

THE WALL STREET JOURNAL, SEPTEMBER 3, 2003:

## China Won't Let Currency Rise, Quickly Rebuffing U.S. Request

By *Peter Wonacott in Beijing and Michael M. Phillips in Washington*

China said it won't let its currency rise against the dollar, rebuffing U.S. Treasury Secretary John Snow before he even finished asking and setting the stage for political wrangling in the U.S. over trade relations with the world's fastest-growing major economy.

Mr. Snow arrived in Beijing making no secret of the Bush administration's desire to convince the Chinese to stop keeping the yuan fixed against the dollar. Likewise, the Chinese, who in recent years have built an export juggernaut on cheap labor and low manufacturing costs, made no secret of their intention to stick to the official line.

"We will keep the yuan stable according to the current policy," a spokesman at China's central bank, People's Bank of China, said Tuesday.

In a commentary aimed at a foreign audience, the government's flagship English-language newspaper, the China Daily, said Tuesday that "international browbeating" over its exchange policy is setting a dangerous precedent of foreign interference. "Should China now give in to pressure only to face dire consequences later? No way," the paper said.

Some American manufacturers contend that an artificially weak yuan is making it too hard to compete against Chinese companies, already a threat because of China's cheap labor and overbuilt factory capacity. The National Association of Manufacturers estimates that Chinese goods are 40% cheaper than they should be and blames China for a large portion of 71,000 jobs lost in America in July. Europeans are voicing similar complaints.

Despite the U.S. push for a higher yuan, it's unclear how much effect untethering it from the dollar would have. Some economists say it would be small, while a few others, particularly in China, suggest the yuan could get weaker instead of stronger.

Some big U.S. firms benefit from a weaker yuan -- retailers who resell Chinese goods and multinationals who manufacture there. American companies account for about 10% of China's foreign investment, and they and their customers reap the benefits of cheaply priced goods. The Bush administration, however, seems to believe the yuan would rise if set free, and has sided with businesses and unions who want it to do so.

Until recently, Mr. Snow had been reluctant to strong-arm the Chinese, partly out of concern that a sudden change in currency policy could wreak havoc on China's already-weak banks. But after an outcry from lawmakers of both parties, Democratic presidential candidates and many business executives, the administration's approach has shifted. In Ohio Monday, Mr. Bush promised a crowd of factory workers that he would come to their aid -- and suggested that other nations' unfair trade practices were responsible for lost jobs. Administration officials pointed to China in particular.

The impasse in Beijing, however, has left some American manufacturers griping that the administration

isn't pushing hard enough. Some analysts and executives portrayed Mr. Snow's initiative as a hollow effort, meant primarily to appease union voters in politically crucial Midwestern states rather than change China's policy.

"At this point it's lip service," said Tim Strelitz, chief executive of California Metal-Ex Inc., a maker of copper alloys for metal mills and foundries. But he added hopefully, "It could change as we get closer to the election."

**The G7 Group, an economic and political research firm, said the outcome was no surprise. "The decision to make China the bogeyman on currency is very much a political one -- coming straight from the White House -- not Treasury," the firm told its clients Tuesday.**

Mr. Snow, who met Japanese officials in Tokyo Monday, arrived in Beijing on the second leg of an Asia trip focused on values of the yen and yuan against the dollar. During two days of talks in Beijing, Mr. Snow was scheduled to meet Finance Minister Jin Renqing and People's Bank of China Governor Zhou Xiaochuan. Mr. Snow wasn't expected to speak publicly until a news conference Wednesday.

"China has indicated in the past that they intend to move toward greater flexibility," Treasury spokesman Rob Nichols said in Washington. "That's something we support, something we encourage. And it's our view that currency values are best set in open and competitive markets." He said Tuesday's initial talks were "frank" -- often diplomatic code for a disagreement -- and "productive."

China has avoided moves that might disrupt the lifeblood of its economy: foreign investment. China attracted about \$52 billion in foreign investment in 2002 and is on pace to top that this year. China is becoming a production platform for chip maker Intel Corp., computer maker Dell Inc. and other U.S. technology companies.

Among retailers with a big stake is Wal-Mart Stores Inc., which buys about \$12 billion in Chinese goods a year to stock its stores world-wide. It wouldn't comment on the currency issue Tuesday. Dell, of Round Rock, Texas, said Tuesday it negotiates its component purchases in dollars and shouldn't be affected by any fluctuation in the yuan.

But ailing U.S. textile makers are lobbying the Bush administration for emergency quotas on some imports, while other manufacturers are seeking retaliatory trade measures if Beijing won't allow the yuan to rise. A Tennessee projection-television maker has lodged dumping claims against sets imported from China, and the U.S. International Trade Commission has agreed to investigate. "The Chinese aren't going to budge unless the administration helps them feel some pain," said Dan DiMicco, chief executive of Nucor Corp., of Charlotte, N.C., the nation's largest steel producer.

Even some companies that manufacture in China have joined the campaign to press for a freer yuan. Behlen Manufacturing Co., based in Columbus, Neb., now has a joint-venture factory in China to manufacture -- from Chinese steel -- components for hangars and factories, sold in the Chinese market. A rising yuan would mean greater profits in dollar terms. At home, the company's owner, Tony Raimondo, says he is losing ground to competitors who use cheaper Chinese-made material to make horse stalls and cattle-handling equipment for sale in the U.S. Unless the yuan rises, Mr. Raimondo says he may have to abandon U.S. steel for his U.S. operations. "We don't think that's best for America or for us, but if we don't get some help we'll have to," he said.

The normally reticent European Central Bank has also expressed concern. Wim Duisenberg, the bank's president, indirectly called on China earlier this summer to rethink its peg. Italian government officials have spoken of trade sanctions. With the yuan as weak against the euro as it is against the dollar, Europeans are beginning to believe the exchange rate is fueling the double-digit increases in Chinese imports and chipping away at the European Union's already-shrinking manufacturing sector.

Some economists doubt a slight revaluation would stop the movement of manufacturing to China, which has underpinned a Chinese trade surplus with the U.S. that reached \$130 billion last year. Consultant Daniel Rosen, a visiting fellow at the Institute for International Economics in Washington, argues that much of China's new market share in the U.S. comes at the expense of places such as Mexico, where wages are double those in China. A 10% revaluation, he says, "would not change the competitive pressures faced by the U.S. or others."

*-- G. Thomas Sims in Frankfurt contributed to this article.*