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China digs in heels on yuan as U.S. raises pressure



Aileen Wang and Simon Rabinovitch

BEIJING

Wed Mar 17, 2010 2:42am EDT

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penalize China over yuan

Tue, Mar 16 2010

UPDATE 6-US Senate bill would penalize China over yuan

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CORRECTED - UPDATE 4-U.S. lawmakers press for action on China currency

Mon, Mar 15 2010

(Reuters) - China said on Wednesday it "could not be any clearer" in its repeated commitment to a stable exchange rate after the U.S. Congress threatened to levy duties on some Chinese exports unless it revalues its currency.

BARACK OBAMA | CHINA

The temperature in the long-running dispute over China's exchange rate regime is rising quickly, with a bipartisan bill introduced on Tuesday in the U.S. Senate that aims to get Beijing to let the yuan rise.

Focusing on the yuan will not help to solve problems in the Sino-U.S. bilateral trade relationship, a Chinese Commerce Ministry official told Reuters.

"We oppose the over-emphasis on the yuan's exchange rate," the official said, when asked about the bill. "The yuan's exchange rate is not a magic potion for solving global economic imbalances."

The apparent hardening of positions drove the yuan to a three-week low against the dollar in the offshore forwards market, implying just 2.4 percent of appreciation over the next 12 months.

Ding Zhijie, a professor at the University of International Business and Economics in Beijing, said U.S. arm-twisting on the exchange rate was "totally counter-productive."

"With such heavy pressure from the United States, any move would look like giving in to foreign pressure -- for both the Chinese government and the Chinese public, it would be unacceptable," Ding, who provides advice to the government, said.

SHIFTING CIRCUMSTANCES

The World Bank also weighed into the debate, recommending a stronger exchange rate and a

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tighter monetary policy to restrain inflation expectations and asset bubbles.

The case for greater exchange rate flexibility had, on balance, increased over the last year, Ardo Hansson, the bank's lead economist in Beijing, told a news conference.

"If there is a concern about inflation, if there is a concern about sensitive capital inflows, this is part of the arsenal for dealing with these policy issues," he said.

Beijing's stance had been consistent and was unchanged, the Chinese official said. He cited Premier Wen Jiabao and Commerce Minister Chen Deming, who have said that a stable yuan has contributed to both the Chinese and the global economic recovery.

"We have repeated ourselves multiple times. And we cannot be any clearer," the official said.

FRICITION OVER DEFICIT

China has in effect pegged the yuan near 6.83 to the dollar since mid-2008 to cushion its exporters from the global crisis.

Rising inflation and recovering exports had fueled market expectations that Beijing was on the cusp of resuming the gradual path of appreciation followed for three years starting in mid-2005.

Wen on Sunday recommitted China to pushing ahead with reform of the yuan's exchange rate mechanism, leaving the door open to reintroducing exchange rate flexibility if it suits Beijing.

But the premier also said that the yuan was not undervalued and said calls for appreciation were tantamount to protectionism.

The Commerce Ministry official rejected the argument that China's yawning trade surplus with the United States and broader global economic imbalances were due to the yuan.

"Focusing on the yuan's exchange rate is not an effective way to address trade issues between China and the United States," the official, who spoke on condition of anonymity, said.

DEADLINE LOOMS

The U.S. trade gap with China narrowed to \$226.8 billion in 2009 from a record \$268.0 billion in 2008.

But with the administration of President Barack Obama keen to expand exports and jobs, the deficit remains a point of friction between the two powers, which have also recently been at odds over human rights, Tibet and U.S. arms sales to Taiwan.

The U.S. Senate bill, a rare show of bipartisan accord, adds to pressure on Obama, whose administration must decide whether to label China as a currency manipulator in a semiannual Treasury Department report due on April 15.

Many U.S. lawmakers, with strong backing from economists, believe the yuan is undervalued by at least 25 percent, giving Chinese companies an unfair edge in trade -- an advantage seen as more critical now that the U.S. economy is struggling to recover from the worst downturn since the 1930s.

But Ding, the Beijing professor, said the United States, not China, would be the loser if the currency spat escalated because of the relative cyclical strength of the two economies.

"If -- and I say only if -- a trade war takes place, it's almost certain that the U.S. economic recovery will halt and there will a double-dip," he said.

Dan Ikenson, a trade policy analyst at the Cato Institute in Washington, said he feared the legislation could inflame relations with Beijing without accomplishing the lawmakers' goal of reducing U.S. imports from China.

He noted that when the yuan rose 21 percent against the dollar between July 2005 and July 2008, the U.S. trade deficit with China actually increased to \$268 billion from \$202 billion.

(Additional reporting by Zhou Xin and [Alan Wheatley](#); Editing by [Alex Richardson](#))

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Mar 16, 2010 9:35pm EDT Good luck with that one. If Congress hadn't blown trillions in Iraq and Afghanistan, we wouldn't have had to borrow so much from the Chinese

IhateStorybum [Report As Abusive](#)

Mar 16, 2010 10:00pm EDT Typical US Congress. Blame someone else for the problems THEY helped create. I don't recall anyone holding a gun to the heads of the American CEO's to make them send their factories overseas. I don't recall congress getting upset when Wall Street banks started creating meaningless investment vehicles which would undermine the entire US economy..... I don't recall very many congressmen/women getting too excited about sending our troops to Iraq, and spending all that money for WMD's that were never there to begin with.... WE made this problem, not the Chinese, and WE should solve this problem without trying to blame others....

edgyinchina [Report As Abusive](#)

Mar 16, 2010 10:03pm EDT How many Senators or Congressmen have a non-expired passport and have traveled beyond North America? What they are serving is not the US interests on the World scene, but their domestic votes and lobby contributions.

Pterosaur [Report As Abusive](#)

Mar 16, 2010 10:46pm EDT It is about time the US congress gets the courage to counter attack the chinese on this issue. The chinese have been attacking us for almost two decades; while we dropped our tariffs to their goods, they raised theirs. In fact, there are absolutely no car parts exported to china due to their high tariffs they had in place for over 15 years. The chinese are the ones who caused the bad relations between the two countries. previously, it was always the US going to them to recreate good relations. It is about time china gives something back. We helped them develop by letting them export to our market and neglecting ours. It is time the government protects our nations against chinese economic imperialism.

blahhhhhh [Report As Abusive](#)

Mar 16, 2010 11:07pm EDT The reason most 'senators' and 'scholars' use is that as US is having trade deficit with China, so if the RMB rise, this will improve. Well, US has trade deficit with almost every country, so why dont let all the country in the world raise their currency value? Then the unemployment, recession will be solved once and for all. Look at the history after WWII, everyone knows who truly MANIPULATED their currency. Like a rapist saying, women in my neighborhood are too pretty so I cant control myself, its their fault. Heck,why doesnt he just ask all the women in the world go to Mars or sth.

Government Mass Meida Rules!

CNP [Report As Abusive](#)

Mar 16, 2010 11:10pm EDT Why do our corporations move to China? Because their currency is undervalued and if you don't manufacture there you are out of business. I have been complaining about this for more than ten years. We should all write our congressmen and let them know we support them on China Currency. Otherwise we are bankrupt.

Tomasso [Report As Abusive](#)

Mar 16, 2010 11:25pm EDT Name: blahhhh
Incoming Direct Debit: \$0.05/comment
ACC: HSBC SB0000001
Address: 250 Living Joke St, Detroit
Ka-ching

CNP [Report As Abusive](#)

Mar 16, 2010 11:37pm EDT China has been groomed to be an economic powerhouse Client State since the Nixon Administration. Their Currency Manipulative Policy is not a new occurrence.

The U.S. also turned a blind eye as U.S. Corporations transferred the U.S. Manufacturing sector over to China believing a High Tech Industry was the way to go and maintain our Economic prosperity.

Now the U.S. Govt is perplexed that China will not play ball in a fair match?

The Chinese are renowned for their long term goals and patience, while the U.S. is well known in its desire for instant gratification.

Now it should become obvious to our gullible politicians that China intends to turn the U.S. into its Client State through Economic blackmail, which so far is all going according to plan.

Prepare for a Trade War. The Japanese are probably giddy with anticipation.

Ancalimon [Report As Abusive](#)

Mar 17, 2010 12:12am EDT china doesn't have a damn thing to worry about, beyond poisoning and abusing their population to a greater degree. they've clearly demonstrated a willingness to do so. china is and has been rapidly defining new relationships in the trillions of dollars w/ brazil alone, to say nothing of the entire continent. they also are working rapidly w/ africa. they are firmly entrenched in national infrastructure projects of enormous proportions on both continents. in short they are EXPANDING RAPIDLY! their "financial" dependence on american "money" will cause discomfort to be sure. the loss will be recovered in spades from s. america as well as africa.

america...how truly sad we've become and even a narrower perspective than previously. our foreign policy is governed by a zionist minority who's objectives are the very antithesis of benefits america. our political will is determined by the corpratocracy who's objectives are NEVER more than an earnings quarter away. extraordinarily shortsighted! the perspectives of the public are created by an intentionally misleading mainstream media owned again by a very small minority. the information we get isn't nonbiased or truthful by a wide margin.

america's military industrial complex, exporting "freedom" and "democracy" from the barrel of a gun, doesn't interest china in the least. nor will we be able to use it to our advantage. between the prostitution of our political leaders by the fraudster banking elements the american people were long ago sold down the river. what this country needs desperately and more so than at any other time in our history is LEADERSHIP. for the life of myself i don't see a single man, muchless a cohesive group w/ a plan.

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