SEPTEMBER 10, 2010, 7:34 P.M. ET

UPDATE: US Treasury Official Sees Sustained Yuan Move

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WASHINGTON (Dow Jones)--A senior U.S. Treasury official on Friday called China's decision to continue its currency appreciation "a move in the right direction."

The official declined to comment on the pace of currency reform in China, but added, "We expect to see sustained progress over an extended period." The administration has been reluctant to judge whether the rate of change is satisfactory based on short-term moves, but has kept quiet pressure on Beijing at the highest levels.

China's tightly controlled currency hit a new high against the dollar Friday, a development many are interpreting as a fresh attempt by the government to deal with rising U.S. political pressure to allow the yuan to rise in line with market rates.

Beijing's decision follows meetings earlier this week between U.S. National Economic Council Director Lawrence Summers and other senior White House officials with Chinese leaders, and ahead of House and Senate hearings on the yuan where Treasury Secretary Timothy Geithner is to testify.

Appetite in Congress to take action against China is high with an election looming. Rep. Tim Ryan, one of the lead co-sponsors for legislation in the House addressing China, said the appreciation hadn't changed his mind about moving forward his bill. "We've seen this situation before...and then they go back to the same tricks," said Ryan, a Democrat from Ohio, a manufacturing state threatened by China's burgeoning productivity.

China had sought to blunt some international pressure over the value of the yuan in June, announcing ahead of the Group of 20 meeting earlier this year it would begin moving toward a floating yuan again. But the currency has only appreciated a fraction of a percent over the past several months, frustrating lawmakers who say the currency is undervalued between 20% and 40% and a major contributor to the U.S.'s massive trade deficit.

China says the issue on the yuan is overly politicized in the U.S. They point to the 20% appreciation between 2005 and 2008, when the U.S. deficit actually grew, and say the U.S.'s problems are structural and have little to do with China's currency.

Eswar Prasad, A Cornell University economist and former head of the International Monetary Fund's China Division, called Beijing's move a strategic move ahead of the U.S. elections, predicting another similar adjustment before the campaign concludes.

"It is highly likely to allow for another 1% to 2% appreciation before November," he said.

By delaying appreciation while the dollar depreciated against the euro and yen, Prasad says the Chinese have effectively targeted two goals: relieving political pressure in the U.S., and easing the pain for their own exporters.

Officials in Beijing say China is committed to long-term reform and a major adjustment--such as the type that many U.S. legislators are seeking--would not only harm their economy, but damage the U.S. economy.

But many of these arguments fall on deaf ears.

Mike Wessel, a former aide to House Democratic Leader Richard Gephardt and member of the congressional advisory board the U.S.-China Economic and Strategic Review Commission, said, politically speaking, the move is too little, too late.

"Quite frankly, I think people are sick and tired of repeating that same old song," he said. "The appetite for action in Congress is quite strong....there's lack of trust after repeated years of intransigence and reversals."

While Beijing's move isn't likely to assuage House legislators, the administration and groups such as the U.S.-China Business Council--which is made up of multinational companies with significant interests in China--may be able to persuade senators to slow-walk the measure until after the November elections. Without the added heat of the campaign, momentum for full passage may dissipate.

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