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China Meeting Highlights Currency Conflict

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NANJING, **China**—Top officials at a **meeting** of the world's major developed and emerging economies offered starkly different views on exchange rates and other elements of the international monetary system, underlining the challenges facing efforts to find a new global financial architecture.

Nelson Ching/Bloomberg News

U.S. Treasury Secretary Timothy Geithner and **China** Vice Premier Wang Qishan, here Thursday, both delivered exchange-rate speeches without mentioning the yuan.

Highlighting the tensions at the one-day **meeting** of Group of 20 officials here, U.S. Treasury Secretary Timothy Geithner emphasized the importance of flexible exchange rates in prepared remarks that were a thinly veiled criticism of China's **currency** policy—which Beijing had insisted shouldn't be discussed at the **meeting**.

Participants voiced agreement that the International Monetary Fund's role should be larger, that capital controls can be useful in some circumstances, and that China's **currency** should eventually be included in the IMF's special drawing rights, or SDRs, a synthetic **currency** some see as an alternative to the dollar.

But the officials, who included French President Nicolas Sarkozy and Chinese central bank Gov. Zhou Xiaochuan, differed widely on the means and the speed for achieving those goals, and on which elements of the global financial system most need change. No specific G-20 proposals were debated at the session.

The disagreements raise questions about the effectiveness of the G-20 in plotting common action after the fear of a global financial collapse has faded. Critics have warned that it could devolve into another international body long on talk but unable to produce concrete results.

G-20 finance ministers will meet April 15 in Washington, a day before the IMF's spring **meeting**. Those meetings are likely to focus on an expanded role for the IMF in overseeing the global monetary system, with the U.S. and Europe pushing for tougher oversight, while **China**, Brazil, Thailand and other developing nations remain wary of a broader IMF role.

At the Nanjing session, Mr. Geithner didn't specifically mention the yuan—whose value **China** closely manages—but he argued that flexible exchange rates help countries better absorb shocks and that the tension between flexible currencies and those that are "tightly managed" is "the most important problem to solve in the international monetary system today."

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The U.S. and other governments complain **China** unfairly keeps the yuan undervalued to benefit its exporters, aggravating global trade and capital imbalances. **China** has let the yuan rise just 4.2% against the dollar since ending its de facto peg in June—far slower than critics want.

Beijing argues that U.S. policy—in particular the Federal Reserve's practice of buying Treasury debt to try to keep interest rates down , known as quantitative easing—has weakened the dollar and sent big capital flows into emerging markets that are fueling inflation.

The G-20 has made "global rebalancing" a central goal—meaning trade-deficit countries like the U.S. save more and import less while trade-surplus countries like **China** do the opposite. In practice, that has meant the group has become the central forum for pressuring **China** to let its **currency** appreciate faster.

Ahead of Thursday's **meeting**, a prominent Chinese government academic blasted the Fed's policy and the dollar's global dominance, saying they are the "significant problems" in the international monetary system. Xu Hongcai, a professor at the **China** Center for International Economic Exchanges—a state-run think tank that was a co-organizer of the Nanjing gathering—said dollar dominance has aggravated financial crises, and he blamed Fed policy for excess global liquidity and inflation.

Chinese officials Thursday avoided addressing the **currency** issue directly, instead issuing vague calls for gradual change to the global system.

Mr. Zhou, the People's Bank of **China** governor, said the international community shouldn't focus on quick fixes, in what appeared to be a dig at U.S. pressure for faster yuan appreciation. "**China** and emerging economies have a strong hope that we can look further than the short term, and use the medium- and long-term view to start to adjust the global economy," he said. Vice Premier Wang Qishan, China's top official at the talks, said Beijing will work with others toward "a more equitable global monetary system."

Mr. Sarkozy repeated calls for the G-20 to agree on a timetable for inclusion of the yuan in the basket of currencies underlying SDRs, which France sees as a means to help wean the world off the dollar and to promote a stronger, more freely convertible yuan—a central goal of France's G-20 leadership.

Mr. Geithner said the U.S. supports changing the composition of SDRs to include "currencies of large economies heavily used in international trade and financial transactions." But he listed conditions that would make including the yuan impossible without deep reforms that **China** is unlikely to accept—saying countries whose currencies are included should have "flexible exchange-rate systems, independent central banks, and permit the free movement of capital flows." The SDR basket is now made up of the dollar, the euro, the pound and the yen.

China's policy makers have said they will gradually increase the yuan's flexibility and open further to international capital flows, but China's central bank operates under the strict control of the Communist Party leadership, which has ultimate say over all key economic policies.

Mr. Zhou said Thursday that **China** isn't in a hurry to add the yuan to the SDR basket but that it will likely happen "sooner or later." Li Daokui, a Chinese economist and adviser to the People's Bank of **China**, said the international community shouldn't link the yuan's convertibility to SDR changes.

Chinese officials seemed "a lot more circumspect about including the yuan in the SDR basket," said Eswar Prasad, former head of the IMF's **China** division, who participated in Thursday's discussions. "They seem to be worried it will put more pressure on them to move towards **currency** convertibility than they would like."

Several participants Thursday said there is growing consensus among G-20 members that countries should be able to use capital controls under certain circumstances.

"Today, we see them more as part of the tool kit, although only in specific circumstances and not, of course, as a substitute for good macroeconomic policies," said Dominique Strauss-Kahn, managing director of the IMF, which in the past has resolutely opposed capital controls.

Mr. Geithner called for the IMF to advise nations on "the appropriate use of prudential tools, rather than capital controls, to limit the risks that large capital inflows imperil domestic financial stability."

Mr. Sarkozy argued that the IMF should have powers to monitor members' capital accounts, which measure investment flows, and not just their current accounts, which mainly measure trade, as is the case now. But developing countries—Brazil in particular, according to one participant—voiced wariness of rigid rules for using capital controls, wanting to maintain a freer hand.

Rintaro Tamaki, Japan's vice finance minister for international affairs, said he had proposed giving the IMF a new mandate for financial stability. But he said there was "persistent opposition" to the idea of expanding the fund's role as a global lender of last resort because of concerns that it would create moral hazard by making countries think they could take excessive risks and still be bailed out.

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