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Currency Rift With China Exposes Shifting Clout

By SEWELL CHAN

WASHINGTON — At a private dinner on Friday at the Canadian Embassy, finance officials from seven world economic powers focused on the most vexing international economic problem facing the Obama administration.

Over seared scallops and beef tenderloin, Treasury Secretary Timothy F. Geithner urged his counterparts from Europe, Canada and Japan to help persuade China to let its currency, the renminbi, rise in value — a crucial element in redressing the trade imbalances that are threatening recovery around the world.

But the next afternoon, the annual meetings of the International Monetary Fund ended with a tepid statement that made only fleeting and indirect references to the simmering currency tensions.

The divergence between the mounting anxieties over Chinese policy and the cautious official response was a striking display of the difficulty of securing international economic cooperation, two years after the financial crisis began.

Above all, officials say, the crisis has shifted influence from the richest powers toward Asia and Latin America, whose economies have weathered the recession much better than those of the United States, Europe and Japan.

“We have come to the end of a model where seven advanced economies can make decisions for the world without the emerging countries,” said one European official involved in the weekend talks. “Like it or not, we simply have to accept it.”

The debate over currency valuation is pivotal. World leaders broadly agree that for the global economy to be more stable, imbalances between creditor countries like China and Germany and debtor countries like the United States and Britain have to be fixed. Correcting those imbalances, some economists say, will help create jobs in the United States and reduce the threat of inflation and asset bubbles in China.

The shifting dynamics have most noticeably affected the United States, which pushed more forcefully than its counterparts for stronger pressure on China but has been unable to persuade them to stand with it at the forefront of the debate.

In general, the Europeans have taken a far more conciliatory line toward China. The French finance minister, Christine Lagarde, said on Saturday, “It’s not helpful to use bellicose statements when it comes to currency or to trade.”

In interviews, American and European officials involved in discussions over the Chinese currency last week outlined several reasons a unified position has been so hard to forge.

For one thing, China has moved adroitly to deflect criticism of its currency policies, by pledging to move at a gradual pace and by pointing to other sources of global imbalances. This leaves Western diplomats struggling to strike the right balance between forceful rhetoric and patient cajoling in pressuring China to act.

Another factor is that the most dire part of the crisis has passed, and many countries are now more concerned with their own national economies and no longer feel the urgency act in concert.

"We are moving from a consensual to a more confrontational period in global economic governance," said Thomas Kleine-Brockhoff, senior director of policy programs at the German Marshall Fund of the United States, which promotes trans-Atlantic cooperation.

Complicating the effort is a dispute between the United States and Europe over how to change board representation within the I.M.F. to give greater voice to the fast-growing economies that are propelling global growth. The Americans want emerging countries, especially China, to have more representation, and thus take on more responsibility. But Europe is reluctant to give up some of its positions on the board.

And significantly, in the eyes of many countries, the United States has lost some of the standing it needs to shape global policy. Not only is Wall Street viewed by many as having initiated the world financial crisis, but also, a number of countries fear that policies by the Federal Reserve are pushing down the dollar's value — the same kind of currency weakening for which the Obama administration has criticized China.

"Other countries are no longer willing to buy into the idea that the U.S. knows best on economic policy, while at the same time the emerging markets have become increasingly influential and independent," said Kenneth S. Rogoff of Harvard, a former chief economist at the I.M.F.

The inconclusive I.M.F. outcome means that the renminbi's exchange rate will again be a focus when President Obama and other leaders of the Group of 20 economic powers gather next month in Seoul, South Korea. Officials said the United States would keep up pressure on China in the weeks leading up to that meeting.

Despite the bland language of the I.M.F. statement on Saturday, American and European officials said the weekend meetings were not a failure.

After all, the 187-member I.M.F. is not a customary forum for decisive collective action, and changes in national economic policies typically occur in a gradual, incremental fashion. A Treasury official pointed out that the gatherings focused high-level attention on the currency problem, and ended with an agreement for the I.M.F. to play a greater role in monitoring its members' exchange-rate practices and the "spillover effects" of each country's economic policies on the rest of the world.

Even so, economic and political forces have made it difficult for the United States to address what Mr. Geithner has called the "central existential challenge of cooperation."

"Even though this is inherently a collective problem, there is no specific mechanism in the I.M.F. or G-20 that looks up to the challenge," he said Sunday. "Our aim is to change that by encouraging countries to buy into a stronger set of norms and behaviors on these issues."

In a speech on Wednesday, Mr. Geithner in essence accused China of setting off a cycle of "competitive nonappreciation," in which countries block their currencies from rising in value to support their exporters — as Japan, Brazil and South Korea have recently tried. Economists have warned that this type of policy could lead to a destructive currency war.

Other officials have quietly expressed worry that the United States is itself contributing to the currency imbalance: the Federal Reserve has adopted an expansionary monetary policy intended to stimulate the economy, has contributed to the weakening of the dollar against other currencies.

Edwin M. Truman, a former top official at the Fed and the Treasury Department, said that while Europe and Japan want the renminbi to appreciate, "they don't want the dollar to depreciate along with it."

Allowing the renminbi to rise would make Chinese exports more expensive and American exports cheaper. That would assist with rebalancing: getting China to spend more and save less and the United States to spend less and save more.

A vital part of the American strategy has been to argue that China would also benefit from letting the renminbi rise.

Doing so, many economists say, would reduce the risk of inflation and asset bubbles, and help reorient growth away from exports and coastal manufacturing areas and toward domestic consumer demand and poor rural regions in need of development. China signed on last year to a G-20 platform for "strong, sustainable and balanced growth," which has become a sort of motto for global the recovery.

But there is little agreement on how to make the motto a reality.

James D. Wolfensohn, a former president of the World Bank, said each side had a point. "The Chinese have a legitimate case that they have to keep their economy going and that they're not going to let us run their economy for them," he said. "On the other hand, we have a legitimate case that China ought to bear its share of the burden and show some leadership."