

China Signals Defiance on U.S. Relations

[Andrew Batson](#), [Terence Poon](#), [Shai Oster](#). [Wall Street Journal \(Online\)](#). New York, N.Y.: [Mar 8, 2010](#).

Abstract (Summary)

BEIJING--China gave little hope that it would accommodate Washington on Iran and other thorny foreign-policy issues, despite the first real sign of flexibility in years over its exchange rate, which has been a growing source of friction with the U.S. Foreign Minister Yang Jiechi sounded a defiant note in a briefing Sunday, telling reporters it is up to the U.S. to mend frayed relations, which he said were hurt by American arms sales to Taiwan and by President Barack Obama's meeting with exiled Tibetan spiritual leader the Dalai Lama.

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Full Text

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BEIJING--China gave little hope that it would accommodate Washington on Iran and other thorny foreign-policy issues, despite the first real sign of flexibility in years over its exchange rate, which has been a growing source of friction with the U.S.

Foreign Minister Yang Jiechi sounded a defiant note in a briefing Sunday, telling reporters it is up to the U.S. to mend frayed relations, which he said were hurt by American arms sales to Taiwan and by President Barack Obama's meeting with exiled Tibetan spiritual leader the Dalai Lama. "The responsibility for the difficulties in China-U.S. relations does not lie with China," Mr. Yang said.

The U.S. played down the comments. "Any relationship is a two-way street. It is fair to say that our relations have just gone through a difficult patch. But we had a high-level delegation in Beijing last week...meetings with Chinese officials including with Foreign Minister Yang. We are determined to re-establish a forward-looking relationship," State Department spokesman P.J. Crowley said.

"With these issues, such as arms sales to Taiwan and meetings with Dalai Lama, there are things said for domestic consumption," a senior Obama administration official said.

Mr. Yang reiterated China's opposition to sanctions on Iran over its nuclear program, despite intensifying efforts by the Obama administration to win Beijing's support. "Pressure and sanctions can't solve the fundamental problem" in Iran, Mr. Yang said Sunday, again urging continued diplomacy with Tehran. "We don't think diplomatic efforts have been exhausted," he added.

Last week, the White House sent two senior China hands, Deputy Secretary of State James Steinberg and the National Security Council's Asia director, Jeffrey Bader, to Beijing to discuss Iran. Mr. Crowley called the meetings "successful" and added "We think they accomplished what we wanted them to."

Israel also sent a high-level delegation late last month, led by its strategic affairs minister, Moshe Yaalon, and its central bank chief, Stanley Fischer, to seek Chinese backing for stronger sanctions against Iran.

On Saturday, central bank Gov. Zhou Xiaochuan said China will eventually move away from its current exchange-rate policies, which he described as a temporary response to the global financial crisis. But he played down the idea that a move could come in the near future.

Mr. Zhou's comments on the yuan at a news conference during the annual session of China's legislature, the National People's Congress, could fuel optimism in the U.S. and other countries upset over China's currency policy that Beijing may start letting the yuan appreciate--though not as quickly as many foreign governments desire. Critics complain that the yuan's suppressed value makes China's exports unfairly inexpensive, putting other countries at a disadvantage.

Mr. Zhou's comments Saturday were the most direct suggestion to date by a Chinese official that the yuan's current de facto peg to the dollar won't be maintained indefinitely. Previously, government officials have stressed currency stability without much qualification, and have rejected foreign pressure to allow the yuan to strengthen.

Mr. Zhou said the current policy, which has kept the yuan's value basically unchanged against the dollar since July 2008, was a "special measure" adopted in unusual circumstances. "This is a part of our package of policies for dealing with the global financial crisis," he said, adding, "These kinds of policies sooner or later will be withdrawn."

Economists and currency-market participants increasingly expect China will at some point this year allow its currency, which is officially known as the renminbi, to rise against the U.S. dollar. Inflation in China is picking up as the economy recovers, a problem many economists say a stronger currency could address.

Trade frictions also are on the rise. The currency peg has helped Chinese exporters take advantage of the recent recovery in world trade, but has drawn increasing criticism from the U.S. and Europe as well as China's Asian neighbors. For those critical of Chinese currency policy, Mr. Zhou's indication that he is considering an exit from the peg was welcome.

"It is encouraging that Gov. Zhou's statement suggests that the move to a managed float of the renminbi will be resumed once the global recovery firms up," said Eswar Prasad, a professor at Cornell University who previously headed the International Monetary Fund's China desk. "Maintaining an undervalued exchange rate certainly benefits China, but at the expense of other countries that lose their relative competitiveness in foreign trade."

Mr. Zhou's remarks don't necessarily mean a change in the currency is imminent. China's Ministry of Commerce has stressed the need to continue present policy, especially as the recovery in the export sector remains fragile. On Friday, Premier Wen Jiabao affirmed that China will continue to keep the yuan "basically stable"--though that language is vague enough to allow the leadership some flexibility. Mr. Zhou himself said prospects will depend on how the global economy evolves. "If we are to withdraw from unconventional policies and return to conventional economic policies, we need to choose the time very carefully. This includes the exchange-rate policy for the renminbi," he said. "The G-20 Pittsburgh summit also particularly pointed out the need to avoid the premature withdrawal of stimulus policies."

In addition to assessing the uncertain global economic outlook, Beijing also has to decide the tricky issue of exactly how to lift the current peg to the dollar. A gradual strengthening of the yuan would be easier on exporters but would attract foreign funds seeking to profit from further appreciation. A one-off revaluation, on the other hand, could stem such inflows but would hit exporters hard.

The political climate abroad is becoming less and less receptive to such nuances. Mr. Obama told Democratic senators earlier this year that he will "get much tougher" with China on trade issues, including the currency. The U.S. Treasury in April also faces its annual decision on whether to formally label China a "currency manipulator."

Chinese officials have long bristled at outside criticism of the currency, and Mr. Zhou said he is opposed to what he called "politicizing" exchange-rate policy. But he indicated a willingness to address currency issues in the context of the Group of 20 nations' discussions on maintaining balanced global economic growth.

And Mr. Zhou emphasized that China's exchange-rate policies aren't set in stone for the long term, because they need to adapt to changes over time in the structure of the Chinese economy. "The exchange-rate mechanism and the price of the renminbi are in a dynamic process of continuous change," he said. "So they will differ in different periods."

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