Discuss trade - how does it work is it good or bad what role do exchange rates pl...

Literature, Russian Literature

Sur Supervisor International Trade Countries produce goods and services in which they have expertise to produce at most economical costs and exchange them with goods and services of other countries in which others are more economical. This international exchange of goods and services help expand global economy rapidly. International trade is good for consumers of all countries because they get goods and services at the most economical prices; however, certain manufacturers suffer due to their higher costs of production either due to costlier labor or higher raw material costs in their own countries. Over all, international trade is good as it helps expand the world economy using valuable and limited resources most judiciously (Investopedia).

Consumers in the US are benefitted from weak Yuan due to nonexistence of free market for determining exchange rates. Goods imported from China are available at much lower prices than possible to get from the local manufacturers. This leads to higher disposable income for American consumers that can be used for satisfying their other needs (Picardo).

Source: http://www. tradingeconomics. com/china/currency

The above graph represents exchange rate between the USD and Chinese Yuan between May 30, 2011 and November 30, 2013. It is clearly evident that the exchange rate of 6. 5 Yuan for one US dollar in May 2011 improved to 6. 1 Yuan during November 2013. Emily Kaiser argues, " A sharp rise in Chinas Yuan currency might cut the U. S. trade deficit by as much as one third and create enough American jobs" (Huffingtonpost); this can create enough jobs in the US. China does not have free market exchange mechanism to determine exchange rates rather it relies on administered exchange rates. In view of this, it has several implications as discussed in the following paragraphs.

In 1994, China pegged its currency to the dollar at about 8. 28 Yuan per dollar; the rate continued until July 2005 then the establishment gradually allowed Yuan to appreciate until 2008. When global crisis encompassed the world economies, China stopped further appreciation of its currency. Many economists rightly contend that appreciation of Yuan would hurt US consumers and downstream product manufacturers who use Chinese components in their production process (Morrison and Labonte, 12). It is true that appreciating Yuan may boost US exports to China (Picardo). However, several concerns have been raised in the US over chinas currency policy. Jobs and trade deficits are prominent among them. The Economic Policy Institute (EPI) claims that Chinas currency policy is responsible for the loss of 2. 7 million jobs in the US and majority of the job losses were in manufacturing sector (Morrison and Labonte, 12).

China currently holds the largest foreign exchange reserves, especially the US dollar. Many economists contend that Chinas current account surplus is largely due to their intervention in currency markets. The burgeoning US trade deficit with China is attributed to weak Yuan maintained artificially at low value. The US trade deficit grew to $315 billion in 2012 from $84 billion in 2000 describes the balance of trade issue that the US is facing. Economists attribute it to the weak Yuan that is, in fact, equivalent to providing export subsidy to their manufacturers (Morrison and Labonte, 7).

Many economists see huge US budgetary deficits along with deficits in trade and savings as a big risk factor for the US dollar to maintain its position as the worlds reserve currency in the international market in the years ahead (Barboza).

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