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Corrected: U.S. decision on China yuan practices looms again

By Doug Palmer

(Corrects wording in first paragraph to manipulates from undervalues)

WASHINGTON - President Barack Obama's administration faces a deadline on Friday on whether to formally declare for the first time that China manipulates its currency, following an election-year vote in Congress to get tough with Beijing.

The House of Representatives last month passed a measure directed at China that would allow the United States to apply duties on job-threatening imports from countries with fundamentally undervalued currencies.

U.S. voters go to the polls for a congressional election on November 2 that is widely viewed as a referendum on Obama's handling of the economy and some politicians have made China's currency policy a campaign issue.

An International Monetary Fund meeting in Washington last weekend failed to defuse tensions between China and some developed countries, including the United States, that are pressing Beijing to allow the yuan to appreciate.

Under U.S. law, the Treasury Department must issue a report every six months on currency practices of major trading partners.

Since it took office in January 2009, the Obama administration has declined to label China a currency manipulator, though many economists believe the yuan is undervalued by as much as 25 percent to 40 percent.

The currency stalemate is one of a number of issues vexing the U.S.-China relationship, including U.S. arms sales to Taiwan, Chinese trade practices and efforts to rein in North Korea's nuclear program.

"When large economies with undervalued currencies act to keep the currency from appreciating, that encourages other countries to do the same," U.S. Treasury Secretary Timothy Geithner said last week at the Brookings Institution, a Washington think tank.

"The main problem today is you have a set of emerging economies that both remain undervalued and are leaning heavily against appreciation," Geithner said, adding that "China will be less likely to move to allow its currency to rise more rapidly" unless it is confident other countries will follow.

Given that statement, it is hard to believe that Geithner would not cite China for currency manipulation in Friday's report, said Fred Bergsten, president of the Peterson Institute for International Economics think tank.

But it is probably more likely Geithner would delay the report until after the election, Bergsten said.

"Delaying the report is the path of least resistance once again. Because if he puts out the report in the teeth of this election, in the teeth of the House bill ... how can he not (declare China a manipulator)? How can he not? To me, it's almost

inconceivable," Bergsten said.

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The Peterson Institute estimates that China's currency, known as the yuan or the renminbi, is undervalued by 15 percent to 25 percent and Bergsten has been one of the loudest voices in Washington calling for U.S. government action.

He and many U.S. lawmakers believe the United States should start by formally labeling China a currency manipulator, a step that would require the Obama administration to step up engagement with Beijing to get it to move.

Geithner told lawmakers during congressional hearings last month that while he shared their concern about China's "undervalued" currency, it was essentially futile to formally label the country a currency manipulator because that only triggered more talks with Beijing.

The way the law is written "does not make it a particularly effective tool at the moment for advancing our basic interest and trying to get the exchange rate up over time ... Wishing something does not make it so, and issuing a report that requires me to go consult changes nothing," Geithner said.

But if the report is meaningless, "why do the Chinese fight tooth and nail against being labeled," Bergsten said.

A U.S. Treasury Department spokeswoman on Monday said she had no information about when the currency report would be released beyond Geithner's promise to lawmakers last month that it would be issued in "a timely fashion."

Geithner was pressed on that point during the hearings because he delayed the April report for more than two months to give Beijing additional time to act on its own.

In late June, Beijing did loosen its yuan from a peg to the dollar and the currency has risen about 2 percent in value since then. Many U.S. lawmakers want a much faster pace of appreciation, but Chinese officials have ruled that out as a threat to economic and social stability.

Daniel Ikenson, a trade policy specialist at the Cato Institute think tank, said his best guess was the Obama administration would decide for the fourth time since taking office not to label China a currency manipulator.

"The big picture for me is the administration doesn't really want the House legislation to become law," and labeling Beijing would probably increase chances of Senate action on the bill when lawmakers return after the election, Ikenson said.

The House bill is a "pinprick" in terms of its potential impact on China's exports to the United States, but Beijing would certainly view it as a provocation if the Senate were to pass it and Obama sign it into law, he said.

(Editing by Eric Beech)