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FACT OF THE WEEK (December 15, 2009)

WHAT OTHERS ARE SAYING ON THE CURRENCY ISSUE (PART II)

Martin Wolf, Chief Economics Commentator, Financial Times

*Financial Times 11/17/2009 -- Grim truths Obama should have told Hu – OP-ED
by Martin Wolf*

“I recognise that China has played an invaluable role by stimulating domestic demand and so facilitating needed global adjustments. The IMF apparently expects a huge decline in China’s current account surplus this year. Unfortunately, that may well prove temporary: first, your stimulus programme, with its reliance on massive credit expansion, may prove unsustainable; second, the decline in China’s trade surplus is largely the result of the crisis-induced collapse in world trade; and, third and most important, China has embarked on currency depreciation by locking the renminbi to the falling dollar.

“At a time of such weak global demand, yours is a ‘beggar thy neighbour’ policy. You complain about the protectionist actions I have implemented. But their impact will be trivial compared with China’s ‘exchange rate protectionism’. This policy will shift the costs of adjustment on to China’s trading partners. Yet, again in Mr Strauss-Kahn’s words, ‘a stronger currency is part of the package of necessary reforms. Allowing the renminbi and other Asian currencies to rise would help increase the purchasing power of households, raise the labour share of income, and provide the right incentives to reorient investment’.

Paul Krugman, Nobel Laureate

New York Times 11/15/2009 – World Out of Balance – OP-ED by Paul Krugman

China is the great exception. Despite huge trade surpluses and the desire of many investors to buy into this fast-growing economy — forces that should have strengthened the renminbi, China’s currency — Chinese authorities have kept

that currency persistently weak. They've done this mainly by trading renminbi for dollars, which they have accumulated in vast quantities.

And in recent months China has carried out what amounts to a beggar-thy-neighbor devaluation, keeping the yuan-dollar exchange rate fixed even as the dollar has fallen sharply against other major currencies. This has given Chinese exporters a growing competitive advantage over their rivals, especially producers in other developing countries....

Unfortunately, the Chinese don't seem to get it: rather than face up to the need to change their currency policy, they've taken to lecturing the United States, telling us to raise interest rates and curb fiscal deficits — that is, to make our unemployment problem even worse.

Paul Krugman, Nobel Laureate

New York Times 10/22/2009 – The Chinese Disconnect – OP-ED by Paul Krugman

Senior monetary officials usually talk in code. So when Ben Bernanke, the Federal Reserve chairman, spoke recently about Asia, international imbalances and the financial crisis, he didn't specifically criticize China's outrageous currency policy.

But he didn't have to: everyone got the subtext. China's bad behavior is posing a growing threat to the rest of the world economy. The only question now is what the world — and, in particular, the United States — will do about it.

The point is that with the world economy still in a precarious state, beggar-thy-neighbor policies by major players can't be tolerated. Something must be done about China's currency.

Irwin M. Stelzer, Contributing Editor to *The Weekly Standard*

*CBS News 11/24/2009 – Opinion -- Time For A Dose Of Protectionism? (from *The Weekly Standard*)*

Free trade, economists like to point out, is not a zero sum game as trading partners benefit from obtaining in trade for their own products the goods they cannot make as cheaply at home. Trade with China bears little resemblance to that idealized description. In 1625, we bought Manhattan for colored beads, cloth, and hatchets worth \$24. Almost four centuries later we began selling it to China for cheap sneakers and T-shirts--goods priced so low not because China is an efficient producer, but because it is a currency manipulator.