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As China’s Currency Rises, U.S. Keeps Up Its Pressure

By DAVID LEONHARDT

WASHINGTON — With little fanfare, China’s currency has appreciated significantly in the last year and a half, leading many economists to question whether the exchange rate is still the most important economic issue for the United States to press with China’s leaders.

The rise of the renminbi — up 12 percent since June 2010 on an inflation-adjusted basis and 40 percent since 2005 — has helped American companies by effectively reducing the cost of their products in China. In the last two years, American exports to China have risen sharply.

The renminbi remains undervalued, relative to all other currencies, by 5 to 20 percent, according to various estimates. But many business executives and economists say that other issues, like intellectual-property theft and barriers to entering Chinese markets, are now a bigger drag on the American economy.

In his Oval Office meeting on Tuesday with Xi Jinping, China’s vice president and likely next leader, President Obama discussed the currency as one of the trade practices that concerned the United States. That meeting — and tough public comments by Vice President Joseph R. Biden Jr. — continued a three-year campaign by the administration to convince Chinese leaders that a stronger currency is in their interest.

“We are making progress, but it’s not sufficient,” Lael Brainard, the Treasury Department’s under secretary for international affairs, said in an interview, “and we will keep on pushing.”

Administration officials and members of Congress have chosen not to emphasize the appreciation publicly, partly to keep pressure on China. Widespread discussion of the change could reduce support in Congress for a bill that would impose sanctions on Chinese imports to the United States and that Beijing strongly opposes.

Similarly, the notion that the exchange rate was no longer as serious a problem as it had been could complicate American efforts to rally international pressure, from Brazil and other countries hurt by the renminbi’s value.

Politicians are also wary of seeming soft on China, given that polls show many Americans blame China to some degree for this country’s economic problems. Mitt Romney, the Republican presidential candidate, has argued for taking stronger measures against China than Mr. Obama has.

But the fact that policy makers often continue to talk about the renminbi as if the situation had not changed brings its own risks.

“People on the Hill are talking the same way they were a few years ago,” said Nicholas R. Lardy, a China expert at the Peterson Institute for International Economics in Washington. “We should be acknowledging that they’ve made very substantial progress. I think that would give us more credibility.”

Eswar S. Prasad, a Cornell and Brookings Institution economist, added, “It’s hard to make the case the renminbi is very undervalued on a multilateral basis.” Other analysts say that an undervaluation of 10 percent of more remains significant.

Some Chinese officials have bristled recently over the lack of credit they have received for their movement. “Perceptions about the renminbi exchange rate in the international community are absolutely groundless,” Li Daokui, a member of the central bank’s monetary policy committee, recently said. The renminbi, he added, was “probably the only emerging economy’s currency that has been rising against the U.S. dollar” since last August.

China’s economic rise has depended on a growing factory sector that benefits from a cheap renminbi. But the currency value’s has both benefits and drawbacks for the country, say economists, both in China and beyond.

An inexpensive currency effectively subsidizes companies that export goods — and their workers — at the expense of most Chinese households, whose buying power is diminished.

A more expensive renminbi gives Chinese households more buying power, by reducing the cost of imports to China. It also puts pressure on Chinese companies to develop more innovative products that bring higher-paying jobs, rather than competing mostly on price.

As a result, the debate over the renminbi in China often resembles a struggle between interest groups. Officials from the United States, Brazil, Europe and elsewhere have tried to strengthen the forces seeking a stronger renminbi by explaining how that will lead to more balanced, sustainable growth for the whole world.

Starting in June 2010, with the worst of the global recession fading and political frustration with China rising across much of the world, American officials and others began to have more success.

The renminbi has risen 8.5 percent against the dollar since June 2010, with the pace having slowed in the last six months. Taking into account the different inflation rates in the two counties, the effective increase is closer to 12 percent.

The rise has helped sharply reduce China’s current account surplus — a measure based largely on the difference between a country’s exports and imports. In 2007, the surplus equaled more than 10 percent of China’s gross domestic product, a level widely seen as unsustainable. Last year, the surplus fell below 3 percent.

The renminbi also rose substantially from 2005 to 2008, under pressure from President George W. Bush’s administration and other governments, before holding steady from mid-2008 until mid-2010.

The rise in the renminbi is not the only reason many economists think other issues, like the theft of patented technology, are more important to the American economy. Because many items are assembled in China, with parts made in other countries, a stronger renminbi affects only a small portion of the cost of many products officially made in China.

Less than 4 percent of the value of an iPhone, for example, comes from Chinese labor and parts, one academic study found.