

# China and currency manipulation

*The Economist*

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# Currency manipulator

- Trump called China “the grand champion” of currency manipulators

# Currency manipulator

- America's Treasury makes a six-monthly assessment of the foreign-exchange policies of its big trading partner
- The criteria are regarded by many economists as inadequate
- Nevertheless, even by those flawed criteria, China is far from the champion

## Three measure

- Whether the country runs a sizeable surplus in trade with America
- Whether its current-account surplus exceeds 3% of GDP
- Whether it spends more than 2% a year to buy foreign assets to suppress the value of its currency

China, in the latest report, only met one condition (running a big surplus in its trade with America)

## *Economist's scoring system*

- One “manipulation point” to countries with surpluses at the 3% threshold, two points to economies with surpluses at 6% of GDP
- One manipulation point for each 2% of GDP spent buying foreign assets to depress the value of its currency

## Exchange controls

- Exchange controls
- Awkwardly for America, two of its friends in Asia have recently scored more highly than China: South Korea and, most clearly, Taiwan
- The highest score of all goes to Switzerland

## The method's flaws

- This illustrates one of the method's flaws
- In terms of the goods and services that it can actually buy, the Swiss franc is in fact among the world's most overvalued currencies

- As for China itself, it has been fighting to prop up the yuan in the face of **capital outflows**
- ... and its score is in fact negative
- That is reflected in the IMF's verdict that the currency is "no longer undervalued"