with China was still experienced. In addition by further putting pressure on China to devalue its currency, US runs a major risk of losing on capital inflows coming particularly from Chinese investors.

Works Cited

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