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## More scrutiny likely on China trade imbalance

*Posted December 19, 2006*

U.S. economic relations with China, probably the most important big-picture issue for investors in 2007, are coming into sharper focus.

On Tuesday, the Treasury Department will issue its semiannual report to Congress on the behavior of America's major trading partners regarding trade and currency-exchange rates.

Once again, most of the ink likely will be spilled in analyzing China's practices as an economic competitor.

Many members of Congress complain that China keeps its currency cheap to make its exports more desirable versus U.S. manufacturers.



With Democrats in control on Capitol Hill, China bashing could heat up next year, especially if the U.S. economy takes a turn for the worse.

In July 2005, China promised a more flexible exchange rate. Its currency, the yuan, has gained about 3 percent versus the dollar this year.

The currency strengthened recently in advance of last week's visit to China by a high-level U.S. delegation led by Treasury Secretary Henry Paulson, said Greg Anderson, currency strategist at ABN Amro. Anderson said it is too soon to tell whether greater yuan appreciation will result from the trip.

"China is planning currency appreciation of 5 percent or 6 percent per annum," said economist David Hale of Hale Advisors, citing his talks with Chinese officials.

In recent versions of the Treasury's semiannual trade and currency critique, which is mandated under a 1988 law, the Bush administration declined to allege that China was manipulating its currency to achieve an unfair advantage.

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In the previous report in May, then-Treasury Secretary John Snow termed China's currency-exchange-rate program "deeply disturbing."

Analysts say Tuesday's report was delayed past the midterm elections and the trip to China by the Paulson delegation. The trip was short on bombshell news.

"We have agreed on many principles, though we have differences on the timing of reforms," Paulson said.

But it probably is pointless to expect tough talk by the U.S. or significant concessions by the Chinese on foreign-exchange practices.

"I don't expect the currency report Tuesday to change from what Treasury has said in the past, which is that China is not guilty of currency manipulation," said Hale. "Paulson is trying to start a process of engagement."

In that regard, the biggest news from last week's trip was a deal between the Chinese government and two U.S.-based companies, Pennsylvania-based Westinghouse Electric Co. and Louisiana-based Shaw Group Inc., to provide technology for four new nuclear power plants in China.

"Jawboning on the currency didn't do any good," said Carl Weinberg, chief economist for High Frequency Economics. A better solution is enticing China to buy American goods and technology, he said.

"The biggest consumer in China is the government," Weinberg said. "China needs lots of stuff, especially on the energy side. The U.S. can sell to China."

Nuclear technology transfer to China could be controversial, but Westinghouse says 5,000 U.S. jobs would be created or maintained by the deal. Shares of Shaw Group jumped 8.6 percent Monday. Westinghouse is a Japanese-owned company.

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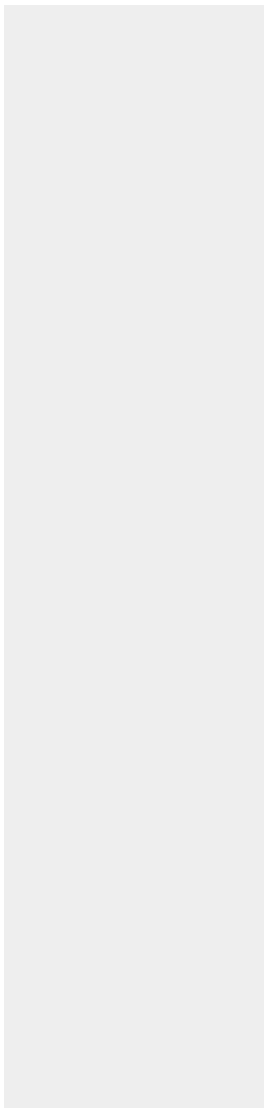
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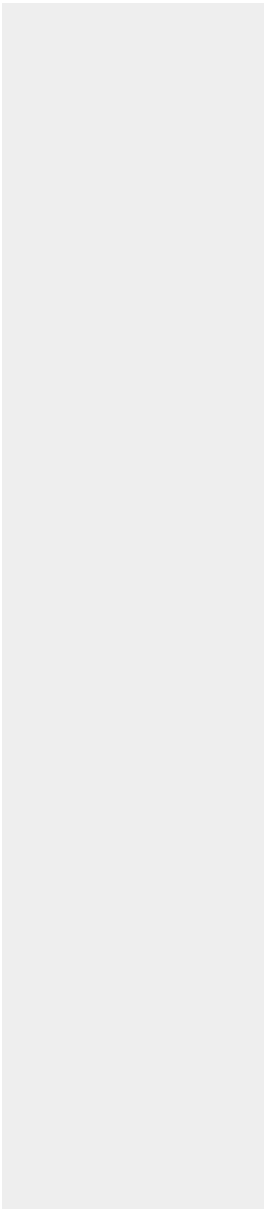


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