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U.S. looks beyond currency talks with China

By Howard Schneider
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The Obama administration is hoping that talks on Thursday between Treasury Secretary Timothy F. Geithner and a top Chinese official will advance a broader conversation about China's place in the emerging world economic order, a discussion that might focus in the short term on technical issues such as exchange rates but is rooted in deeper concerns.

Geithner is expected to be in Beijing only a matter of hours to meet Chinese Vice Premier Wang Qishan, detouring on his way home from India for talks with a man who has been a key negotiator with the United States over global economic issues. Discussion of China's currency policy is expected to dominate a meeting that comes amid widespread concern that the renminbi is purposefully undervalued in order to make Chinese exports cheaper on world markets, and among initial signs that China might be preparing to relax its strictly controlled exchange rate.

But the currency issue is only a proxy for a complex set of issues, including Asian regional trade, China's mounting stocks of foreign reserves, the country's still comparatively closed markets and its importance in ensuring global growth, that administration officials and other analysts say they hope will be addressed in coming months.

"We are now at a point where the worst of the economic crisis may be behind us," a senior administration official said in advance of Geithner's meeting with Wang. "Now is the time to begin to more deeply engage," over long-term changes in the relationship between the countries.

The dispute over currency rates is an old one and the script familiar to those involved. The U.S. trade deficit with China began ballooning after the country joined the World Trade Organization a decade ago. In 2005, lawmakers on Capitol Hill began a push against China's fixed currency rates and threatened to impose a stiff tariff against the country's imports. The political pressure in Washington helped then-Treasury Secretary Henry Paulson in negotiations that led to a roughly 20 percent rise in the value of the renminbi over the next two years.

One of the leaders of that effort, Sen. Charles E. Schumer (D-N.Y.), is mounting a similar effort now and said he will continue pushing for legislation to tighten U.S. law regarding China's currency policy, even as Geithner and other administration officials push for a brokered solution.

"This is a very severe problem, not a minor problem," Schumer said. "The Chinese are acting like they are the 20th-largest economy in the world, not the second."

That earlier currency dispute is illustrative: The rise in the value of the renminbi did not prevent the U.S. trade deficit with the country from continuing upward, as the U.S. appetite for cheap imports, rising Chinese productivity and other factors partly offset the effects of a stronger renminbi.

But this time, Washington-based analysts and administration officials say, the discussion is taking on a different tone: one that recognizes the urgency in getting China's relationship with the rest of the world on a more balanced footing.

As a bilateral issue, the battle over the renminbi is about jobs at a time of high unemployment in the United States, perhaps several hundred thousand that could be generated if the Chinese currency traded at a level closer to what it would fetch on the open market, said C. Fred Bergsten, director of the Peterson Institute for International Economics. An even more profound realignment would occur throughout Southeast Asia, however, if China let its currency float more freely. As it stands, he said, countries such as Singapore and Malaysia have become economic satellites of Beijing, tying their currencies closely to the renminbi so that their manufacturers are not operating at a disadvantage.

If all of those currencies floated more freely, the benefit to the United States would be even greater, perhaps shaving as much as $150 billion off of the country's annual trade deficit, he said.

"Whatever impact you calculate for a Chinese currency change, you can roughly double it because of that gravitational effect," Bergsten said.

The issue is critical as well for other lower-wage manufacturing countries, nations such as Vietnam that might become more competitive if China's goods become relatively more expensive, or those such as India that have let their currency float more freely and paid a price.

There is discussion as well about China's steady accumulation of hundreds of billions of dollars in foreign reserves, estimated by Cornell University economist Eswar S. Prasad at perhaps $2.4 trillion, with nearly $895 billion held in U.S. Treasury bills and other dollar investments. Economists in the United States, at international organizations such as the World Bank and International Monetary Fund -- and within China itself -- are debating how that pool of capital might be put to better use in the world economy, but in a way that would not undermine the value of the U.S. currency. Over the long term, the change in China's exchange rates would curb its accumulation of reserves, another aim of the global economic "rebalancing" President Obama and other officials are advocating.

"Setting the relationship on an even keel is important, not just for the principals but for the broader world economy," Prasad wrote in a recent analysis of China's reserve holdings.

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