The Impact of Currency Manipulation on Cross-Border Trade

[Name of Student]

[Institutional Affiliation]

Date

Currency manipulation is described as a method in which a country sells its currency in a foreign exchange market with the aim of keeping the foreign exchange weak and the other foreign currency, usually US dollars strong. These leads to the subsidization of products being exported and a rise in the price of those products they import (Cohen, 2012). It is usually referred to as pegging. Currency manipulation is used to strengthen competitive positions in the international market, help in increase of their trade surplus as well as to help them generate employment and production at the expense of other states and United States of America.

Many countries have been identified as notorious in currency manipulation with China leading the list. Currency manipulation has been described as the most protectionist economic strategy in the world in the 21st century (Gagnon, J2012). In recent years, China has been manipulating its currency against the US dollar in a way that would give them more competitive in the international market. These have resulted in some issues. United state government has been raising the issue of currency manipulation by the china's government. Congress of the United States has been considering taking a counteraction decision on the matter in the Trans-pacific Partnership.

However, some economists have been arguing that currency manipulation has little to do with trade flows. But others see it as a peril to trade partnership between the United States and China. Some argue that there should be effective currency devaluation policies. Trans-Pacific trade partners should discuss how to deal with currency manipulation policy that would benefit the whole trading block (Nicita, 2013). There must be a way to tame the countries like China in currency manipulation. This paper will analyze and discuss the impact of currency manipulation. First, currency manipulation causes trade mistrusts between countries.

China over the past few years has been having a lot of trade issues and mistrusts with their long time partner the United States of America. Such constraints among trade partners affect their trade deals which would have otherwise been beneficial to them both (Nicita, 2013). Currency manipulation also causes loss of jobs to other countries that are not involved in manipulation. For example, United States of America has lost over six million jobs to China due to currency manipulation according to Peterson Institute for International Economics.

China has been manipulating their currency and used it to buy US government debts. These results into flooding of the market with China's currency and increases demand US dollar. Manipulating currency is also a way of achieving lower selling prices (Nicita, 2013). The international price of China's export falls due to the devalued currency hence makes their sales go up as compared to those of other countries in the same trading block. It also increases employment rate to the people of China at the expense of the US and other countries.

On the other hand, currency manipulation makes import expensive for China. It makes it hard for the citizens to buy any imported stuff. The labor in the China also losses in the currency manipulation process as they receive lower wages than they otherwise would have.

Currency manipulation also comes with domestic inflation rate (Gagnon, J2012). The laborers in China receive lower wages, and the citizens cannot pay for the exported goods as compared to the situation in other countries. Being that there is no country that is self-reliance, China economic and especially consumers suffer the most if they have to buy goods from other countries.

In currency manipulation, countries only hold what they already have and cannot get goods from other states due to the high cost of imports. Therefore, if inflation hits China, only entities that borrow from them that will benefit, their consumer will suffer.

Consequently, currency manipulation is a time bomb that is waiting to explode anytime. If the United States of America succeeds in its effort to prevent currency devaluation or stats devaluating dollar also, China economic would be shaky, and it's most likely that most of its citizens would be rendered jobless (Gagnon, J2012).

Pegging or currency manipulation also does not balance trading deals that China might have with its neighbors and partners. This is because the goods from China would flood the market due to their low prices thus making other goods from the other countries more expensive and thus cannot sell (Gagnon, J2012). It means China has created the market for its products and the destroyed market for those other nations while at the same time China cannot import from them due to high costs. This makes the trade one-sided and dangerous to the economy of those countries neighboring it or trading with it. It also only benefits if one country or few are involved, but if other countries join this dirty deal, the economy of China will collapse, consumers in China would face difficult times as the prices of goods would not be affordable.

In conclusion, pegging or currency manipulation impacts negatively on cross-border trade deals. It makes other countries' rate of unemployment rising due to cheap labor in countries involved in manipulation. Exports in those countries also become inconsumable due to their high cost and thus the country becomes dependent on its product only. A keen look t the currency manipulation also reveals that its constraints trade agreements and foreign policies between the country involved and its partners.

Currently, the United States of America has a constraint relationship with China and wants the China government to stop their currency manipulation (Cohen, 2012). This has seriously affected the two governments, and the US is planning to come up with a policy that would reduce pegging. If such policy succeeds, it is obviously against china's wish, and

therefore their relationship would still be affected. This would not have been the case were it not that China was involved in currency manipulation.

China or countries that are involved in manipulation are also known to have the worst labor policies due to high demand for their human resource. Labor in China is cheaper, and thus their value or wages are too low. The economy might be growing, but it does not benefit the citizens because they receive lower wages and cannot buy imported products from outside China. It is, therefore, clear that currency manipulation has a short term benefit to the countries practicing it and might cause an abrupt economy downturn if other countries start practicing the same.

References

Cohen, B. J. (2012). The yuan tomorrow? Evaluating China's currency internationalisation strategy. *New Political Economy*, *17*(3), 361-371.

Gagnon, J. E. (2012). Combating widespread currency manipulation. *Policy Brief in International Economics*, 12-19.

Nicita, A. (2013). Exchange rates, international trade and trade policies. *International Economics*, *135*, 47-61.