China trade surplus hits $28 billion an 18-month high

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By David J. Lynch, USA TODAY

China's monthly trade surplus widened to more than $28 billion in July, its highest level in nearly 18 months, the Chinese government said Tuesday.

The jump was the third-consecutive monthly increase after a period of shrinking surpluses earlier this year and is likely to intensify pressure for China to allow faster appreciation of the yuan. Many economists and U.S. manufacturers say that an undervalued currency gives Chinese products an unfair edge in world markets.

"China is reinflating a trade bubble to help with its domestic employment at the expense of other countries," said Scott Paul, executive director of the union-backed Alliance for American Manufacturing.

China's July exports of $145.5 billion represented a 38% increase over July 2009, down from June's 44% increase. But growth in imports — which hit $116.8 billion — slowed even more dramatically, leading to the bulging surplus.

Until recently, China's ballooning trade surplus had been slowly melting. From a 2007 peak near 11% of gross domestic product, the surplus fell below 4% of GDP earlier this year.

Officials of the International Monetary Fund, in their recent assessment of the Chinese economy, warned that the surplus would resume growing as the world economy recovered. But Chinese officials insisted they had made permanent economic adjustments that would keep it under control. Tuesday's trade numbers suggest the IMF was right.

"These numbers show just how little motive China has to end its currency manipulation unless it is pushed to do so," Sen. Charles Schumer, D-N.Y., said in a statement.

With U.S. unemployment stuck at 9.5%, lawmakers may face pressure to act on trade complaints. The House Ways and Means Committee plans a hearing next month on China's exchange rate policy. In the Senate, Schumer has introduced legislation that would impose duties and other trade limits to crack down on goods from countries found to have manipulated their currency.

On the eve of the last G-20 summit in June, China said it would end a roughly two-year peg against the dollar and permit the yuan to appreciate. But the currency has barely budged since, rising less than 1% against the dollar, and futures markets are pricing in an additional 1.5% gain in the next 12 months.

A 10% gain in the yuan's value against the dollar would shave an estimated $41 billion from the USA's $226 billion annual trade deficit with China, according to a recent Peterson Institute for International Economics study.

As Chinese officials seek to cool its investment and property boom, import growth should moderate further. If exports stay strong, that's a recipe for a widening trade gap heading into November's U.S. elections. "On the political side, this is going to have very significant ramifications," said Eswar Prasad, former head of the IMF's China desk.