

## CHAPTER III

### CHINA'S TRADE WITH THE UNITED STATES

#### A. Bilateral Trade

At the end of 2009 Renminbi China was not free to shell its currency in international market caused by the strict control of center government of China that banned almost every kind of either Yuan proprietary or transaction. At that time, every transaction of China Corporation or foreign entity definitely used dollar. After the Renminbi being applied in China, transaction between dollar and Yuan was undeniable among firms. It was because every transaction ought to be through China People's Bank. This Renminbi currency project has successfully proven in increasing China's Economy.

Because every foreign payment using dollar must be through center bank China's People Bank the government can maked up wax and wane of currency. On June 2009, China's Elite pronounced the scheme of example where the business and commercial transaction of firms which is operating in Guangdong City and Shanghai run very well with Renminbi program. This example proved the commerce and business, and then this program had prolonged for 20 provinces in China and international counterparty on June 2010<sup>41</sup>.

The application of Renminbi as the international currency reserve, is the steps of strategy conducted by China. China has the contract with several states, such

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<sup>41</sup> [http://en.wikipedia.org/wiki/Renminbi#International\\_use](http://en.wikipedia.org/wiki/Renminbi#International_use)  
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as the United States, Vietnam, and Thailand. Thus, when those states commerce each other, they use Reniminbi currency without dollar conversion.

On July 2010, Renminbi currency was openly marketable. For instance, it reported that this currency had bought by Malaysia Central Bank. Another, McDonald launched the Renminbi bond with standard currency chartered by Honkong Bank. Spreading Renminbi currency will probably raise it to higher level in investment field.

Since June, the exchange rate of Yuan towards US Dollar (USD) is louder but only less than one percent. This fact influenced the decision maker in US and other business partner of China disappointed because they thought the exchange rate of Yuan was lower than any other rate. The United States accuse China of benefiting its cheap price and considered this condition was unfair. Actually, IMF argued that the exchange rate of Yuan was too low although China released its currency exchange rate before<sup>42</sup>.

The commercial business occurred between the United States and China in high tense and it was increasing in the end of 2020 because of several reasons. The United States rivaled by China in industry field till the competitive pressure influenced the American Businessmen. Besides, the politic in America was on bad condition as the result of trade deficit with China. Obama's Government promised to hold a convention trade and find the way to deal with China trade. Moreover, 2010 is

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<sup>42</sup>Written by: Achmad Senoadi  
<http://ika-feksu.org/new/berita/ekonomi/51-ekonomi003.html>  
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the medium term year in the United States, so then the government increase the political pressure in order to avoid the high tense trade with China<sup>43</sup>.

In 2008, US industry proposed 11 dumping cases and 10 subsidy cases from those who fought China. In 2009, the United States industry proposed totally 15 trade cases and 13 from them had fought China. This trend case that focus on China's trade must continue to 2010. Obama will stress on the upholding the law as the basic of decision trade of US. The action of Obama can be understood as the receiving income in Washington to develop the trade that has been influenced by China and other nation.

The high tension trade occurred between the United States and China developed continuously, both states claimed holding other bigger trade issues between them, included the effort to fight recessions in all over the world, national security problem. In Asia, reining nuclear project in Iran, climate exchange, and so forth and one of the important point was that trade and business conflict should not spread to other bigger conflict sector.

It can be concluded that commercial trade between the United States and China will probably be increase continuously viewing to both interdependence in market. Especially in 2009, China had exported cars to US and US had imported

Fowl from China. This condition makes clear the trade relation between two states and both must keep this condition for the sake balance of economy<sup>44</sup>.

In addition the political issues and then proceed to the fund bailout that will be given to the US automotive industry after recession. This is the only one case in the world that challenges the fund to the industry to deal with bankruptcy after recession caused by China's trade. Besides, the government take several program to protect the local industry with export subsidy and the US government expectedly decrease the high tense that will trigger the worse condition caused by one of them experiences deficit.

The United States trade with the China has raised policies which apply the United States. The trade of both countries them a highly unbalanced trade with a the United States deficit of 201 billion US dollar in 2005. Many associate this deficit with the concomitant loss of American jobs in industries competing with rapidly rising imports from China. Some policy makers as well as leaders of industry and labor blame China for unfair trade practices, including deliberately undervalued its currency.

Trade tensions between the United States and China are currently very high and will continue to increase in 2010 for a number of reasons. The United States economy is still recovering from the recent recession. Trade cases are historically counter cyclical, and increase in difficult economic times. Impacted The United

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States industries thus will continue to feel competitive pressure from Chinese exporters. Also, the political climate in the U.S. remains tense towards China, as the trade deficit with China continues to increase and the Obama Administration pledges to strictly enforce existing trade agreements and pursue trade remedies towards China. Also, 2010 is a mid-term election year in the U.S., which will further increase the political pressure in the U.S. to address the growing trade tensions with China<sup>45</sup>.

#### **1. Affect on The United States Exporters**

When the exchange rate policy of bill H.R 2378 causes the Renminbi (RMB) to be less expensive than it would be if it were determined by supply and demand, it causes Chinese exports to be relatively inexpensive and the United States exports to China to be relatively expensive. The United States exports and the production of the United States goods and services that compete with Chinese imports fall early. Many of the affected firms are in the manufacturing sector. This causes the trade deficit to rise and reduces aggregate demand in the short run, all else equal. A market based exchange rate could boost The United States exports and provide some relief to The United States firms that directly compete with Chinese firms.

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## **2. Affect on The United States Consumers**

According to the economic theory, an economic society usually conclude not by how much it can produce, but how much it can consume. An undervalued Renminbi (RMB) that lowers the price of imports from China allows the United States to increase its consumption through an improvement in terms of trade.

Since changes in aggregate spending are only temporary, from a long term perspective, the lasting effect of an undervalued of Renminbi (RMB) is to increase the purchasing power of the United States consumers. Imports from China are not limited to consumption goods. The United States firms also import capital equipment and inputs from China to produce finished goods. An undervalued RMB lowers the price of these U.S. products, increasing their output, and thus making such firms more internationally competitive. An appreciation of China's currency could raise prices for the United States.

## **B. ECONOMIC CONDITION IN THE UNITED STATES AND CHINA**

The trade between two nations was increasing continuously, and the United States was still main target market of China's export. China's export toward US increased from 100 billion US Dollar to 296 billion US Dollar in 2009, while import advanced from 16 Billion US Dollar to 70 Billion US Dollar. The question is the increasing of trade volume between two nations brought them to the crucial partner position? Exporting to US shared stable values approximately 21% from whole exporting to China in the period of 1988-2006. In the period of 2007-2009, segment

export China to the United States decreased becomes 18%. Segment export US increased gradually after years but was still fewer than 5%.

In this case Yuan holds the very important role in the trade between US and China. China's government applied the Yuan exchange rate under the rate of other market commonly with the aim to endure the competitiveness of China's export. The result showed in July 2009 balance trade surplus was US \$ 28.7 billion. In this case China reached the ultimate exporting record in history nominally US \$ 145.52 billion.

China's export in July was the top surplus since January 2009. Trade surplus received by China impact the increasing pressure toward China especially from US. The excise tax staff of China announced the surplus on July increased sharply from US \$ 8.5 billion to US \$ 20.02 billion on June. The surplus prediction on June was only US \$ 19.6 billion.

The increasing of economic in China on July 2009 was a turning point compared to March 2009 when China experienced the trade deficit the tariff barrier grow on July 2009 and then delayed. Export in July 2009 growth 38.1% compared to previous period. It was lower than June because export grow until 43,9%. As a consequence, the decision maker of Beijing was very intensive to respond the pressure from overseas to appreciate the exchange rate of Yuan as soon as possible. China's government deny those pressures with the reason that their export was very low.

Meanwhile, the United States economic growth was predicted to be lower than other nation only 3.1% in 2009 and to be 2.7% in 2010. While Europe predicted

to grow only 1.0% in 2009 and will be better in 2010 approximately 1.5%. England was predicted will growth around 1.3% in 2009 and 2.5% in 2010<sup>46</sup>.

The trade between the United States and China was more complicated than before when both of them experienced the deficit and low growth of economy caused by trading with China. The United States received the imported products from China which were very cheap and huge that made local products get worse competition. In this case, China was very depended on the United States export market and monitored continuously to the United States bond treasury to buy the part of their stock for foreign exchange reserve of China.

In 2010, the United States can guard their economic sector better than the previous years and the public saving was increasing. Yet, the trade consequence of the United States deficit is still existed with China. This will give impact to the economic sector in general. So then the bund rate and the exchange rate of US dollar decreased sharply.

China tried to cut the relation from the United States market but China was afraid of losing the big stock modal accumulatively. The United States government also would react because the economic problem related closely with national

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<http://www.vibiznews.com/column/forex/2010/09/24/-yuan-dan-kinerja-ekonomi-as/>  
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sovereignty. Hence, the United States will make a big effort to deal with this economic problem<sup>47</sup>.

The economic conflict between the United States and China has spread to politic area. For instance, in the last decade, China tried to spread out the issue about economic crisis and unbalance global account that was not related to the undervalued Yuan. In this case, China argued that the US monetary decision which was very fast will trigger the increasing price of asset all over the world.

The United States decision was not realistic because if this decision applied, it will affect very bad to the world's economy. The United States control would tend to be more dominant for example, Japan in previous decade ought to raise the currency of Yen and as the consequence, the economy of Japan decreased sharply and then need a long time to get up from such a prone position.

The implementation of Yuan currency exchange rate policy prevailed by China government which is being prevailed under market price was protested by several countries such as the United States and European countries. Those countries requested China to raise Yuan exchange rate immediately because the policy has effected to their economic stability.

The Europe surveys argued that debt crisis and the lack of the United States economic restoration were caused by the raise of China's economic sector. The

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<sup>47</sup>Global Economics, China's Economy, U.S. Economy, China, Trade Eswar Prasad, Senior Fellow, Global Economy and Development U.S.-China Economic and Security Review Commission [http://www.brookings.edu/testimony/2010/0225\\_us\\_china\\_debt\\_prasad.aspx](http://www.brookings.edu/testimony/2010/0225_us_china_debt_prasad.aspx) Internet Accessed on 25 March 2011

consumers from the United States and Europe still bought stuffs like television, cloth and leather shoe from China. Since June 2009, Yuan exchange rate toward U.S. Dollar has been increasing less than one percent. This fact triggered anger from U.S. policy makers and China trading partners because they viewed the 40 % of Yuan exchange rate was lower than standard market price<sup>48</sup>.

In this case, the United States government accused China for unfair policy by lowering its exchange rate in order to increase economic sector. IMF, in 2009 stated that Yuan exchange rate was lower than settled agreement. China possessed its exchange rate on 6,81 Yuan per USD without changing the rate for 2 years. The policy was addressed to help China exporters from global financial crisis in 2008. This exchange rate point was contested by China trading partners. The reason behind that was that the policy was only beneficial for China export sector when unstable economic of global world and the raise of unemployment was happening during global financial crisis. Analysts said that Yuan exchange rate toward USD was almost 40 % under proper valuation.

Renminbi policy prevailed by China made the United States senate angry. Senate of the United States threatened to release new bill which it would bring government to competence party and created the possibility of the United States government for determining the tariff of all China stuffs in the United States market.

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<http://rahelhutasoit.blogspot.com/2011/03/kondisi-perekonomian-as-dan-china.html>  
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Senate members had a notion that China policy was being prevailed by giving illegal subsidy for local entrepreneurs through manipulation of exchange rate.

One of significant impacts was the low exchange rate of Yuan which made China stuffs production more competitive than the United States stuffs production. As a result, U.S market was unstable and lots of work field in various sector were lost. In fact, the number of unemployment in the United States was 9.6% on September 2010. In consequence, the United States is suppressing China government to loose control of Yuan and letting Yuan exchange rate being controlled by the market. However, China did not begin to subject to the United States pressure because China has learned from Japan's experience during 1980s<sup>49</sup>.

The United States government was anxious about of a low exchange rate of Yuan China. The United States was anxious about the increasing of unemployment. On the other hand, imported stuffs from China would be cheaper and the United States balance of trade with China would get deficit. The increasing of unemployment and the anxiousness of facing free trade agreement are becoming crucial factor. Determining Yuan exchange rate toward USD had adverse impacts. One of the impact was over inflation caused by China Central Bank which need reserve of foreign exchange for stabilizing Yuan exchange rate. Higher economic growth and more stable trading market of China compared to the United States would strengthen Yuan rate theoretically.

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[http://bisniskeuangan.kompas.com/read/2010/10/18/07512220/Perang\\_Mata\\_Uang\\_Memengaruhi\\_Kita](http://bisniskeuangan.kompas.com/read/2010/10/18/07512220/Perang_Mata_Uang_Memengaruhi_Kita)

The problem was that China government was not sure that its economic was powerful enough to replace export as a control over economic sector. There were many reasons why China has been doing this policy and there was only one reason why other countries always complaint the policy, it was because the policy made China industrial sector more competitive among other. Based on this situation, the United States government said that China policy created unbalance trading between both states because China products are cheaper and more competitive so the products are accepted easily. On the other hand, U.S. products are more expensive and unreachable that is a drug in China market. U.S. financial crisis in 2008 was bad experience and U.S. is expecting that China market could be a way for global economic growth because U.S. viewed China as a main power of global economic.

November 2010, U.S. senate proposed a case of low exchange rate to federal court. It happened because the United States bankruptcy was increased in the form of trading deficit with China. The draft bill was proposed to protect domestic industry of U.S. which is becoming unprotected because Yuan was undervalued. By using this bill, the United States expected that business sectors would survive and grow normally<sup>50</sup>. Therefore, the United States government wishes China to take a responsibility in helping global economic growth, including America. The United States which is facing economic recession would be beneficial if Yuan exchange rate toward USD is increasing. In other word, USD exchange rate is decreasing. If it is

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<sup>50</sup> <http://www.bankruptcyaction.com/USbankstats.htm>  
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happening, America would expect China to import the United States products for the sake of the United States economic growth. On the other hand, the United States exports would be absorbed by China and it could assist U.S. economic recovery indirectly.

### **C. US DEFICIT TRADE TOWARD CHINA**

The Department of Commerce revealed that the U.S. trade deficit for goods and services was nearly US \$ 500 billion in 2010, 33% increasing over the trade deficit for all of 2009. Over half of that was due to a US \$ 273 billion trade deficit with China. The deficit increased because as Americans is starting to increase their purchasing again after a year of 2009. In fact, the United States trade deficit with China in 2010 is the biggest trade deficit a country has ever had with another single country in history<sup>51</sup>.

The United States trade deficit is having a significant negative impact on job growth. Experts estimate that every US \$ 1 billion in exports creates an additional 6,000 jobs in the U.S. Yet, despite US \$ 163 billion more in the United States exports in 2010 (which created almost 1 million new jobs), the jobs are not being created in sufficient numbers to get the economy going or increase employment largely due to offsetting increases in imported goods.

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<sup>51</sup><http://buyamericanchallenge.wordpress.com/2011/02/12/record-crushed-u-s-trade-deficit-with-china-273-billion-in-2010-biggest-ever-between-two-countries/>  
Internet Accessed on 27 March 2011

The average adult consumes US \$ 700 per month in imported goods. If the United States could reduce that to US \$ 517 per person per month, the United States would have no trade deficit at all. With no trade deficit, we would likely have 3-4% unemployment. The United States need to do reducing the consumption of imported goods 25% to have jobs again in this country. That will secure the long-term economic future of the United States.

According to the economic theory, an undervalued Renminbi (RMB) neither increase nor decrease aggregate demand in the United States. Rather, it leads to a compositional shift in U.S. production, away from the United States exported and imported competing firms toward the firms that benefit from Chinese capital flows. Thus, it is expected to have no medium or long run effect on the United States employment or unemployment.

As evidence, one can consider that since 1980s, the U.S. trade deficit has tended to rise when unemployment was falling and fall when unemployment is rising. For example, the current account deficit peaked at 6% of GDP in 2006, when the unemployment rate was 4.6%, and fell to 3% of GDP in 2009, when the unemployment rate was 9.3%. However, the gains and losses in employment and production caused by the trade deficit would not be dispersed evenly across regions and sectors of the economy: on balance, some areas will gain while others will lose. And by shifting the composition of U.S. output to a higher capital base, the size of the economy would be larger in the long run as a result of the capital inflow trade deficit.

Although, the compositional shift in output had no negative effect on aggregate U.S. output and employment in the long run, there may be adverse short-run consequences. If the United States output in the trade sector falls more quickly than the increases in output of U.S. recipients of Chinese capital, aggregate the United States spending and employment could temporarily fall.

This is more likely to be a concern if the economy is already sluggish than if it is at full employment. Otherwise, it is likely that government macroeconomic policy adjustment and market forces can compensate for any decline of output in the trade sector by expanding other elements of aggregate demand.

The United States trade deficit with China (or with the world as a whole) has not prevented the United States economy from registering high rates of growth in the past. A Yale University study estimated that a 25% appreciation of the RMB would initially decrease the United States imports from China and lead to greater domestic production in the United States and increased exports to China.

However, the study estimated that benefits to the U.S. economy would be offset by lowering Chinese economic growth (because of falling exports), which would diminish its demand for imports, including those from the United States. In addition, the RMB appreciation would increase the United States loss for imported products from China (decreasing real wealth and real wages), and cause higher the United States short term interest rates