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OPINION

China -- it's money

Critics take note: It has been the hottest major export market for U.S. companies for the last decade.

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By Daniel Griswold
April 15, 2010

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The U.S. Treasury Department wisely delayed its semiannual report on global exchange rates so that more sensible heads can prevail before we stumble into a trade fight with China.

The congressionally mandated report surveys exchange rates and other indicators of the global economy and determines whether any U.S. trading partners are guilty of "currency manipulation." Treasury Secretary Timothy F. Geithner announced this month that he would delay the scheduled April 15 release to give more time to negotiate with top Chinese officials. President Obama's meeting with Chinese President Hu Jintao in Washington this week brought no breakthrough, but it did raise expectations that China will soon allow its currency to resume appreciating.

Among the less sensible heads are 130 members of Congress who wrote to Geithner last month demanding tough action against China. They argued that Beijing has artificially depressed the value of its currency to promote its goods in other markets and discourage exports to China.

One of the chief authors of the letter, Rep. Michael Michaud (D-Maine), charges in a press release that "China's currency manipulation . . . presents an insurmountable trade barrier to U.S. manufacturers" trying to export to China. The text of the letter claims that "U.S. exports to [China] cannot compete with the low-priced Chinese equivalents."

"Insurmountable?" "Cannot compete?" Nonsense. Regardless of its currency regime, China has been the hottest major export market for U.S. companies in the last decade.

Since China began to gradually appreciate its currency in 2005, U.S. exports to the Asian giant have shot up by 69%, according to the U.S. Commerce Department. That compares to a much more sluggish 19% increase in exports to the rest of the world.

Export of U.S.-manufactured products was up 47% during that same period, compared with an anemic 7% increase to the rest of the world. China alone accounted for half of the dollar-value increase in durable goods exports, led by civil aircraft, semiconductors and industrial machinery.

U.S. farmers have enjoyed great success in China's market. Since 2005, U.S. agricultural exports to China have more than doubled, from \$5.7 billion to \$13.8 billion. Farm exports to China have been growing three times faster than farm exports to other countries. China now buys more than half of U.S. soybean exports.

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If American exports of goods and services had enjoyed the same rate of growth in the rest of the world as they have in China since 2005, U.S. exports would have increased by an additional \$600 billion during that period.

China's demand for U.S. exports was just as hot before it appreciated its currency beginning in 2005. From 2001 to 2005, when the Chinese currency was even more undervalued than it is today, U.S. exports to China more than doubled. The share of U.S. exports going to China has been rising steadily, from 2.7% in 2001 to 6.6% in 2009.

Also working in favor of U.S. exporters has been the continued opening of China under the conditions of its entry into the World Trade Organization. According to the U.S. Trade Representative's Office, the average base tariff China imposes on goods of greatest importance to U.S. exporters dropped from 25% in 1997 to 7% by 2006. Whatever trade barriers remain in China, U.S. exporters have surmounted them with increasing ease.

The real motivation behind complaints about the Chinese currency regime is not to promote exports but to blunt imports. What really galls critics is the rapid rise of Chinese imports to the United States. Imposing tariffs on those imports would benefit a small slice of U.S. industry, but at great expense to tens of millions of American families.

A blanket tariff on imports from China would act as a regressive tax on shoes and clothing, biting into the budgets of American families that can least afford it. It would also make products created in the U.S. but assembled in China, such as iPhones, laptop computers and other consumer electronics, more expensive and less widely affordable.

If the Obama administration hopes to double U.S. exports in the next five years, as the president announced in his State of the Union address, it should praise China for its growing appetite for U.S. goods and services, not threaten it with trade sanctions. Any company hoping to double its sales in the next five years would be foolish to pick a needless fight with one of its best customers.

Daniel Griswold is director of the Center for Trade Policy Studies at the Cato Institute and the author of "Mad About Trade: Why Main Street America Should Embrace Globalization."

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