

**THE ‘*CHEAP*’ YUAN:  
ASIAN EXPORTERS LOVE IT AS THEY SELL  
MORE AND MORE GOODS AND SERVICES TO CHINA**

While the United States continues to complain that the currency of the People’s Republic of China (PRC), is undervalued, and, as such, it is causing an embarrassing imbalance of trade between 2 of the largest economies of the world, in Asia, the so-called ‘*cheap*’ yuan is a bonus to exporters of the region.

Exports from the PRC, during the second quarter of 2006, grew by about 11.30 percent, Year-On-Year.

This was made possible, of course, in part at least, by the fact that the PRC’s currency is relatively cheap vis-à-vis the US dollar.

But, while it may be correct to state that the artificially cheap yuan is fuelling exports to The Land of The Free and The Home of The Brave as well as to Europe, the current situation is ideal for many other Asian exporters – because they are earning billions of dollars by selling their goods and services to the most-populous country of the world.

According to the latest statistics, Japan’s export sales to the PRC grew by about 25.50 percent in the first half of 2006, compared with the like period in 2005.

Thailand’s export sales to the PRC grew by about 32.20 percent in the first half of this year, Year-On-Year.

South Korea’s export sales to the PRC rose by about 46.20 percent in the same period, Year-On-Year.

So, while the US might well complain about its imbalance of trade with the PRC, for many countries of the Far East, their respective governments are delighted that the PRC is maintaining the status quo.

In the month of July, the General Administration of Customs, a branch of the PRC Government, recorded a record trade surplus for the third consecutive month: \$US14.60 billion.

That trade surplus was an increase, Year-On-Year, of about 40.30 percent.

If the PRC were to revalue its currency again, it would, in effort, be counter-productive as far as the country’s economists are concerned.

Ironically, if the PRC were to revalue its currency, one of the knock-on effects would be to fan inflation in the US because the added cost of its goods and services, exported to the US, would have to be passed on to the US consumer, sooner rather than later.

Looking at export sales to the US for other major Asian exporters, one notes that, in the first 6 months of 2006, Japan’s export sales grew by an anaemic 7.60 percent, Year-On-Year.

So, while the US is taking more and more of the goods and services, produced in the PRC, the PRC, in turn, is consuming more and more of the goods and services, manufactured and created on its proverbial Asian doorstep.

The high price of crude oil is a boon, also, for the more-developed countries of Asia, desirous of selling their goods and services to the PRC.

Japan, for instance, is licking its lips at the thought of selling more of its hybrid motor vehicles and motorcycles to the PRC because, in the field of consumer electronics, it is getting beaten to death by the PRC's consumer electronics industry.

It is in the high-tech sector, also, that Japan is able to compete best.

Again, turning to the latest statistics for the first 6 months of 2006, one sees that Japan's motorcycle production grew by about 36 percent, Year-On-Year, with much of that production, bound for the PRC.

The higher up the high-technology ladder Japan goes, the better seem to be its prospects for bigger and better things.

The second-largest economy of the world is churning out semiconductors at an historically record-setting pace.

The US Federal Reserve is cognisant that, if it were to continue to increase interest rates, it could well backfire on the US economy because a tighter monetary situation would, most likely, turn out to be a retrograde step for the US economy – which, in **TARGET**'s opinion, is on the cards, in any event.

As **TARGET** () has stated on many occasions, if the US catches a cold, Asia catches pneumonia.

It is questionable as to whether or not many of the economies of Asia have the backbone for a decided slowdown in the US economy: They could well start to wilt under the international heat.

With the PRC, experiencing record-breaking, economic growth, it is helping other Asian economies to catch a free ride of the Middle Kingdom's fast-moving bus.

The result is that consumer spending is continuing to rise throughout Asia.

This, in turn, is raising the standard living of many countries of the region.

Consumer confidence, leading to higher consumer spending, is a fickle thing, however.

One notes that, in Japan, in spite of the economy powering away, consumer sentiment has lagged in spite of the boost in investments at double-digit figures.

Retailers in Japan are at a loss because their products are just not selling as quickly as they imagined, earlier in the year.

In June, The Finance Ministry of Japan reported that retail sales in June were lower than in June 2005 despite the supposed better economy.

If The Bank of Japan were to increase interest rates by another 25 basis points to 0.50 percent per annum, it may turn out to be a mistake, exacerbating the current situation.

The Japanese economy has only been out of a period of deflation by a few short months and many people maintain that the country's Central Bank should have kept interest rates at the zero mark until the dust had settled, completely.

One ironic scenario – which is highly unlikely by the look of things today – would be if the price of crude oil were to fall to much lower levels in a very short space of time.

Japan, for one, would not be able to accommodate such a situation and it is likely that there would be a return to deflation: Consumers would want to wait in order to gauge which way the economy was headed in a period of cheaper oil.

The Governors of The Bank of Japan may have to visit the Yasukuni Shrine in Tokyo and pray that the price of crude oil does not fall lower in too short a period of time.

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