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High & Low Finance

## Weak Dollar? Not So Much in China

By [FLOYD NORRIS](#)

There is renewed talk about the weak dollar. But don't believe it.

Where it really counts, [the dollar](#) is not moving at all.

In February, the dollar hit a high against most currencies amid fears of worldwide [recession](#) and a desire for the safety of American investments. It was then worth 80 euro cents, and 6.82 Chinese renminbi.

This week, as the dollar neared 67 euro cents, it was still worth 6.82 renminbi.

If you are good in arithmetic, you will immediately realize that [the euro](#) has been rising against the Chinese currency. And so has the Japanese yen, the [British pound](#) and most every other currency you have heard of.

The strongest and most resilient economy in the worldwide recession has one of the weakest currencies.

In a normal world, that would be a puzzler. As it is, it is simply a problem that governments prefer to ignore.

To be sure, there are some currencies that have been significantly weaker than the Chinese renminbi since February. Searching Bloomberg's database, I found seven: the Argentine peso, the Icelandic krona, the Costa Rican colon, the Pakistani rupee, the Nigerian naira, the Vietnamese dong and the Iranian rial.

That is not a list of countries whose economies anyone would be eager to emulate.

The reason for this is simple, and obvious. China pegs its currency to the United States dollar.

You may remember that peg was very controversial a few years ago. After much griping from the United States

and Europe, in 2005 China decided to allow its currency to gradually appreciate against the dollar. But that policy was reversed in the summer of 2008, and since then the Chinese currency has been flat against the dollar.

China talked at the time of using a basket of currencies, rather than the dollar, and letting its currency appreciate against the basket. But the result this year has made it clear that there is no basket, unless perhaps it is made up of the naira, the dong and the rial.

There has been some carping about China's foreign currency policy in Europe, with [Jean-Claude Trichet](#), the president of the [European Central Bank](#), talking about the need for some currencies in emerging markets to appreciate.

But most Western officials would rather talk about something else.

In a statement earlier this month, finance ministers from the [Group of 7](#) did have something to say about China: "We welcome China's continued commitment to a more flexible exchange rate, which should lead to continued appreciation of the renminbi in effective terms and help promote more balanced growth in China and in the world economy."

That statement came about 15 months after China halted "the continued appreciation of the renminbi," a fact the ministers chose not to mention.

Currency diplomacy has never been an area where frank speaking was deemed admirable. Back in the days of fixed exchange rates, when countries were sometimes forced by crises to make abrupt changes, there was even a saying: "He lied like a finance minister on the eve of devaluation."

This year, [Treasury Secretary Timothy F. Geithner](#) was widely viewed as having committed a diplomatic faux pas during his confirmation process when he said [President Obama](#) believed China was manipulating its currency. The Treasury has since managed to avoid concluding that was happening.

For its part, China has been critical of the United States for its fiscal and trade imbalances, without mentioning that those imbalances have been exacerbated by China's own policies.

“To rant and rave about the unsustainability of our fiscal policy when they have their own unsustainable monetary policy is a classic case of the pot calling the kettle black,” said Robert Barbera, the chief economist of ITG.

“I still think,” he added, “that the single most destabilizing decision of the last 10 years was the Chinese peg.”

That peg forced China to take in huge quantities of dollars and then invest them in dollar-denominated securities, principally Treasuries. That in turn helped to hold down American interest rates and stimulate the housing boom that has since collapsed.

These days it seems to be in the short-term interests of both countries for China to pursue its current policy. The Americans desperately want someone to buy all the Treasuries that are being issued to finance the stimulus program and bank bailouts, and China wants to do whatever it can to stimulate its own economy.

As David Barboza reported in *The New York Times* this week, some Chinese exporters have been reducing pay to hold down prices and continue making sales to the United States. A stronger currency would make such sales even more difficult to make.

Such considerations have led some to argue that China’s peg is a stabilizing force in the world economy. But that makes no sense, at least in the long run. “Something that is inherently unsustainable can’t be a force for stability,” said Jon Faust, an economic professor at [Johns Hopkins University](#).

It is hard to see how China will do well with all those low-yielding Treasury investments, simply because it is difficult to imagine that, someday, the renminbi will not rise against the dollar. Unless, that is, China’s own monetary policies unleash a wave of inflation in that country that reduces the international value of the currency.

But while China pursues its peg, the world’s largest exporter will keep exporting and taking in cash rather than imports. The values of the major international currencies will fluctuate against each other, but the inherently stabilizing impact of changing currency values will be limited.

One lesson of the credit boom in the United States was that things that are unsustainable will eventually stop,

perhaps abruptly and in highly disruptive ways. The same may yet be said of China's peg.

*Floyd Norris comments on finance and economics in his blog at [nytimes.com/norris](http://nytimes.com/norris).*

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