

China's yuan rocks Joe's world



Life was good for Joe and his wife. Thanks to low interest rates, last year they traded their West Seattle apartment for a suburban dream house.

But vast and little-understood forces were about to rock Joe's cozy little world...  
 ...as the trade deficit skyrockets, angry members of Congress are blaming China for keeping its currency too cheap...  
 Geez, more bad news. But it would look better on one of those big plasma TVs.

Now this is a TV!  
 And such an awesome price. I'll take it!  
**BEST CIRCUITS SUPERSTORE PRICE \$1,799**  
 MADE IN CHINA

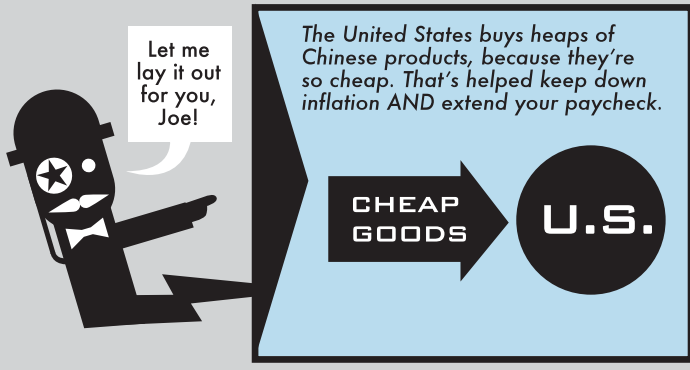
But at Joe's plant, American Aerogizmos, some unwelcome news...  
 Because it's so much cheaper to assemble aerogizmos in China, our biggest customer says they'll drop us unless we shift production.  
 So, we're forced to close the plant next month.

Now what am I gonna do? What did I ever do to China?

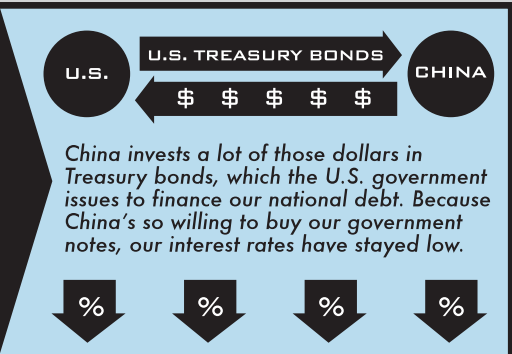
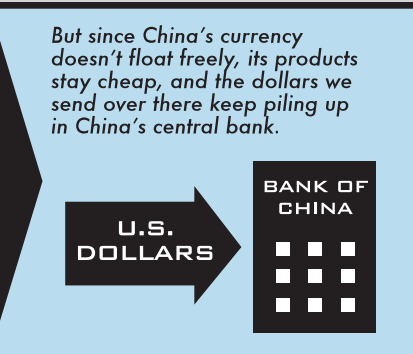
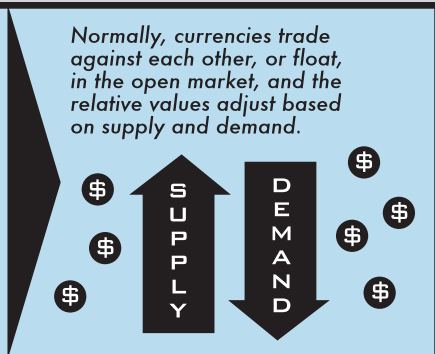


The Biz Wiz, at your service!  
 Thanks for helping me out of there - I got a bit tied up in coffee futures and ...hey, why the sour face?

It's this China situation, Mr. Wiz. I don't know much about trade deficits or cheap currency - all I know is it looks like they're taking our jobs and what do I get?



One reason those products are so cheap is that China has pegged its currency, the yuan, at a low value relative to the dollar.  
 $1 \text{ Yuan} = 12 \frac{1}{2} \text{¢}$



Joe?

All of that has kept consumers spending, even during the recession.  
 Well, yeah ... but companies like mine are getting killed by Chinese competition!

That's why some U.S. politicians are pushing China to revalue the yuan upward, or let it float so the currency markets could set its value.  
 What difference would that make?

The yuan would rise pretty fast, probably to 16 or 17 cents.  
 Sounds good to me. Make it so, Wiz!  
 Well, it's not that simple...  
 Just do it!



With the yuan revalued, Joe's day begins in the West Seattle apartment:

...with interest rates and inflation on the rise, U.S. consumers now have to contend with a slumping housing market.  
 Geez, more bad news. But it would look better on one of those big plasma TVs.

At the Best Circuits Superstore...  
 Ouch! That smarts. I still want a big TV, but that price...  
**NOW \$2,500**  
 MADE IN CHINA

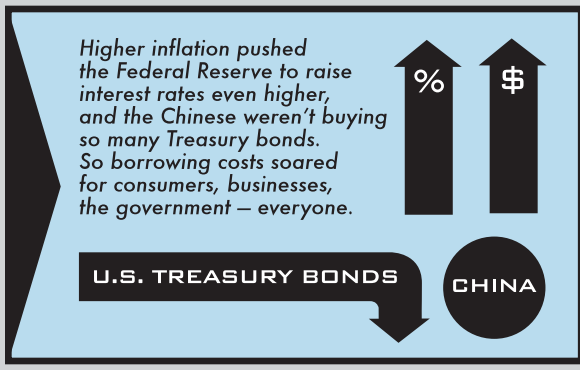
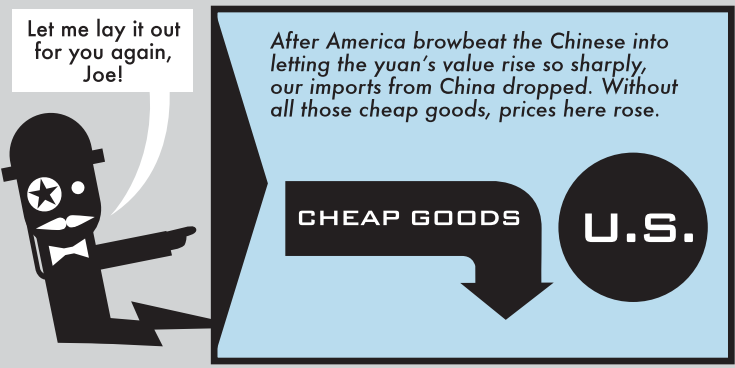
At the plant...  
 The good news is, we beat out the Chinese for the new aerogizmo contract.  
 The bad news is, we still had to cut our labor costs to match the Chinese. So all bonuses are canceled this year.

On the drive home...  
 ...Faced with sky-high borrowing costs, Congress likely will have to raise taxes and make deep cuts just to keep the budget deficit under control.

This isn't what I wanted! Things are still all screwed up, only different.  
 WIZ!

Yes, Joe?  
 I thought making the yuan more expensive would solve our economic problems, but it's created new problems instead!

That's what I was trying to tell you! Economically, the U.S. and China are like a co-dependent couple. They're deeply hooked on each other's problems - you can't change one element without affecting everything else.



At least we kept the plant open.  
 Sure, but you'll still have to deal with cheap Chinese labor. They do have more than a billion people over there, you know, and wage levels are still way below ours.

Besides, over time inflation will erode the benefits of a weaker dollar.  
 There's no getting around it: Fixing our long-term problems - unbalanced trade and consuming more than we produce - will take a lot more than changing the dollar-yuan exchange rate.



I guess international trade is too complicated for sound-bite solutions.