The Washington Post

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Some experts say China’s currency policy is not a danger to the U.S. economy

By Howard Schneider, Published: September 28

The value of China’s currency closed Friday near a record high against the dollar, approaching what some analysts consider a fair market price and potentially easing concerns that the country’s currency policy is damaging the U.S. economy.

Though still closely managed by the People’s Bank of China, the value of the yuan this year has tracked that of other major developing country currencies. It fell in value earlier in the year as investor fears about a possible crackup of the euro zone and a slowing global economy drove money toward the dollar and other safe assets.

But recently, the yuan has been trending higher as China moved to counter its economic slowdown and the U.S. Federal Reserve announced that it would try to accelerate the U.S. recovery by pumping dollars into the economy.

The yuan briefly equaled a previous record high of 6.28 yuan to the dollar Friday in intra-day trading before closing slightly lower. And even some hawkish analysts have softened their tone about the effect of China’s currency policy.

U.S.-China relations have become an issue in the presidential campaign, with GOP challenger Mitt Romney promising to get tough with “cheaters like China.” President Obama has argued for a more diplomatic approach, but the U.S. government also filed new trade complaints against China at the World Trade Organization. On

Friday, the administration barred a Chinese company on national security grounds from owning a wind energy development near a U.S. weapons base in Oregon.

The value of the Chinese yuan has been a point of particularly sharp difference between the two candidates.

By keeping its currency value low, a country can give an advantage to its exporters, a strategy China used to build its industrial base — to the detriment, some argue, of U.S. manufacturers.

But China has gradually been relaxing its currency controls and other financial rules — often at key moments, such as visits by foreign leaders and major international meetings. China's critics claim that it has been the steady threat of congressional action that has forced Beijing's hand. Other analysts say the Chinese government has recognized that liberalized currency rules help control inflation and will be important to China's long-term economic goals.

The Obama administration has argued that a combination of private lobbying and occasional public criticism are the best way to keep the process moving. Romney has advocated a blunter approach, including the designation of China as a "currency manipulator" under U.S. laws that would allow the possible imposition of import taxes to erase any advantage to Chinese companies from an undervalued yuan.

Given the yuan's current trajectory, however, the urgency of the issue could ebb.

Two members of the Peterson Institute for International Economics — Director C. Fred Bergsten and senior fellow Joseph E. Gagnon — said that China in recent times "has not been the major perpetrator" of currency "aggression." Writing recently in the Financial Times, they cited efforts by South Korea, Switzerland and other U.S. allies to keep their money cheap, as well. A recent Peterson Institute paper estimated that the yuan was within 8 percent of its "equilibrium" level with the dollar — far below the undervaluation of 30 percent or more than some China critics have alleged.

Eswar Prasad, a Cornell University economist who closely follows China, said other measures of the country's economic relations with the rest of the world have also improved. China's accumulation of foreign reserves has dropped sharply this year, and its surplus of trade and investment with the rest of the world has declined.

"If you look at the arguments about Chinese currency undervaluation, virtually all of the underpinning for that has gone away," Prasad said.

That doesn't mean there aren't plenty of problems between China and its major trading partners. The International Monetary Fund still considers the yuan "moderately undervalued." U.S. entrepreneurs active in China say there is an internal contest over the country's economic future pitting those who want to keep tight state control over the financial sector and key industries against reformers ready to pursue more economic opening.

Scott Paul, executive director of the Alliance for American Manufacturing, said the value of the yuan will remain a critical issue until China allows the currency to fluctuate freely against the dollar and other major currencies, eliminating any bias in favor of China.

With the United States on pace this year to run a record trade deficit with China, Paul said there is ample reason to keep pushing for changes in Chinese policy.

"I am not going to be happy until [the value of the yuan] reaches an equilibrium and the trade balance is roughly zero," Paul said.