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Renminbi issue is put on the back burner

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Red army: President Barack Obama and Chinese counterpart Hu Jintao watch a ceremonial marching band display at the White House

Before Hu Jintao even set foot in ice-bound Washington this week, **the Chinese president's impending visit** was met with a renewed blast of chilly air from Capitol Hill on the tempestuous subject of the renminbi.

Charles Schumer, the Democratic senator from New York who has **led the charge to force Beijing to let the renminbi appreciate**, on Monday introduced yet another version of his legislation to allow the US to restrict imports on grounds of **currency misalignment**.

Mr Schumer gave a blunt message to the Chinese. "We are fed up with your government's intransigence on currency manipulation," he said. "If you refuse to play by the same rules [as the US], we will force you to do so."

But Mr Schumer's interventions look increasingly like bluster rather than threat. Though it would be unrealistic to talk of a thaw in the relationship over the Chinese currency issue, there is no doubt that the likelihood of an imminent legislative storm over that subject has abated.

China has somewhat blunted criticism by allowing some appreciation in the renminbi. Since it was unpegged from the dollar in June, the currency has been rising at an annualised rate of 6 per cent. As Tim Geithner, the Treasury secretary, **pointed out last week,** the higher Chinese inflation makes the real appreciation more like 10 per cent a year – similar to the rise in the nominal rate when the currency was last allowed to move, between 2005 and 2008.

The new Republican leadership of the House of Representatives is leaning away from passing legislation that would allow the US to use estimates of currency misalignment when calculating anti-subsidy "countervailing duties" against Chinese or other imports.

True, Dave Camp, the Michigan congressman who chairs the ways and means committee, voted for a resolution backing a similar bill to Mr Schumer's which passed the House in September – an act that Mr Schumer trumpets as evidence of bipartisan support for currency legislation. But that vote was widely regarded as a political gesture, and Mr Camp has made it clear that he does not regard **currency legislation as a priority**. To pass an actual piece of law, Congress would have to start again with a fresh process.

Kevin Brady, the Texas congressman who chairs the ways and means trade subcommittee, who voted against the House resolution in September, says the US needs to engage Beijing on a much wider range of issues including intellectual property rights and access to Chinese government procurement contracts. "This committee will no longer view the relationship with China purely through the currency," he told the Financial Times.

The House Republicans, whose views chime with those of **Barack Obama's administration**, are only echoing much of US business. While the drive for currency legislation is noisy and conducted by practised lobbyists in industries such as steel and textiles that have long canvassed for protection against imports, many US multinationals are far more interested in investing in China than exporting there. They see little reason to risk inflaming that relationship with legislation that will benefit only a small proportion of US companies.

Myron Brilliant, senior vice-president for international affairs at the US Chamber of Commerce, says: "The currency is an important issue for companies doing business with China but we think that a multilateral approach is the best way to go rather than unilateral legislation with limited effect and substantial downside risk."

Mr Brilliant welcomes a wider front of engagement. "The potential for Congress passing currency legislation remains considerable – it hasn't just gone away because of the change in congressional leadership – but there is a much wider range of concerns on which the US needs to engage Beijing". Prospects for currency confrontation probably come down to US economic performance. Eswar Prasad, former head of the China department at the International Monetary Fund, says: "Chances are the Chinese currency issue will continue to simmer but not come to a boil unless the US unemployment rate remains high, the bilateral trade deficit the US runs with China begins to widen again and US firms make scant progress in getting greater access to Chinese markets."