Washington wants to know

America's Real China Trade Problem

By Alan Tonelson

(NAPSA)—Will China let its currency, the yuan, rise in value? As Chinese exports take market share and jobs from domestic U.S. industries, that's the hope of everyone concerned with the future of the U.S. economy and its manufacturing base, from President Bush to the labor unions to the biggest manufacturing lobbies in Washington.

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Yet everything we know about China makes clear that currency issues are only a symptom of America's China trade problem, not the root cause.

Main Street, USA feels China's growing economic role in the form of some falling consumer prices, but also hundreds of shuttered factories, hundreds of thousands of lost jobs, and lower wages. Even many U.S. multinational companies that have sent boatloads of jobs to China warn that Chinese currency manipulation threatens their remaining U.S. operations.

Along with smaller domestic companies, they note that the Chinese are keeping their goods artificially cheap in markets everywhere, and thus outselling goods from countries like the United States that let free market forces set currency values.

Yet America's real China trade problems go much deeper. First, despite its rapid economic progress, China remains far too poor to buy a reasonable share of its burgeoning output. So it exports huge and growing surpluses, creating overcapacity, driving down wages, and threatening deflation around the world. Second, because China relies so heavily on exports for its growth, and suffers towering and growing unemployment, it has overwhelming interests in maximizing exports and minimizing imports.

Currency manipulation is only one form that China's protectionism takes—and possibly not the most important. Even if the Chinese agreed to a fair value for their currency, they would simply increase other forms of protectionism—as they did in the 1990s, and continue to do.

For America's sake and the world's, the U.S. government must not get further bogged down in the pointless debate about China's currency. The U.S. and world economies can only be stabilized if Washington tells China to stop its underlying protectionism, and that the price for refusing will be painful.

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