Manufacturers: China's Yuan adjustment not nearly enough

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SYRACUSE - China's recent move to pin the value of its currency to a variety of foreign currencies instead of directly to the U.S. dollar is failing to make a significant impact on the manufacturing industry in Central New York, local experts say.

Significant changes are still needed in order to create a favorable environment for manufacturing in the United States, says Randall Wolken, president of the Manufacturers Association of Central New York, (MACNY).

For the first time in 11 years, China revalued its currency by 2.1 percent on July 21. The Chinese vowed to continue this adjustment, but the revaluation is currently only about 2.3 percent, according to the National Association of Manufacturers.

China has pegged its currency - called the Yuan or the renminbi - to the U.S. dollar since 1994.

Since then, the exchange rate averaged about 8.28 Yuan for every dollar - about 30 to 40 percent less than the currency's actual value, Wolken says. Until July 21, this rate continually increased in favor of the Yuan.

The undervalued Yuan allows Chinese-made goods to be sold at lower prices than their counterparts made in the United States or other nations.

"I look at it like this," Wolken says. "If you were running a 100-yard dash and the competition gets to start on the 40-yard line, that wouldn't be fair."

MACNY, in conjunction with the Metropolitan Development, Association (MDA) and other trade groups, are continuing to pressure state and federal government officials to implement penalties if China doesn't begin to "play by the rules," as outlined in an agreement signed with the World Trade Organization (WTO), Wolken says.

But China isn't the only cheating member of the WTO, Wolken adds. Japan, South Korea, and Taiwan also undervalue their currency to provide an unfair trade advantage, but their offenses are less egregious, Wolken explains.

"Most of the people who think the [Yuan devaluation] is significant base it on the psychological factor; the psychology being that it is no longer tied precisely to the dollar," says Dr. George T. Haley, professor and director of the marketing and international-business programs at the University of New Haven, in New Haven, Conn. Haley is also the author of The New Asian Emperors: The Overseas Chinese, Their Strategies and Competitive Advantages.

MDA president Irwin L. Davis sees China's adjustment as a "step in the right direction," he says.

"We tend to be an organization that looks at the glass half full," Davis says. "We recognize the impact of China on [U.S.] business, and we will continue to be proactive."

MACNY, MDA, and other U.S. trade groups convinced political leaders to sponsor a bill that would counter China's undervaluation, says Robert J. Simpson, MDA's assistant to the president.

In February, U.S. Sens. Charles Schumer, (D-N.Y), and Lindsey Graham, (R-S.C.), proposed legislation that would place a 27.5percent tariff on all Chinese products entering the United States. The 27.5-percent figure represents the middle-point between economists' varied estimates, ranging from 15 to 40 percent, of the amount by which the Yuan is undervalued.

"Even if they made an adjustment of 5 percent per year for the next five years, it still wouldn't be enough," Wolken says. "They need to allow market forces to come into play in a substantial way, and need to do it in a short time period, or adjustments will be meaningless."

Political pressure helped force China to take action, but Wolken hopes the tariffs will be enforced if China fails to make a significant revaluation.

"This was an attempt to release a little pressure, and is a part of a plan to not do anything of substance," Wolken says. "This was a way to get around doing anything substantial, and will have no impact."

Although the Chinese government subsidizes all its industries, it subsidizes manufacturing the most, Wolken says. Areas of U.S. manufacturing suffering due to price undercutting from China include textiles, furniture, machines, and tools, he adds.

"[The Chinese are] basically providing a 30-percent subsidy on all their products," Wolken states. "We have members in MACNY that can't buy the raw materials for the price of the finished goods that are coming out of China."

Price undercutting has forced many U.S. manufacturers to restructure their business and search for clients overseas, says M. Brian O'Shaughnessy, president, chairman, and CEO of Revere Copper Products, Inc. in Rome. The firm sells fabricated copper products.

Since 2000, companies representing about 20 percent of Revere's customers have shut down their facilities in the United States and moved to China, or are now buying their raw material from China, O'Shaughnessy says.

For example, Revere used to sell copper to Oneida Silversmith, but the company now buys the material from China, O'Shaughnessy says.

Revere customers pay for the value of the copper plus a fabricating charge, O'Shaughnessy says. As the cost of copper has increased, the number of products Revere sells has declined steadily, O'Shaughnessy says.

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