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## Tensions Rise Over Yuan

*U.S. Urges China to Yield to Market Pressures on Currency*

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BEIJING -- A growing number of global leaders are urging China to look to its long-term interests and allow its tightly controlled currency to rise. But they are encountering reluctance from a government still very much worried about the economy in the short term.

President Barack Obama and Dominique Strauss-Kahn, managing director of the International Monetary Fund, in Beijing on separate visits Tuesday, told Chinese officials that yielding to market pressures for a stronger yuan would help the global economy recover.

Nonetheless, Chinese President Hu Jintao didn't announce any new commitment on currency policy to Mr. Obama. Other Chinese officials and economists continue to defend China's policy of keeping the yuan steady against the dollar to aid Chinese exports, which are still vital in sustaining the nation's economic recovery despite growing domestic consumption.

At a congressional hearing Tuesday, Treasury Secretary Timothy Geithner sounded a much softer tone than in the past on China's currency, saying it's "very important" that the Chinese government pursue "broader reforms to their exchange system over time."

"China has to take steps to move away from excessive reliance on exports" and find ways to stimulate domestic consumption, Mr. Geithner said at the hearing before the Senate Foreign Relations Committee, refraining from harsh rhetoric toward the Asian giant. He said that China is already making progress on rebalancing its economy and that "we're seeing very promising, early signs" of a shift toward growth that relies on "domestic consumption and investment."

The discussions highlight how China's heavily managed currency is once again at the center of debates over global economic policy, after being pushed to the background by the financial crisis.

Though Mr. Hu, Mr. Obama and other world leaders have promised to cooperate in pulling the world economy out of its deepest slump in a generation, coordinating economic policies across very different countries remains difficult.

High unemployment makes trade with China a volatile political issue in the U.S., but similar pressures make it difficult for China to yield to U.S. pressure on the currency. A stronger yuan would make Chinese exports less competitive, which is unappealing for China in a year when exports are down about 20% and many manufacturers have closed.

Chinese leaders who have criticized the West's economic management may also find it politically difficult to yield to demands on the currency.

On the other hand, China's economy has recovered faster than most. Because the yuan has weakened sharply against other currencies, European and Asian competitors complain that China has an unfair advantage.

Meanwhile, some economists worry the extra juice to the economy from the cheap yuan, in addition to huge government stimulus, risks new bubbles in real estate and stocks.



Mr. Strauss-Kahn said keeping the currency down may help exports in the short term, but it imposes other costs. "You have to balance your needs in the short term with the long term," he said. For instance, an undervalued currency encourages companies to invest in ways that may not be viable once the currency rises.

"If you have wrong prices, you make wrong decisions, especially concerning investment in the long run," he said, adding that it is time for China to look more toward long-term stability now that it has accumulated advantages from an undervalued currency.

A stronger currency also would boost the purchasing power of Chinese households, which would support the Chinese government's drive to make economic growth less dependent on exports, Mr. Strauss-Kahn said.

Chinese officials frequently counter that big swings in the exchange rate can harm companies and disrupt the economy, which is of particular concern at a time when confidence is fragile. They sometimes contrast the stability of the yuan's exchange rate -- which makes it easier for firms to plan ahead -- with the wild swings in the dollar's value.

"China keeping a basically stable exchange-rate policy is, in reality, good for the global economic recovery," Yao Jian, spokesman for China's Ministry of Commerce, told reporters Monday. "If the request is to strengthen other currencies, while allowing the dollar to keep weakening, that's not very fair."

Chinese officials aren't totally closed to arguments for a stronger yuan. In a statement many interpreted as a gesture to the growing concerns about the currency, the People's Bank of China last week said exchange-rate policy would take into account "changes in international capital flows and the trends of major currencies."

Still, many private analysts don't think a move on the yuan is imminent.

Authorities may feel freer to shift once exports are growing again and inflation has turned positive, which could happen early next year. In coming months, China will have to tell other members of the Group of 20 leading economies how it plans to boost consumer spending.

Although China's government publicly has grown more confident about the strength of its recovery, growth still remains heavily dependent on government stimulus programs.

"China needs the U.S. economy to recover strongly and renew its import growth. Otherwise, China will have a tough time sustaining its recovery," said Eswar Prasad, an economist at Cornell University.

That is one of the key reasons China is reluctant to lift its currency now. World Bank chief economist Justin Yifu Lin, a former Chinese government adviser, has argued that if a stronger yuan snuffs out a recovery in China's export sector, it could weaken China's entire economy and have negative consequences for global growth.

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