Toughening Its Line, U.S. Warns China on Currency

- E-Mail This
- Printer-Friendly
- Single-Page
- Reprints

By EDMUND L. ANDREWS
Published: May 18, 2005

WASHINGTON, May 17 - The Bush administration warned China on Tuesday that its currency policies were distorting world trade, and it brandished the threat of retaliation against the country's exports if Chinese leaders did not change course in the next year.

In language far harsher than it has used before, the Treasury Department declared that China's fixed exchange rate between its currency, the yuan, and the dollar posed a risk to its economy and the economies of much of the rest of the world.

The administration stopped short of accusing China of outright currency manipulation, a move demanded by American manufacturers who complain that the Chinese have artificially undervalued their currency to make exports cheaper in the United States.

But the new language marked a change in relations, which the administration has until now handled with painstaking delicacy.

"Current Chinese policies," the Treasury Department said in a report to Congress on Tuesday, "are highly distortionary and pose a risk to China's economy, its trading partners and global economic growth."

Coming closer than before to setting a deadline, the Treasury report warned that China's policy would meet its definition for currency manipulation unless Beijing officials make a "substantial alteration."

The administration's combative new stance was not enough to satisfy many members of Congress from both parties, who want to soon threaten China with steep tariffs on its exports if it fails to allow the yuan to rise significantly from a narrow band around 8.28 to the dollar.

A stronger yuan would tend to make Chinese goods more expensive in foreign markets, diminishing the country's competitive advantage. Still, economists said even that was unlikely to make a dent quickly in the huge trade imbalance with the United States.

The studied shift in the administration's stance reflected delicate issues that confront American officials, who want China to change its currency practices but are even more worried about pressure from Congress to restrict trade.

In less than a decade, China has emerged as a manufacturing powerhouse and an indispensable source of low-price goods - toys, furniture and electronics, among others. The expiration on Jan. 1 of global textile quotas has flooded world markets with Chinese apparel.

American manufacturers have been caught on both sides of this transformation in trade: often overwhelmed by Chinese competition yet benefiting as buyers of Chinese goods and investors in factories.

Administration officials are also juggling political concerns. As a great power of Asia, China is crucial to Washington's efforts to restrain North Korean nuclear ambitions.

The Chinese Embassy in Washington had no immediate comment. But even before the administration issued its report, Chinese leaders said on Monday that currency policy was a "sovereign" matter and that they would not be pushed into decisions by other governments.

The Treasury warning implicitly gave the Chinese until October, when the administration is required to make its next report to Congress on foreign currency practices. If it declares that a country is manipulating its currency to gain competitive advantage, it is required to begin negotiations over exchange rates that could lead to retaliation.

The United States trade deficit with China reached $124.9 billion last year, larger than that with any other country or with the entire European Union. China has also become one of America's biggest foreign creditors, holding more than $600 billion in Treasury securities and other dollar-denominated instruments as it seeks to keep its currency from rising in line with the trade surpluses.

The Treasury report criticized China's policy as dangerous to itself, its Asian neighbors and global growth. "China's 10-year-long pegged currency may have contributed to stability in the past," said Treasury Secretary John W. Snow, "but that is no longer the case today as China has grown to be a more significant participant in global trade and financial flows."

The policy, he said, threatened the Chinese economy by sowing the seeds of inflation, distorting capital flows and preventing the nation's central bank from conducting normal monetary policy.

1 2
Next>>

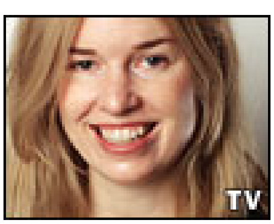
Related Articles

- Stocks & Bonds: Market Rises on U.S. Move to Press China on Currency (May 18, 2005)
- Efforts Continue to Win Release of American in China (May 18, 2005)
- Europe Pressuring China to Limit Textile Exports (May 18, 2005)

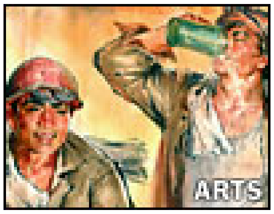
Related Topics

- China
- Currency
- International Trade and World Market
- Politics and Government

Inside NYTimes.com



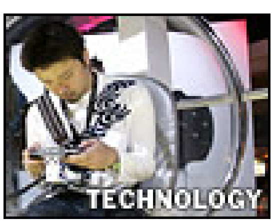
Virginia Heffernan: Fall TV Preview



A Glimpse at North Korean Art

Mistakes in Submarine Crash

A Reunion Every Two Months



A Pageant of Video Game Accessories

Most E-Mailed Articles The New York Times

Past 24 Hours |Past 7 Days

1. Adrift 500 Feet Under the Sea, a Minute Was an Eternity
2. A Critic Takes On the Logic of Female Orgasm
3. Thomas L. Friedman: Outrage and Silence
4. Eating Well: Most Improved Pasta
5. Personal Data for the Taking

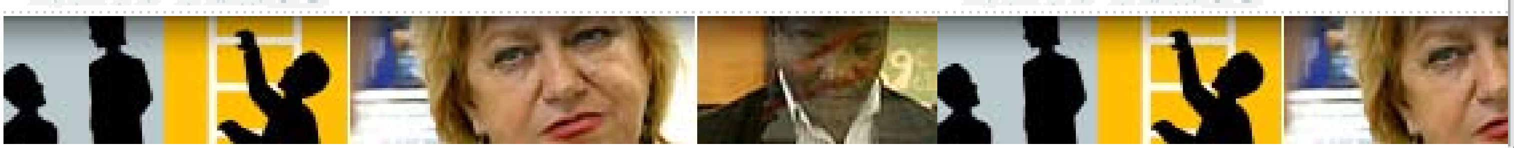
1. What's Up, Pussycat? Whoa!
2. A Critic Takes On the Logic of Female Orgasm
3. Class in America: Shadowy Lines That Still Divide
4. Paul Krugman: Staying What Course?
5. Frank Rich: Just How Gay Is the Right?

Go to Complete List

SPECIAL SERIES
nytimes.com/class

CLASS MATTERS

CLASS MATTERS



Is the American dream just a dream?

Also in Class Matters:

- Where do you fit in?
- See how class affects health care.
- What role do you think class plays in American life?

Learn More.