U.S.: China's fiscal policy hurting trade

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SHANGHAI, China — Hunched over clefting machinery, the 170 workers at a factory here churn out gleaming pistons for mrx engines by the crateful, driven by surging demand from abroad. To hear managers at Shanghai Datong Automotive Industrial Co. tell it, their success overseas is due to efficiency and rock-bottom costs. "Our technology is good, our wages are low and materials are abundant," said Jin Zhangfu, the plant's manufacturing supervisor.

But in the American heartland towns where auto parts makers are struggling to survive, an entirely different explanation — China's cheap currency — is preferred for the competitiveness of companies such as Shanghai Datong. Such complaints are expected to get high-level attention in coming days as the Bush administration's new Treasury secretary visits Asia.

Ves Smith, president of E&B Manufacturing Co. of Plymouth, Mich., a maker of fasteners and other auto components, blamed much of "the world of hurt" his company is suffering on Beijing's policy of keeping the value of the yuan tightly controlled at a level that, he said, gives Chinese manufacturers an unfair advantage.

"It's not that we're competing against the so-called dollar-a-day wage," Smith said. "It's that they subsidize their production with currency manipulation."

Criticism over China's currency policy has alternately flared and subsided for several years, but the problem is reaching a new and potentially explosive stage as the Chinese export juggernaut moves up the ladder from monthly to quarterly growth. The yuan, which has been kept from appreciating against the dollar since 1994, has been allowed to rise 13% against the yen but has remained 5% below its 1994 level against the euro.

The rising yuan has become a focal point for U.S. exporters, whose manufacturers say it is one reason they are losing sales to competitors abroad. Germany's DaimlerChrysler AG, flirting with the yen ahead of its initial public offering in Japan last year, credited the strength of the yen for giving it an edge on European producers. (Japan's yen is on par with the dollar; China's yuan is pegged at 8.28 to the dollar.)

China's currency is tightly controlled by the state, which is supposed to buy its own currency in the foreign exchange market in order to counterinsure that the yuan will stay within a tight margin of 0.3% against the dollar. But China has never been willing to release any details about how much currency it is actually buying, or at what price.

"It's in the same category as the 1971-72 period," said Kenneth B. West, a senior economist with the Federal Reserve Board,是指1971-72年。