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Geithner Says China Needs to Allow `Significant' Yuan Gains

By Rebecca Christie and Mark Drajem - Sep 16, 2010

Treasury Secretary Timothy F. Geithner said the U.S. will use every available tool to urge China to let its currency rise more quickly, including congressional pressure and a twice-yearly report on foreign- exchange markets.

"The pace of appreciation has been too slow and the extent of appreciation too limited," Geithner said in congressional testimony yesterday. "We have to figure out ways to change behavior."

Geithner showed renewed frustration with China's control over the yuan during a pair of congressional hearings totaling four hours. The Treasury chief said the administration would take a "careful look" at proposed legislation on trade sanctions that companies could pursue in response to China's currency policy, including a bill proposed in the House by Ohio Democrat Tim Ryan and Pennsylvania Republican Tim Murphy.

"I'm not arguing for patience," Geithner told the House Ways and Means Committee in his second appearance, saying Chinese officials have not lived up to their international commitments. "They agreed to abide by a set of rules and it is our job to hold them to those rules."

The yuan has strengthened 0.8 percent in the past seven days, taking its gain since a two-year peg ended in June to more than 1 percent. Geithner said recent gains are not sufficient to show that China is following through on its June 19 announcement that it would allow greater flexibility in its exchange rate.

Congressional Pressure

Senator Charles Schumer, a New York Democrat, called for a more aggressive campaign for a stronger yuan. During yesterday's Senate Banking Committee hearing, he urged the administration to pursue sanctions against China because of its currency policy.

"At a time when the U.S. economy is trying to pick itself up off the ground, China's currency manipulation is like a boot to the throat of our recovery," Schumer said. "This administration refuses to try and take that boot off our neck."

Geithner said the U.S. would consider whether to use his department's next foreign-exchange report to put more pressure on China. In June, the U.S. stopped short of branding China a currency manipulator in a report that was originally due in April; the next report is due in October.

"They may meet the test in the law at some point," Geithner said. As currently written, the report is not "a particularly effective tool at the moment for advancing our basic interest in trying to get the exchange rate to move up over time."

China's Response

U.S. pressure on China to revalue its currency won't solve the issue, Jiang Yu, a spokeswoman for the Foreign Ministry in Beijing, said Sept. 16 in response to a question about Geithner's prepared remarks for the hearings.

"The appreciation of the renminbi cannot solve the trade deficit with China" and can't fix the U.S. unemployment problem, Jiang said. "Pressure cannot solve this issue, rather it may lead to the contrary."

Other countries also have concerns about China's currency practices, and the topic will be on the agenda at meetings next month of officials from Group of 20 nations, Geithner said. He also said the International Monetary Fund can do more to encourage China to let its currency rise.

"The IMF itself has not covered itself in glory on this," Geithner said. "Even though many other countries share our concerns with China, frankly they are reluctant to pursue them as aggressively as we have."

Geithner's comments, his strongest since he took office in January 2009, highlight growing frustration among American officials with policies they say put U.S. companies at a competitive disadvantage.

WTO Complaints

The U.S. two days ago filed a pair of complaints against its second-largest trading partner with the World Trade Organization, and lawmakers facing elections in November are introducing measures allowing companies to pursue sanctions against China for its currency stance.

The yuan rose to the strongest level on Sept. 16 since 1993 on speculation the authorities will permit faster gains in response to U.S. pressure. The currency climbed 0.26 percent to close at 6.7248 per dollar in Shanghai, its biggest advance since June 21, according to the China Foreign Exchange Trade System. It touched 6.7242, the strongest level since the central bank unified official and market exchange rates at the end of 1993. It was trading at 6.7274 at 11:23 a.m. in Shanghai today.

In his testimony, Geithner renewed calls on countries with trade surpluses, such as Japan and Germany, to increase domestic demand and rely less on exports. He didn't refer to Japan's decision to intervene in the currency market earlier this week, and he was not asked about the issue during either of yesterday's hearings.

Currency Hotspot

"China's currency regime remains one of the most visible hotspots in the U.S.-China relationship," said Eswar Prasad, a professor at Cornell University and a senior fellow at the Brookings Institution. "As the U.S. mid-term election nears, the temptation of grandstanding on China will be irresistible to most Congressmen."

China surpassed Japan as the world's second-largest economy last quarter. The U.S. trade deficit with China reached $119 billion in the first half of 2010, putting it on a course to exceed last year's total of $227 billion.

China may be using its exchange rate to handle the aftermath of the global crisis in ways that could help the U.S., said Stephen Roach, chairman of Morgan Stanley Asia, in an e- mail. He said China is moving cautiously while doing its "fair share" of righting lopsided global trade and investment flows.

'Bound to Fail'

"In a fragile post-crisis era, there is nothing wrong with China relying on a currency anchor as a linchpin of financial stability," Roach said. "As much as Washington politicians would want China to help the U.S. devalue its way back into economic prosperity, that approach is bound to fail in an era of huge budget deficits."

Geithner said China's currency stance has created a "major distortion" in the global economy that is having a "negative impact" on the U.S. He called on China to adjust its exchange rate and make a slate of other structural reforms to policies on interest rates, energy prices and service-sector investment.

Geithner pledged the U.S. would "aggressively" pursue trade remedies, such as WTO complaints this week on electronic payment services and steel exports. He also said the U.S. is committed to "restoring fiscal sustainability" and reining in its long-term budget deficits.

A Treasury report yesterday showed China remained the biggest foreign lender to the U.S. government, holding $846.7 billion in Treasury securities in July.

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