

April 8, 2008

Asian Inflation Begins to Sting U.S. Shoppers

By [KEITH BRADSHER](#)

BAT TRANG, [Vietnam](#) — The free ride for American consumers is ending. For two generations, Americans have imported goods produced ever more cheaply from a succession of low-wage countries — first Japan and Korea, then China, and now increasingly places like Vietnam and India.

But mounting inflation in the developing world, especially Asia, is threatening that arrangement, and not just in China, where rising energy and labor costs have already made exports to the United States more expensive, but in the lower-cost alternatives to China, too.

“Inflation is the major threat to Asian countries,” said Jong-Wha Lee, the head of the Asian Development Bank’s office of regional economic integration.

It is also a threat to Western consumers because Asian exporters, even in very poor countries, are passing their rising costs on to customers.

Developing countries have had bouts of inflation before. Indeed, some are famous for them, like Brazil, which experienced triple-digit inflation in the late 1980s and early 1990s. But two things make this time different, and together promise to send prices higher at [Wal-Mart](#) and supermarkets alike in the United States, just as the possibility of recession looms.

First, developing countries now produce nearly half of all American imports. Second, inflation in these countries is coming at the same time that many of their currencies are rising against the dollar.

That puts American consumers in a double bind, paying at least some of producers’ higher costs for making their goods, and higher prices on top of that because the dollar buys less in those countries.

Asian businessmen say they do not have a choice about charging more. “This is a tough time to do business,” said Le Hoai Vu, the sales manager for the Quang Vinh Ceramic Company here in northern Vietnam.

The company just increased by up to 10 percent the prices it charges [Pier 1 Imports](#) in the United States for hand-painted vases because labor costs are rising 30 percent a year.

Over all, in Vietnam, one of the fastest-growing destinations for manufacturing investments and one of the fastest-growing sources of American imports, prices rose 19.4 percent from March 2007 to March 2008.

In China, Foshan Shunde Augustus Bathroom Equipment Ltd. in Foshan City is about to raise prices by 10 percent for a range of bathroom fixtures exported to North America.

“Rising inflation is a way of life in China these days, you see it everywhere,” said Faye Kong, the company’s

international business supervisor.

The cost of American imports from less industrialized countries as a group is rising. A [Bureau of Labor Statistics](#) index of average prices for imports of manufactured goods from such countries fell gradually through early 2004, but is now rising briskly and was up 5.6 percent in February from the same month last year.

That contributes to rising inflation in the United States; in the 12 months through February 2008, the prices of goods for sale in the United States increased by 4 percent, according to the government's Consumer Price Index.

But so far, Asian exporters have passed along only a portion of their costs. In China, for instance, prices are now rising almost 9 percent a year, triple the pace of a year ago.

Workers in the developing world facing higher prices have been increasingly vocal in demanding higher wages, with protests erupting in recent days in Vietnam, Cambodia and Egypt.

At the same time, inflation keeps rising: the Philippines announced that its inflation at the consumer level had doubled in the last five months, showing a 6.4 percent increase in March over the same month a year ago. And weekly inflation at the wholesale level has accelerated in India, reaching an annual rate of 7 percent in the week ended March 22, up from 3.1 percent as recently as last October.

Not long ago, it would have been unlikely for a poor country with high inflation to see its money strengthen in value against the mighty dollar. But the dollar is not quite as mighty as it once was. Large American trade deficits and other problems have weakened its appeal.

And there are signs that the dollar could fall further if developing countries' central banks stopped supporting it, particularly in Asia.

Vietnam's central bank even had to order the country's commercial banks late last month to resume buying dollars within the tight range of exchange rates set by the government. Many banks had started betting on dollar depreciation and refusing to accept large sums in dollars, to the point that multinationals and exporters had trouble wiring money into the country to pay their employees' salaries.

Additionally, the dollar's weakness is itself a cause of inflation in developing countries, particularly those that have barely let their currencies rise against the dollar in an effort to hold on to export markets.

In a street market around the corner from the 270-year-old Lungshan Temple in Taipei, Taiwan, Teresa Gau, a fishmonger, is charging up to a third more for fish and crabs than she did a year ago. That is because fishing boat owners are charging her more as they struggle to cover higher costs for diesel fuel, which is priced in dollars.

"They have to raise the price to compensate," Ms. Gau said.

Inflation in Taiwan has started to creep up partly because the government waited until this year to allow the currency, the New Taiwan dollar, to appreciate. Taiwan imports all its oil, and only now is the slightly strengthening New Taiwan dollar starting to hold down the cost for consumers in filling up their gas tanks.

Here in Bat Trang, an ancient ceramics center near Hanoi, Quang Vinh Ceramic's fastest-rising expense is for vivid blue ink for painting vases and other pottery. Imported from Belgium, the ink is priced in euros and has

soared 80 percent over the last year in Vietnamese dong.

Keeping the dong inexpensive in dollar terms helped Vietnam increase its exports by 24.1 percent last year, but also lured a flood of investment. Bank loans rose more than 50 percent last year, feeding a real estate frenzy that has not yet abated.

Brick kiln owners like Le Thi Hop here in Bat Trang have responded by tripling prices in the last year.

“Most of the people who buy my bricks say the price is crazy, but I say, ‘This is the market,’ ” Ms. Hop said cheerily.

High costs for construction materials are making it more expensive for the many multinationals like Samsung of South Korea and Hanes and [Emerson Electric](#) of the United States that are now building factories in Vietnam, partly in response to rising costs in China.

In addition to the weak dollar, economists say that countries like Vietnam, Egypt, China and Brazil are inherently more vulnerable to inflation when, as now, rising prices are led by increasingly expensive commodities.

Soaring food and energy costs have a far greater effect on developing countries like Vietnam, because of their large agricultural and energy-hungry manufacturing sectors, than on industrialized countries, which tend to have larger service sectors than manufacturing sectors.

Quang Vinh, which was founded by a 15th-generation pottery maker, has raised wages by 30 percent over the past year to keep up with food prices, which have also risen. Food is the biggest expense for the company’s workers, who earn \$75 a month working eight hours a day, six days a week.

“Before, I used to go out with friends regularly,” said Nguyen Xuan Tu, a 29-year-old Quang Vinh worker who rides a motor scooter, like many Vietnamese. “But now, with the high cost of gasoline, I don’t go out too much.”

Two opposing trends have made it hard to gauge the true extent of inflation in the developing world.

Very heavy investment in new factories, especially in China but increasingly in emerging countries like India and Vietnam as well, has created a lot of extra industrial capacity. That could drag down prices somewhat if the American economic slowdown causes a global slump in demand.

But many developing countries, led by China and India, have blunted the full impact of inflation so far through a combination of price controls and subsidies, and more countries are joining them — Vietnam has imposed price controls on transportation and gasoline over the past week, for instance.

As businesses figure out ways around price controls, like charging the same while shrinking the quantities in each package, and as the cost of subsidies may become unsustainably high, inflation may worsen.

Mery Galanternick contributed reporting from Rio de Janeiro.

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