



## THE GLOBE AND MAIL

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### China won't bow to U.S. currency demands

By Brian Milner

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#### *Saying U.S. is looking for a 'scapegoat,' Beijing balks as lawmakers threaten stiff sanctions on undervalued yuan*

Long-simmering anger over China's currency is reaching the boiling point.

Beijing has long balked at revaluing its artificially depressed yuan, which has helped keep China's economy afloat in a sea of recession. And Chinese leaders have grown increasingly truculent as the temperature has been turned up by the United States and other countries still reeling from the effects of the worst slump since the Great Depression.

Now U.S. lawmakers are again threatening to impose tough sanctions to strip China of what is widely viewed as a deeply unfair trade advantage if Beijing does not move quickly to revalue the yuan. For their part, the Chinese argue they are not responsible for the economic misfortunes of the United States, and are pointedly warning that protectionism is a two-way street.

Top Chinese officials are angrily defending their policies and openly denouncing the critics, in a marked shift from the lower-key approach they had often adopted in the past.

But this is not just a battle between Washington and Beijing.

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The International Monetary Fund and World Bank have also waded into the roiling waters on the side of revaluation, signalling the high stakes of this showdown for the global economy.

"Things are getting worse," said Peter Morici, a University of Maryland business professor and trade expert. "China is too large to have an undervalued currency and have this huge trade surplus. It's having wide systemic effects [on other economies]."

Yet the Chinese act as if "they're living on a different planet. They are simply not moving on the issue."

Other countries, including Canada, need to publicly join the yuan battle to safeguard their economic interests and show Beijing that this is more than an American political ploy. "They should help to load the gun, even if [U.S. President Barack] Obama wants to keep it in the drawer," Prof. Morici said.

Chinese Premier Wen Jiabao flatly declared this week that the yuan is properly valued and that any claims to the contrary are merely excuses for more protectionist trade policies.

China's official Xinhua news agency added that Beijing is being blamed for the U.S. economic plight in advance of the congressional election later this year. "With the U.S. mid-term elections looming, electoral politics have again become the priority of the Obama administration," the agency said.

"They should not [address] blame the problems they have by finding a scapegoat in China," He Yafei, China's ambassador to the United Nations in Geneva, told reporters.

The Chinese are also courting U.S. multinationals that benefit from low-cost Chinese exports, hoping they will use their considerable lobbying clout to blunt any protectionist retaliation. Analysts say that is already happening.

Direct appeals to Western consumers, who would find the cost of their favourite electronic gadgets and other products rising, are also part of the game plan.

The rhetoric is being ratcheted up dramatically just weeks before the U.S. Treasury must declare whether China is a currency manipulator in its semi-annual report on April 15. If the Obama administration hangs that tag on Beijing, the Treasury would be required by law to undertake "expedited" negotiations with China to adjust its currency.

Proposed bipartisan legislation introduced in the Senate Tuesday would require more forceful trade and financial actions if the Chinese fail to respond.

"China's currency manipulation would be unacceptable even in good economic times," said New York Democrat Charles Schumer, a sponsor of the bill, which would compel the Treasury to identify any countries with "fundamentally misaligned currencies." It prescribes a series of escalating restrictions and penalties for failing to realign them.

As for the political posturing on Capitol Hill, "it's highly unlikely that the U.S. will follow through on some of the sabre-rattling," said Marc Busch, a professor of trade policy and law at Georgetown University in Washington. "But it is equally clear that China is not going to bow down any time soon and that it will seek to ensure Congress doesn't get carried away if there is even a whiff of a designation of China as a currency manipulator."

The Chinese allowed the yuan to appreciate by 22.5 per cent against the U.S. dollar between 2006 and mid-2008, but then froze it at a level of about 6.8 to the greenback in response to the global crisis, where it has remained. But its implicit value has been rising steadily, thanks to the Chinese economic gains during that time.

The revaluation before 2008 did nothing for the trade balances of the United States, or other major Chinese trading partners, as the gap continued to widen.


Nevertheless, Beijing officials fully intend to let the yuan appreciate - if only to combat the growing risk of inflation. They just will not do it in the face of U.S. pressure, China watchers say.

"The Chinese know that they have to make a move on the currency," said Eswar Prasad, a senior fellow with the Brookings Institution in Washington. But they have no intention of floating the yuan or allowing anything close to an appreciation of 25 per cent or more that experts say would be necessary to have any impact on trade imbalances.

The band within which the yuan trades "is likely to be much smaller than anything observers would like to see as a correction for U.S. exports." Prof. Busch said.

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