

## Meeting hints at deal on currency

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Charles Schumer, US senator for the state of New York, is threatening legislation to punish China for manipulating its currency. Tim Geithner, Treasury secretary, is advocating caution and diplomacy. The White House is concerned about managing its wider relationship with Beijing.

It is all beginning to look like 2005, when the Treasury secretary was John Snow and George W. Bush was in the White House. Back then, Mr Snow's repeated insistence that a move towards a flexible exchange rate was imminent was vindicated in July when the renminbi undertook a small revaluation and was then permitted to crawl slowly higher within a trading band.

The recent apparent rapprochement between the US and Chinese administrations, underlined by Mr Geithner's surprise meeting with China's vice-premier later this week, suggests a repeat move in the next few months.

Expert opinion in Washington is largely on the side of the US administration's diplomatic efforts. Eswar Prasad at Cornell University, formerly head of the International Monetary Fund's China division, says: "Geithner has made a very savvy move, deflecting pressure from China and allowing both sides time to address the concerns of their domestic constituencies".

He adds that tension will be further defused by two serendipitous events: better US employment figures than expected and China slipping into trade deficit in March, both of which should weaken the argument that the Chinese are stealing US jobs.

In recent months, US anger over the exchange rate has been matched by Chinese officials lambasting the US administration over arms sales to Taiwan, a meeting with Tibetan spiritual leader the Dalai Lama, and Google's decision to pull out of China.

But many in Beijing have read recent steps by both sides as part of a wider deal to get bilateral relations back on track. "Clearly a grand bargain is under negotiation and both sides are starting to cooperate on a range of issues," according to Xiao Geng, director of the Brookings-Tsinghua Public Policy Center in Beijing.

In recent weeks US officials, including Barack Obama, the president, have publicly repeated a long-held US policy stating that Taiwan and Tibet are part of China. Chinese analysts say that allowed Chinese leaders to "save face" and start compromising on issues important to Washington.

"By providing some reassurance that the US has not changed its fundamental policy regarding China's core interests, Obama has handed Chinese leaders a stepladder to climb down from tensions," said Chu Shulong, director of the Institute of Strategy Research at Tsinghua University.

Mr Chu said Beijing was likely to allow the renminbi gradually to appreciate, although any move would probably be timed to minimise Chinese domestic perceptions that Beijing was bowing to US pressure. "In fact, gradual appreciation of the currency does not hurt China's interests because it allows it to tackle domestic problems such as inflation," Mr Chu said.

Yet the reaction of Congress may well depend on just how big the currency move is. Back in 2005, Mr Snow persuaded Mr Schumer to put on hold a bill that would have imposed currency tariffs on China even before Beijing announced its change.

Yesterday, Mr Schumer expressed deep scepticism that talking to the Chinese rather than actually passing legislation would do any good. He has spent some of the congressional Easter recess touring beleaguered steel plants and manufacturing companies in New York state.

Analysts think it is very unlikely that Mr Schumer will get a bill through Congress by his end of May target, not least because Sander Levin, chairman of the House of Representatives ways and means committee, has been sounding much more cautious.

However, if any exchange rate change is similar to the modest 2005 move, which appeared to make little difference to the bilateral US trade deficit with China, the congressional pressure for action could be renewed.

Chris Nelson, editor of a widely read Asia newsletter, says some amount of heated rhetoric from Capitol Hill is

actually useful to the administration in extracting concessions from China. "Schumer is by definition not satisfiable," Mr Nelson says. "He used the currency issue in 2005 to make himself a player in the Senate and is doing so again. But the Schumer bill could prove to be a useful tool to Obama."

Whether it will amount to more than words, Mr Nelson says, depends on whether Mr Levin is prepared to follow Mr Schumer.

The 2005 tensions were dissipated without open conflict. The 2010 version looks more hopeful than it did last week, but there remains a long way to go.

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