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China best with fixed yuan

From Steve H. Hanke,
a professor of applied economics at the Johns Hopkins University in Baltimore and a senior fellow at the **Cato Institute** in Washington, D.C., writing in Energy Tribune, March 21:

Protectionists in the U.S. have threatened to impose tariffs on imported Chinese goods if Beijing does not dramatically appreciate the yuan. These protectionists even claim that China would be much better off if it allowed the yuan to become stronger vis-à-vis the U.S. dollar.

This is, of course, nonsense. China has experimented with different exchange-rate regimes. Until 1994, the yuan was in an ever-depreciating phase against the U.S. dollar. Relatively high volatile readings for China's GDP growth and inflation rate were encountered during this phase. After the maxi yuan depreciation of 1994 and until 2005, exchangerate fixity was the order of the day, with little movement in the yuan/U.S. dollar rate. In consequence, the volatility of China's GDP and inflation rate declined, and with the yuan firmly anchored to the U.S. dollar, China's inflation rates began to shadow those in America.

Then, China entered a gradual yuan appreciation phase (when the yuan/dollar rate declined in the 2005-08 period). Without a firm dollar anchor, China's inflation rate picked up, relative to the U.S. inflation rate. And, yes, the volatility of China's GDP picked up and China's average inflation rate rose, too. During the international crisis period of 2009-10, China reverted to exchange-rate fixity, resulting in stability.