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EDITORIAL

## Politics and the Yuan

Just in time for the presidential campaign, Barack Obama has joined Hillary Clinton on the misguided bandwagon of those seeking to penalize China for manipulating its currency. Last week, the two senators and Democratic candidates signed up as co-sponsors to a punish-China bill that would mandate retaliation against countries that keep their currencies cheap to boost their exports.

It is a predictable move at a time when voters are so anxious about low wages and holding on to their jobs. (Senator Clinton had already co-sponsored two even harsher anti-China bills in 2003 and 2005.) China's cheap currency and vast trade surplus, which matches up nicely with America's gargantuan trade deficit, are easy to blame.

Still, the prescription is wrongheaded. There is no guarantee that a rise in the value of the yuan would, on its own, boost American workers' wages or the economy in any significant way. Many of the things China exports to the United States have not been made in America for a long time. Forcing China to revalue the yuan would likely also lead to higher prices for goods in the United States and to a rise in interest rates if China decides to stop buying American Treasury bonds.

And it will complicate the management of a long list of nonfinancial issues the two nations urgently need to address. Washington needs to have what diplomats call a frank discussion with Beijing about its irresponsible export of poisonous toothpaste, dog food and toys and its piracy of American-produced software, movies and other goods. And Washington needs to encourage China to become a more constructive international player on issues from global warming to ending genocide in Darfur.

The cheap yuan, together with America's voracious spending, are the main causes of the enormous imbalances that have developed in global trade and financial flows. It is certainly worth reminding China that artificially holding down the price of its currency and building an economy only on exports is also not in its long-term economic interest. Its growth must be rebalanced to rely more on the consumption of its own citizens.

Starting a trade war is not likely to change Beijing's mind. And it will make it harder to persuade and pressure China to become a more responsible exporter and a more responsible international player.

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