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[afgazad@gmail.com](mailto:afgazad@gmail.com)

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## The US-China “Currency War”: Winners and Losers

By Geoffrey McDonald  
August 13,

American politicians aren’t congratulating the Communist Party in Beijing for its success in following the capitalist proverb “enrich yourself,” but screaming foul play: China falsifies the exchange rate of the yuan so that it can make more money off the USA than vice versa. The accusation, made by everybody from Donald Trump to Bernie Sanders, is that China’s policy is killing good-paying American jobs – and a lot else besides. What’s bad for America can’t be caused by anything done by America, but by Chinese trickery!

### America’s right to success

The remedy for the problem is just as obvious as the blame: China must get on board with America’s approved rules for international trade and commerce. If China allows its currency to free-float, then the value of the yuan will adjust, China’s exports to the USA will become more expensive, China and the rest of the world will buy more products from the USA, and jobs will return to the USA.

The assumption is that the global money traders, in their infinite wisdom, would find the “correct” exchange rate between the yuan and the dollar once they have free access to the supply and demand for China’s currency. What would the correct exchange rate be? One that guarantees the success of US firms.

Before this week’s turnaround in response to its slump, China had been moving towards free market convertibility of the yuan. Since 2005, it had allowed its currency to gain almost 30

percent in relation to the dollar, while trying to moderate its increase. Yet the results for the trade balance with the US were exactly the same. What was inferred from this? China hadn't gone far enough. So how will we know when it's gone far enough? When America is the winner.

For America, which set up the world market system, it is immediately evident that this market works to the advantage of American producers, so when they don't have the success they want, it's not that something is wrong with the market, but with the other players.

### **Pluses and minuses**

The US complaint about China's trade advantage ignores a relevant fact: many of the products "flooding" the US market are produced by US companies in China. This is facilitated by the high value of the dollar. American investors are making huge profits in China. Despite this, "we" are all supposed to be in the same boat, threatened by China.

The American politicians who are up in arms about currency manipulation are not calling for restrictions on the freedom of American investors to do business in China – as damaging as this may be for "American" jobs. Why? The US has done a balance sheet which finds that the benefit of its multinationals making profits from cheaper production costs in China trump the loss of jobs and taxes domestically. America's global players should take advantage of every opportunity to be competitive against the multinationals of other countries, which are also outsourcing to China.

American politicians always tell American workers: "we" are part of the global economy, so "we" have to make sure "our" companies are more competitive, so "we" have to work harder and take wage cuts. When politicians say: "Americans are the most productive workers in the world," this is not just flattery, but a demand: you have to be cheaper and harder working. This is the rule whether Chinese goods are undercutting the market or not.

For years, America ran negative trade balances that would have destroyed any other country. America had this privilege because the dollar is undisputed as the world's money, used for business transactions all over the world. But after the financial meltdown of 2007 and the spectacular sums of debt it took on to manage the crisis, a new situation emerged: the US has to be concerned about its creditworthiness. It is not in doubt, but it is no longer beyond doubt. There is the feeling in Washington that something must be done to prove the credibility of the dollar as the world's currency. It has to improve its trade balance to demonstrate some relationship between the debt it takes on and its financial capacity.

China has financed the US debt in the trillions. This service is much appreciated by Washington, but it is also viewed as a potential threat. If China stops buying T-bills or switches to rival currency arrangements, this could usher in the irreversible decline of America's financial power. China has been taking tentative steps in this direction, along with warnings to the US that it needs to manage its own currency according to good market principles; e.g. curtail its overly generous welfare state.

### **Why won't China do what we want?**

It's true that China regulates its exchange rate to give its exports an advantage. This is not an unusual strategy for a state trying to make a name for itself. Germany, the former export champion, did it in the postwar period; Japan and Korea too. But nobody accused these countries of currency manipulation because their economic rise wasn't a challenge to the global leadership of the USA like China's is.

A low value yuan is not a clear thing for China. From the point of view of insuring the price competitiveness of exports, it makes sense to insure that the exchange rate is not high; but from the point of view of capital exports, the opposite is true: a high exchange rate gives Chinese investors more purchasing power in other countries. If its currency gains in value, imports like oil and raw materials become cheaper; if it loses value, this weakens the power of the yuan to invest in the USA. Export industries and import industries favor conflicting policies. The Chinese state makes no secret that it is trying to figure out the best policy for advancing China's economic power in the world.

There's another reason China hasn't had a completely open capital market: it doesn't want Americans and Japanese taking over Chinese companies. It wants control over the inflow and outflow of capital. China is moving very cautiously in handing over its sovereign financial decisions to the market. It took 20 years to hand over its industrial decisions to the market internally. Entrusting the growth of the nation's wealth to private interests is a perilous transition for any state power. It's not obvious where this leads; for most nations of the world, it leads to the destruction of the nation's wealth, as can be seen in the so-called "third world." So China is cautious. Their intention – as they have said and shown – is to supervise the deregulation of their economy on their own terms, at their own speed, and when they judge it in their own interest.

The US position is that every aspect of China should be useful for America – its domestic markets, its infrastructure, its financial system. The US wants access to China's labor without having to deal with Chinese partners, and to invest either directly through financial instruments or by building its own business affiliates in China. It wants to get in and out without having to go through the local economy. America insists that China's economy make America successful.

### **Jobs: the be-all and end-all**

American politicians say that their fight against China's "currency manipulation" is a fight for jobs for American workers. This is a lie. They are fighting for *profitable* jobs, which is a service to business. That means establishing optimal conditions – low taxes, weak environmental regulations, lax health and safety laws – to make investment in America attractive again. For American workers, this means having to meet or surpass the profitability standards that have been established by capital in its global operations, including China. They are not the intended beneficiaries, but the human resources of America's success.

The politicians inform workers that business's objective of getting as much work for as little pay as possible is in their best interest. They obliquely threaten workers with the fact that they have no other source of income or alternative than selling their labor power, so they have to want the success of the company and make sure that it is achieved. This higher public responsibility forbids any disloyal questions like: what do I get from this job? What am I doing while spending

my life working? Workers should put aside the reason they go to work in the first place – to have some money and free time – for the sake of work itself.

A job is supposed to be the best thing a worker can ever want in this system. But really: what's so good about a job? Doesn't it show what a miserable source of income a job is when it can be moved from one country to another at a moment's notice because labor is cheaper and working conditions are less expensive there? And the jobs that haven't left America or have relocated here – are they any different? They exist when and as long as they enrich a company, which means: bad pay and hard work.

Many workers side with “their” nation or “their” company in the hope that this *might* result in a secure job or prevent income losses. The lousy dependency into which they are forced makes it easy for business to extort them and pit them against other workers who are in the same situation. This has the effect of lowering wages and working conditions everywhere. Economically, nationalism always backfires against the working class. This is as true in the USA as it is in China.