

U.S. Has Few Allies in Spat With China Over Value of Yuan

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SINGAPORE -- The U.S. has found itself almost alone among Pacific nations in its campaign to convince China to allow the yuan to rise against the dollar.

That's because China's economy has become so closely integrated with those of countries such as Japan, South Korea and Taiwan that if China's economy was hurt by a premature float of its currency, as many economists and Chinese authorities say it would be, the rest of Asia would suffer the fallout.

And so the U.S. hasn't found allies in Asia as it attempts to push China to let the yuan -- now firmly fixed by Beijing in a narrow band against the dollar -- react instead to market forces, a move that U.S. politicians say would strengthen it and thus restore fairness to U.S.-China trade. A weak Chinese currency makes China's exports less expensive abroad, giving them what some U.S. companies and labor unions say is an unfair advantage that causes the loss of jobs in the U.S.

Stance Reiterated

The lack of Asian support for changing China's currency regime was demonstrated last month as U.S. Treasury Secretary John Snow met his Pacific-nation counterparts. And it is being demonstrated again as President George W. Bush met in Bangkok in recent days with leaders at the Asia-Pacific Economic Cooperation forum, where they reiterated their lack of enthusiasm.

Currency policy is "something that China itself should decide in a way that will be in line with China's interests," Japan's Administrative Vice Finance Minister Masakazu Hayashi said Monday.

The relative silence of its neighbors has allowed China to claim a lead role in protecting the economic well-being of the region. As it did during the 1997-98 Asian financial crisis, China now argues that the stability of its currency is vital for Asia as a whole.

China would consider changing its currency policies "if there was consensus in the region," said People's Bank of China governor Zhou Xiaochuan. "Views on this issue are different and many neighboring countries and economists believe it is not the right time to make such a move," the country's official Xinhua news agency quoted him as saying Sunday.

President Bush met Chinese President Hu Jintao in Bangkok Sunday in advance of the APEC summit, and urged China to let the yuan trade freely. He made a similar pitch to the Japanese prime minister, Junichiro Koizumi, in Tokyo last week. Both Asian leaders rejected Mr. Bush's suggestion.

But with a lack of Asian support obvious even ahead of the meetings, it's far from clear that Mr. Bush really expected to convince either country to change course. It isn't even clear that the administration is making as big a deal of the currency issue in private discussions as it is in its public pronouncements.

Point of Contention

The president and his team spent far more time in Bangkok trying to enlist Chinese help in dealing with

North Korea and its nuclear ambitions. U.S. Secretary of State Colin Powell met Monday with Chinese Foreign Minister Li Zhaoxing, but barely touched on the currency issue, according to a senior State Department official.

Indeed, the president's yuan initiative appears to some U.S. political observers to be directed as much at industrial-state voters as it is at the Asian leaders. U.S. manufacturers, lawmakers and Democratic presidential hopefuls have been using the China issue to bash the administration.

The most Mr. Bush was able to secure at the APEC forum was President Hu's agreement to create a group of experts to study how to relax controls on the yuan. **"The experts group won't lead to any near-term changes in forex policy, but it was a small symbolic step that Hu could deliver to alleviate political pressure from the U.S.," the G7 Group, an economic and political analysis firm, told its clients Monday.**

Strong Reasons

A yuan that is tied to the weakening dollar does hurt Asian nations that compete with China in foreign markets. As their currencies strengthen against the dollar, they also strengthen against the yuan. That makes their exports more expensive and is one reason they have been trying so hard to stem their own currencies' strength. In the past six months, the yen has risen more than 9% against the dollar and the yuan; the baht is up about 7%; the won has gained about 3%; and the New Taiwan dollar is up about 2.5%.

But some analysts say the continued efforts by Asian governments to slow down their currencies' appreciation against the dollar, despite Mr. Bush's visit to the region, shows how little they care about his criticisms. "Looking at how central banks in Asia intervened in the currencies market ahead of the U.S. president's visit, we would say there is already an unspoken agreement in place to stonewall the U.S.," said Chris Leung, economist at DBS Bank in Singapore.

And Asian countries have strong reasons not to want China to unpeg its currency from the dollar now: They cooperate so closely with China that instability there would quickly affect their own economies. High-end electronics components are manufactured in South Korea or Taiwan or elsewhere in Asia, assembled in low-cost factories in China and shipped to customers in the West. China is now the top export destination for South Korea and Taiwan, with Japan and the rest of the region heading that way, as well.

"More exports for China or a bigger market for China also means a bigger market for Korea and more exports for Korea," says South Korea's Finance and Economy Minister Kim Jin Pyo. "On one side, we have the competition, and on the other, we have the complementary type of relationship. Which side is larger and which is more beneficial would be a very difficult question to answer."

That isn't to say Asian leaders will stay completely out of the debate on China's currency policy. Pointing to China's inflexibility can help them deflect criticism on their own policies.

"They'll hide, in a sense, behind China, saying 'Don't aim the gun at us because we're still recovering,'" says Jim Walker, chief economist at CLSA Ltd. in Hong Kong.