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The Problem Is Not China

By SHIU SIN POR

The Americans are desperate, and with good reason. They have successfully stabilized the U.S. economy after the financial crisis, but the problem is far from over. Despite a moderate recovery, the lack of job creation is serious.

Many U.S. leaders rightly see jobs as the key to their country's recovery and avoiding a second dip. The lack of a solution is fast becoming a political one as the November elections approach. Recent calls to get tough with China are gaining momentum in various quarters.

The charge that China is the cause of the U.S.-led financial crisis in the West looks ridiculous in the East. But with respectable commentators championing it, we should at least give it a proper response.

The logic goes like this: China is the cause of America's cheap money, and cheap money is the cause of the crisis. This is like saying a kid is corrupt because he has a rich father who makes his wild spending possible; to cure the kid's problem, you have to rein in the father.

But even this is not a very good parallel. The kid is spending his father's money; the United States borrowed its money.

There is a big gap between cheap money and wild spending on one side and irresponsible lending on the other. You can pay down your mortgage faster and spend only what you have left, or you can take out a second mortgage to have an expensive vacation and buy a new S.U.V. Many Americans chose the latter path. But who is to blame? The banks? Yes! But China?

The accusation that China is buying foreign currency (meaning U.S. dollars) to suppress the value of the renminbi distorts the true picture. China is earning foreign currencies by exporting, and the Central Bank of China is obliged to buy it domestically under a nonconvertible currency regime. China did not play the currency market to lower the renminbi exchange rate.

China's policy is simple: It wants a stable exchange rate with other major currencies, not an artificial propping up of the renminbi or a willful suppression of it. This is very different from "manipulating" the currency. With the renminbi nonconvertible, we don't have a market for renminbi.

In the final analysis, China's competitiveness does not originate from an artificially suppressed renminbi. It comes from a huge pool of cheap labor.

China is not the cause of cheap money. But can China be the solution to the West's problem?

The argument made by China's critics is that with a more expensive renminbi, the West will cut imports from China and increase exports to China, thus creating jobs in the West and filling in the lag in overall demand during the current painful deleveraging of their economies.

History has shown that this is not so. Despite a hefty rise in the renminbi's value since 2005, China's trade surplus to the U.S. continues to rise. China has just become the second largest economy of the world.

But this is deceiving. Its economy's size is still a fraction of America's, and if you add Europe to the base, it is even smaller. Demand from China cannot solve the problem of the West's shortage of domestic demand.

China-bashing is an easy game in the U.S., except that it is a much more dangerous game now. China is rising and is more willing to stand up for its basic interests. And its leaders are cool-headed. That is why Chinese leaders quickly reject the G-2 and the "Chimerica" formulations. They have fended off domestic pressure to sell U.S. dollars as a mean to retaliate against offensive U.S. policies toward China.

But the more serious consequence of this focus to force China to appreciate its currency is that it will divert U.S. attention away from the real solutions they need to come up with to deal with its employment problem.

The West must recognize that its problem — and its solution — come from within. What China did or did not do did not create the financial crisis. What China will do or not do would not solve their problems. But China can help and it is willing. And you are not going to get it by getting tough with China.

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