Jacksonville Business Journal - July 11, 2005
/jacksonville/stories/2005/07/11/story2.html

Jacksonville Business Journal

Friday, July 8, 2005

Companies watch China

Jacksonville Business Journal - by Tony Quesada Staff Writer

JACKSONVILLE -- A change in China's 10-year-old currency exchange policy, spurred by pressure from the United States, appears imminent. But whether loosening control over the Chinese yuan's value will help Northeast Florida businesses compete in the global economy is less certain and depends on whom one asks.

Since 1995, China has kept its currency's value fixed in relation to the U.S. dollar -- 8.28 yuan, or renminbi, to the dollar. It does so by buying whatever amount of foreign currency it takes to maintain that rate and selling bonds to domestic banks to counteract the extra yuan created by such activity.

Over a period when the dollar has been weak and China's economy and manufacturing might have grown at double-digit rates, economists estimate the yuan has been artificially undervalued by 15 percent to 40 percent.

Advocates for change say China's policy has contributed to the rising U.S. trade deficit with China -- $162 billion in 2004, up 30.7 percent from 2003 -- and threatens this country's economic security. Groups such as the **U.S. Business and Industry Council** -- which represents about 1,000 mostly family-owned or privately held manufacturers -- and regional manufacturing associations say an undervalued yuan impairs U.S. producers' ability to compete.

U.S. Treasury Department Secretary John Snow testified to the Senate Finance Committee on June 23 that China's policy "blocks the smooth adjustment of global imbalances."

But Snow told senators change is on the way: "After two years of intense engagement, it is clear that China today is prepared to introduce greater currency flexibility."

Such testimony frustrates Alan Tonelson, a research fellow at the USBIC who believes that although the Treasury Department enumerates the effects of undervaluing the yuan, the U.S. government lacks the will to defend small U.S. manufacturers.

"The Bush administration, including Mr. Snow, have been unserious about this," Tonelson said. "They have spent two years wasting everybody's time -- two years in which predatory Chinese policies have hurt small U.S. companies."

Calls seeking comment from the Treasury Department were not returned.
But though the USBIC says the administration hasn't pushed hard enough, others say a change in China's exchange policy will do little to make U.S. manufacturers more competitive. Many predict it will merely hurt importers and cause prices for consumer goods to rise.

Most companies that buy or make products in China to sell in the United States benefit from the present Chinese currency policy, said Jim Valenti, CEO of **World Trade Group**, a Ponte Vedra Beach consulting company specializing in helping others do business in China.

"It's a distinct advantage to have Chinese goods as inexpensive as possible," Valenti said. "Chinese currency policies are doing that."

In Northeast Florida, companies that import products from China far outnumber those that export to China. And for the most part, those importers are concerned that a bump in the yuan could result in reduced sales.

Jacksonville-based **Far East Brokers** and Consultants imports extensively from China, primarily nonfood items sold in supermarkets. Executive Vice President Morrie Zimmerman said it will take more than a higher currency exchange rate to overcome China's ability to make more inexpensive products.

"We're still going to buy it from there; we're just going to pay more for it," Zimmerman said.

Like others, he cannot imagine a substantial effect on the U.S. trade deficit with China. "Price will go up more than the volume [of imports] goes down."

And even if the U.S. imports less from China, it's likely that this country's thirst for low consumer prices will be quenched somewhere else, probably in Asia.

Napco Marketing Corp., which distributes about 3,500 types of imported home decor items from its 144,000-square-foot distribution center in Jacksonville, is monitoring the situation to be ready to adjust depending on the magnitude of any change.

"It depends on the percentage of the float," said David Bailys, president of Napco Marketing. "We'll just continue to move on with our business. If [costs rise too much], we'll move into other products and possibly look to different suppliers, different regions."

Those pushing for change agree that increasing the yuan's value by itself won't level the playing field for U.S. manufacturers and might make matters worse for them.

"A float done in isolation could even reduce the value of China's currency further," Tonelson said. He worries that letting the yuan strengthen "could spark a major outflow of Chinese currency" unless other factors are addressed.

For one thing, China has a history of subsidizing companies to help them keep their prices well below foreign competition. Even though the **World Trade Organization**, which China joined in December 2001, has rules against such subsidies, China's provinces lack uniformity in their compliance with WTO standards. And many report that provinces do things to protect their own companies that the country's central government may not know about.

"It's the favorable treatment of provincial companies that's hard to monitor," Valenti said.

That's why the USBIC is calling for the U.S. government to take stronger and more immediate measures, such as steep tariffs, against China unless it makes widespread changes.

"We don't want China to go free-market piecemeal," Tonelson said. "After years and years of the Chinese manipulating their economy, often to the detriment of U.S. producers, we don't want to let them off the hook."

But it's not only Chinese interests on that hook. Many large multinational companies, including those based in the U.S., manufacture in China, where labor costs are a fraction of what they are in this country.

Meanwhile, other Asian countries depend on China for manufactured goods as much as or more than Western countries do.

"If China said overnight, 'We'll allow the renminbi to float,' it would cripple a lot of economies and some of our own companies," Valenti said. "Everybody loses. It's not just the Chinese. I don't know what you could point to that would benefit from a dramatic change in Chinese currency policy."

Not surprisingly, a number of manufacturing associations, including the **First Coast Manufacturers Association**, are cautious about taking sides.

"We're not wading in on it," said Lad Daniels, president of the association and a Jacksonville city councilman. "If you were to have them float the yuan, it would not offset the labor cost. I'm less concerned about the exchange rate than other things."

tquesada@bizjournals.com | 265-2220