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Appreciation must proceed 'gradually'

China's exchange rate reform will be a "gradual" process, said Yi Gang, vice-governor of the central bank, on Monday, while pressure for faster yuan appreciation remains despite the delayed release of the US government's currency report.

"Hopefully the renminbi exchange rate will be fairly stable at a close to equilibrium market-determined range," Yi said at a press conference following a meeting of International Monetary Fund (IMF) officials and central bankers in Shanghai.

He also said a more flexible yuan will help reduce inflationary pressure.

Tensions over the yuan have been escalating recently with the United States taking the lead in demanding faster appreciation.

On Friday, the US Treasury delayed the release of a report on whether China and other nations "manipulate" their currencies to benefit their trade with the US.

Analysts said the delay does not signal a softer US stance on the yuan. "The delay does not mean the US has given up on the issue, and probably it expects to further press China during the coming G20 Seoul meeting," said Chen Baosen, senior expert on China-US trade and economic studies at the Chinese Academy of Social Sciences.

The US may want to leave some room to coax China into allowing faster yuan appreciation, he said. "But the yuan's value is a sovereign issue for China, which should decide on the pace of reform on its own."

The US is aiming at the wrong target by blaming the yuan for its economic woes, analysts said.

"I don't think the issue has anything to do with the US deficit with China, and the reason (for the deficit) is that the US consumes a lot but saves little. Undoubtedly, China is a scapegoat," Daniel J. Ikenson, associate director of the Center for Trade Policy Studies at the Cato Institute, said.

Drastic yuan appreciation would damage the Chinese economy, and consequently the global economy, said Huo Jianguo, director of the Chinese Academy of International Trade and Economic Cooperation at the Ministry of Commerce.

Yi Gang confirmed China will continue to expand domestic demand to help the global economy. "We will emphasize domestic demand."

IMF chief Dominique Strauss-Kahn warned that the global recovery would be "in peril" if the world's major economies did not continue to work together. "The spirit of cooperation must be maintained. Without that, the recovery is in peril," he said.

"Today, there is a risk that the single chorus that tamed the financial crisis will dissolve into a cacophony of discordant voices as countries increasingly go it alone. This will surely make everybody worse off."

The necessary adjustments to correct global imbalances are not limited to exchange rates, nor should they by any means be borne by China alone, said Philip I. Levy, resident scholar at the American Enterprise Institute.