

Currency Wars

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While all developed nations are fighting this monster recession to get their economies back on track, a recent competition has started engulfing all the leading economies and hence threatening others: the competition of becoming “weak”.

The stage is set and the war has been wedged, primarily by China. China which has always been accused of keeping its currency at artificially low levels, has always maintained the lack of any sort of intervention from its side, to influence its currency price, to gain the comparative advantage. It is under the vigilance of world fraternity. US specifically has never tried to put pressure on China to mind its action and stop manipulating its currency price to gain that comparative advantage by catering to cheaper exports. But it has been unable to put any sort of sanctions against china due to its heavy dependence on it for its FDI and capital investment.

Now, in its attempt to lower deficit, the enduring US currency recently saw depreciation which is causing uproar from other economies and quite ironically even China.

Explaining the dynamics of the war Charles Wallace reported that the Fed chairman, Ben Bernanke had forced the Chinese government to revalue its currency. Last fall, he launched a rigorous “Federal bond buying program”, which lead to an outflow of money from US to China. China in return had to buy US dollars from the banks and exporters, and print Yuan for financing these purchases, leading to huge inflation in China, in November 2009. As a result the Chinese currency has appreciated at an annual rate of 12% (inclusive of Inflation) since July 2009.

According to experts, this new ‘fad’ of weakening currencies to artificially low levels is harmful for the world economy as a whole. Perhaps these countries can take a lesson or two from Germany, which in spite of having the same currency (Euro, as of other European countries) has seen a boom in its exports resulting in huge trade surpluses.