Directions: In your small groups you will analyze 4 sources. To start, each group member will have one of the sources. You will answer the question related to the image or text. After all students have answered questions for each source, you will discuss your observations with your groups.


The U.S.’ Currency War

The United States doesn't deliberately force its currency, the dollar, to devalue. Its use of expansionary fiscal and monetary policy has the same effect.

For example, federal deficit spending increases the debt. That exerts downward pressure on the dollar by making it less attractive to hold. Between 2008 and 2014, the Federal Reserve kept the federal fund rate near zero, which increased credit and the money supply. It also created downward pressure on the dollar.

But the dollar has retained its value despite these expansionary policies. It has a unique role as the world's reserve currency. Investors tend to buy it during uncertain economic times as a safe haven. As an example, the drastic oil price drop between 2014 and 2016 caused a mini-recession. Investors flocked to the dollar, which caused the dollar value to increase by 25%.
China’s Currency War

China manages the value of its currency, the yuan. The People’s Bank of China loosely pegged it to the dollar, along with a basket of other currencies. It kept the yuan within a 2% trading range of around 6.25 yuan per dollar.

On August 11, 2015, the Bank startled foreign exchange markets by allowing the yuan to fall to 6.3845 yuan per dollar. On January 6, 2016, it further relaxed its control of the yuan as part of China’s economic reform.

The uncertainty over the yuan’s future helped send the Dow Jones Industrial Average down 400 points. By the end of that week, the yuan had fallen to 6.5853. The Dow dropped more than 1,000 points.

In 2017, the yuan had fallen to a nine-year low. But China wasn’t in a currency war with the United States. Instead, it was trying to compensate for the rising dollar. The yuan, pegged to the dollar, rose 25% when the dollar did between 2014 and 2016.

China’s exports were becoming more expensive than those from countries not tied to the dollar. It had to lower its exchange rate to remain competitive. By the end of the year, as the value of the dollar fell, China allowed the yuan to rise.
Document C: Currency Wars, Retrieved from: https://images.app.goo.gl/KhJAJbTssh6g8orz8
Document D: US – China Trade Tariffs Are Reaching Their Limit, Retrieved from Statistica.com

U.S.–China Trade Tariffs Are Reaching Their Limit

Annual value of imports affected by U.S. imposed tariffs (in billion USD)

- Proposed tariffs if China retaliates: 267
- Tariffs announced September 18th: 200
- Tariffs applied so far in 2018: 53
- U.S. imports from China in 2017: 506

Annual value of imports affected by China imposed tariffs (in billion USD)

- Proposed new tariffs: 60
- Tariffs applied so far in 2018: 50
- Chinese imports from U.S. in 2017: 130

Source: US Census Bureau/BBC

U.S. states at risk from trade war

Steel and aluminium users, farming, electronics and car makers face increased expenses and potential losses of as many as 2.6 million* jobs from President Trump’s Sino-U.S. trade war

U.S.-China trade (goods, year to April 2018)

$653.97 billion

$132.9bn

$521.0bn

U.S. trade deficit with China: $388.05bn

*A.U.S. Chamber of Commerce estimate

Illinois, Iowa and Minnesota: In 2017, 60% of U.S. soybean exports – 35 million tonnes worth $14.4bn – went to China. Prices have fallen 8% since tariffs announced

Nebraska, Colorado: China is tenth largest U.S. beef export market after 15-year ban following mad-cow disease

Chemicals

China is third-biggest export market for U.S. chemicals behind Canada and Mexico, worth $10.6bn

Automotive

Michigan: In 2017 Ford earned $1.5bn and General Motors had revenues of some $56bn from cars built in China

Aviation

Washington: Exports of $41.8bn worth of planes and parts last year

Kansas, Maryland: Lesser-known aviation states also at risk

Electronics

California, North Carolina, Oregon: China is top destination for $29.9bn of chips and semiconductors from Qualcomm, Qorvo and Intel

Steel and aluminium

Alabama, Illinois, Indiana, Michigan, Ohio, Pennsylvania: Tariffs have boosted steel prices almost 38% but threaten nearly 470,000 jobs

Sources: Bloomberg, Moody’s Investors Service, U.S. Census Bureau  © GRAPHIC NEWS