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Currency Dispute Likely to Further Fray U.S.-China Ties

By [MARK LANDLER](#)

WASHINGTON — To the growing list of grievances between the United States and [China](#), add one more: the Obama administration is reviving American pressure on China to stop artificially depressing its currency, a policy that fuels its persistent trade gap with the United States.

The administration has told Chinese officials that currency policy will be high on its agenda this year for economic talks with China, a senior official said on Wednesday. The White House is also weighing whether to designate China as a country that manipulates its currency, when the [Treasury Department](#) issues its semiannual report on foreign currencies in April.

[President Obama](#) signaled the tougher line on Wednesday, telling Democratic senators that the United States needed “to make sure our goods are not artificially inflated in price and their goods are not artificially deflated in price; that puts us at a huge competitive disadvantage.”

Reopening the battle with Beijing over its currency may pay political dividends for Mr. Obama at a time of double-digit unemployment and growing fears that China is stealing American jobs. But experts say the president will have even less leverage over Beijing than President [George W. Bush](#) did. Mr. Bush prodded China for years to adjust its exchange rate with little success.

China, they say, is determined to reignite its export machine after a global [recession](#) that sapped demand for Chinese goods. A cheap currency is vital to that goal. And China’s leaders have grown impatient with lectures on economic policy from their chief debtor, the United States.

“It will be like water off a duck’s back,” said Nicholas R. Lardy, a China expert at the Peterson Institute for International Economics. “They’re puzzled by the criticism. They think they should be praised for keeping their

currency stable at a time of global turmoil.”

Criticizing China’s policy, however, is likely to worsen a relationship already frayed by irritants on both sides.

In two weeks, Mr. Obama is expected to meet with the [Dalai Lama](#), the Tibetan spiritual leader, over the objections of the Chinese, who condemn him as a subversive. The administration forged ahead with sales of weapons to Taiwan, drawing an angry blast from Beijing, which regards Taiwan as a breakaway province. Secretary of State [Hillary Rodham Clinton](#) criticized China for censoring the Internet, in the wake of [Google](#)’s allegations about hacking.

For its part, the United States is frustrated that the Chinese will not back tougher sanctions against Iran over its nuclear program. And China has resisted American initiatives on [climate change](#) policy, turning the recent [climate meeting](#) in Copenhagen into a diplomatic drama.

The administration has struggled to prevent the ill will from any single issue from contaminating the broader relationship. “We can’t pick the timing of when an issue becomes important,” said a senior official, who spoke on the condition of anonymity because of the delicacy of the matter.

Exchange rates are an arcane subject, harder to explain than a meeting with the Dalai Lama. But they influence easy-to-understand issues like the competitiveness of American exports and job security.

“The currency issue has the potential to become a very hot political issue,” said Kenneth G. Lieberthal, who worked on China policy in the Clinton White House. “We’re in significant danger of hitting a very rough patch in trade relations, in the latter part of this year.”

The first question for Mr. Obama in his meeting with Senate Democrats came from Senator [Arlen Specter](#), Democrat of Pennsylvania, and it was about China. What, he asked, did the president plan to do to respond to China’s “unfair trade advantage,” which he said caused the huge trade imbalance?

Mr. Obama talked about enforcing existing trade agreements, before raising the issue of exchange rates. If the United States was able to increase its exports to Asia by a single percentage point, he said, it would generate thousands, maybe millions, of new jobs in the country.

Senator [Charles E. Grassley](#), Republican of Iowa, urged the president to put China on the list of currency manipulators, something the administration has not done in its first two reports.

Senator [Charles E. Schumer](#), Democrat of New York, who has sponsored legislation that would impose sanctions on China for its currency policy, said he hoped the popular mood would push the White House.

“One of the main causes of the public’s discontent is that they feel China doesn’t treat us fairly, and that no one is doing anything about it,” Mr. Schumer said in an interview. “That may importune the administration to act, but if they don’t, there’s a strong move in Congress to do so.”

Another factor affecting the administration may be shifting economic fortunes in both countries. China is rebounding faster from the recession than the United States, and as it does, the imbalances that result from its artificially depressed currency could become even starker.

Economists estimate that China’s currency, [the renminbi](#), is undervalued by at least 25 percent and as much as 40 percent, relative to [the dollar](#) and other currencies. That gap, they say, is wider than at any time since 2005, when Beijing, under pressure from the Bush administration, allowed the renminbi to rise modestly.

Given that, the administration hopes China, on its own, will come to recognize the need for a new currency policy.

“The silver lining of what the U.S. and China have been through is that there’s a greater appreciation in China of policies that would stimulate internal growth and make it less dependent on exports,” said a senior administration official, who spoke on the condition of anonymity.

The administration’s point person on China’s currency is the Treasury secretary, [Timothy F. Geithner](#), who has an awkward history on the subject. In a written answer to questions during his confirmation process, Mr. Geithner said that China was manipulating its currency. He later disavowed that statement, and set about smoothing ruffled feathers in Beijing.

“Many of us in Congress are pretty frustrated that the administration has made no progress on this,” Mr. Schumer said.

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