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Beijing's Move Heads Off G-20 Dispute

Change in Currency Policy Switches Focus of Summit to Other Members, but Some U.S. Lawmakers Remain Skeptical

By BOB DAVIS

WASHINGTON—China's announcement that it will let its currency appreciate puts it in a strong position going into a summit of the Group of 20 on Saturday, but does little to ease pressure from the U.S. Congress.

The bulk of the session of the G-20 industrialized and developing nations will be devoted to strengthening global growth. China can argue it is doing its bit for the major initiative, known as "rebalancing."

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In April U.S. Treasury Secretary Timothy Geither, here with China's Vice Premier Wang Qishan in May, made a surprise visit to Mr. Wang. U.S. officials said the yuan was discussed.

Under the plan, the U.S. and other big trade-deficit countries have committed to increase their savings and import less, while the big trade-surplus countries—China, Germany and Japan—have pledged to do the opposite. The latter are supposed to plot ways they will grow more through domestic consumption and less through exports.

The U.S., and to a lesser degree Japan, India, Brazil and other member countries, had been arguing for months that an undervalued Chinese currency destabilizes growth. A cheaper yuan encourages China to rely more on exports, undermining other export nations, especially at a time when big consuming countries aren't likely to buy as many imports as they once did because of weaker economies.

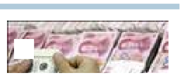
"China is saying to the rest of the G-20, 'It's your move,' " says Harvard economist Kenneth Rogoff, a former chief economist at the International Monetary Fund. "It defuses any bombs that might have been thrown in their direction at the G-20."

The focus now will shift to Germany and Japan, which are expected to explain policy changes they are planning.

"We'll want to see from the other surplus countries a demonstration of a credible path toward increasing internal demand," said a senior U.S. official, who noted the U.S. would be under pressure to show it was putting in place policies to address sky-high budget deficits.

> “ *I do not think the renminbi is undervalued.*
>
> Chinese Premier Wen Jiabao, March 14, 2010 ”

News Hub: Yuan Sets Record vs. Dollar



But China's announcement was short on details about how much it would let the yuan

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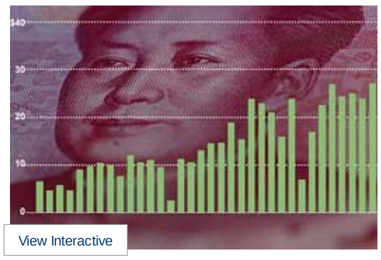
The Yuan rose to its strongest level in the currency's modern era as traders bet on the likelihood of long-term appreciation. Andrew Browne, David Wessel and Neal Lipschutz discuss.

appreciate. In Brazil, the central bank governor, Henrique Meirelles, said he welcomed the Chinese announcement, but wanted to see results. "It is necessary to await further developments," he said in a statement.

In the U.S., New York Democratic Sen. Charles Schumer, who has spent a decade ramping up pressure on China over currency issues, remains skeptical that Beijing's announcement will make an appreciable difference. On Sunday, reacting to Chinese suggestions that change would be gradual, Mr. Schumer said he would move forward on legislation to penalize China for undervaluing its currency.

Yuan's New Direction

Review past reforms, possible effects of a revaluation and more.



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In Their Own Words

U.S. President Barack Obama, Treasury Secretary Timothy Geithner and other world and financial leaders welcomed China's move to make its exchange rate more flexible.

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"Just a day after there was much hoopla about the Chinese finally changing their policy, they are already backing off," he said in a statement.

U.S. government officials expect a slow, steady increase, similar to the way China boosted the value of the yuan between 2005 and 2008.

Eswar Prasad, a Cornell University economist who was formerly the IMF's top China expert, said the size of the increase during the coming month will give a hint at the "trajectory" Beijing is anticipating.

He says that in periods of economic calm, China "is comfortable with" an increase in the value of the yuan of about 10% to 15% a year.

It's far from clear that Congress will be satisfied. During the period of 2005-2008, the yuan at one point appreciated nearly 20%. That did little to affect the trade deficit; the U.S. trade deficit with China for that period grew by one-third to $268 billion.

The bilateral deficit fell sharply in 2009, but that was because U.S. demand shriveled in the wake of a recession, not because of currency changes. Lawmakers are especially concerned about the trade deficit because they can tie the deficit to lost jobs in the U.S.

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Path to Global Economic Rebalancing

Since the spring, Treasury Secretary Timothy Geithner has used the G-20 summit to pressure China to agree to a more flexible exchange rate. In April, he delayed issuance of the Treasury's twice-yearly report on international currency practices, and privately warned Beijing if it didn't take significant steps to let the yuan strengthen, he would use the report to accuse China of manipulating the yuan to gain an edge in global trade.

The report doesn't carry penalties, but it would be a symbolic slap at Beijing and boost efforts in Congress to penalize China—legislation that a Democratic president would have found difficult to veto.

Since then, Mr. Geithner has made a pitch to Chinese officials on two trips to Beijing. European sovereign-debt problems may have reduced China's willingness to make the announcement U.S. officials were expecting as the summit grew closer.

On June 16, President Barack Obama increased the pressure. "I also want to underscore that market-determined exchange rates are essential to global economic vitality," he wrote to his G-20

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friends and become an admirable global citizen, but to get a handle on its runaway inflation.

—John Thomas

counterparts "The signals that flexible exchange rates send are necessary to support a strong and balanced global economy."

The Chinese alerted the administration early Saturday, shortly before making their announcement, that Beijing was moving in the direction the U.S. sought.

—Michael M. Phillips contributed to this article.

Write to Bob Davis at bob.davis@wsj.com

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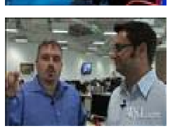

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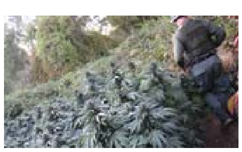

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