News

US in wait-and-see mode on China's yuan devaluation

11 AUG 2015

AFP /

China's central bank on Tuesday devalued its yuan currency by nearly two percent against the US dollar, as authorities seek to push market reforms and bolster the world's second-largest economy

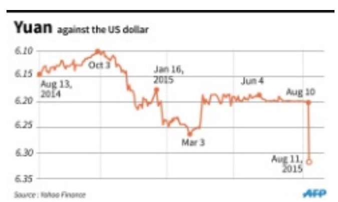
The United States warned China on Tuesday to push on with reforms to its exchange rate policy, saying it was too early to judge its devaluation of the yuan.

In the first reaction from Washington to the People's Bank of China's nearly 2.0 percent cut in the yuan versus the dollar, the US Treasury pressed for a more flexible exchange rate that reflects the market.

"While it is too early to judge the full implications of the change in the PBOC reference rate, China has indicated that the changes announced today are another step in its move to a more market-determined exchange rate," the Treasury said.

"Any reversal in reforms would be a troubling development."

US officials have long accused the Chinese government of keeping the currency, also known as the renminbi, undervalued to make Chinese exports cheaper and gain an unfair trade advantage.



AFP / A.Leung

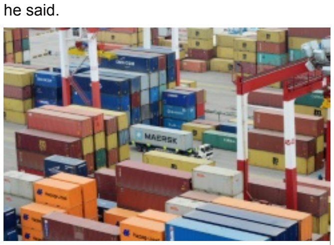
Chart showing the performance of the Chinese yuan in the past year

The massive US goods trade deficit with China exceeded $31 billion in June. The sharp depreciation of the yuan Tuesday could widen that politically sensitive gap.

"China's move puts the US administration into an awkward and difficult contortion," said Eswar Prasad, a trade professor at Cornell University and a senior fellow at the Brookings Institution.

Prasad, a former International Monetary Fund official who once headed its China division, noted that a falling yuan and a rising bilateral US trade deficit with China will draw sharper criticism from Congress over China's currency policies.

"But the administration has no economic basis for criticizing China's move towards greater exchange rate flexibility. Indeed, preventing the yuan from depreciating further would run counter to US and IMF calls for a more market-determined exchange rate," he said.



AFP /

Nicholas Lardy, a China expert at the Peterson Institute for International Economics, said it was "too soon to tell whether or not we could be entering into a period of sustained devaluation of the renminbi that would have a significant impact" on US exports to the country's second-largest trading partner.

Robert Kahn, of the Council on Foreign Relations, said the direct

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effects of the devaluation on US exports would be small.

"But if this is the start of a broader trend to trying devalue, then it would be problematic because it would be an attempt by China to gain a competitive advantage vis-a-vis its main trading partners," he said.

- Ammunition for critics -

The depreciation came as the US political season entered high gear in the run-up to the 2016 election.

"Beijing has handed critics new ammunition at the worst possible time: in the run-up to a presidential campaign," said Kevin Carmichael of the Centre for International Governance Innovation.

AFP / Greg Baker

The People's Bank of China, the Chinese central, described the sharply lower rate as a one-off move, saying the weakening in the currency reflected the new method of calculating the daily price

"Are they serious about this being a one-time move? Many will doubt that, especially in the Congress," Carmichael said.

Real-estate magnate Donald Trump, one of the 17 candidates in the Republican presidential nomination race, came out swinging shortly after the Chinese news.

"They're doing a big cut in the yuan, and that's going to be devastating for us," said the tycoon, a long-time critic of China's currency policy, in a CNN interview.

Experts generally appeared to agree that the devaluation at least was in part aimed at helping China's slowing economy, while some experts saw in it a Beijing lure to encourage the IMF to include the yuan in its reserve currency basket.

The IMF said last week that the yuan was not ready to be included along with the dollar, euro, yen and pound in its "special drawing rights" basket, its accounting currency.

Derek Scissors, at the American Enterprise Institute, said the devaluation was an attempt to have the renminbi behave as a normal currency.

"The People's Bank is trying to convince the IMF that the renminbi can be a reserve currency," he said.