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MarketWatch

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Geithner talks up cooperative tone toward China

Continues to urge Beijing to allow strengthening of the yuan

By Greg Robb, MarketWatch

WASHINGTON (MarketWatch) — Treasury Secretary Timothy Geithner offered China a carrot rather than hitting it with a stick.



Reuters

Timothy Geithner, preparing for congressional testimony last month.

In a major address on bilateral ties ahead of President Hu Jintao's state visit to Washington next week, Geithner linked progress on allowing more U.S. exports to China as well as a strengthening of the yuan to increased access to U.S. technology.

"We have a great deal invested in each other's success," Geithner said at a speech at Johns Hopkins School of Advanced International Studies.

The less confrontational approach comes as House Republicans have said they are not eager to pursue trade actions against China, and also comes as the U.S. economy is improving, according to Cornell University economics professor Eswar Prasad.

Geithner stressed the importance of China as an export market, noting that the U.S. is on track to export more than \$100 billion of goods and services to China this year.



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"Our exports to China are growing at twice the rate of our exports to the rest of the world," Geithner said.

Geithner continued to urge Beijing to allow its currency, the yuan, to strengthen and allow more access to U.S. goods to China's market. The value of the yuan (U.S.:USDCNY) has been a particular bone of contention.

The dollar has dropped from a high of 6.83 yuan earlier in the year to current levels around 6.6 yuan, though economists say the greenback would be far weaker without Chinese support.

Geithner said the yuan is strengthening at about a 10% rate when higher Chinese inflation is factored in.

"So if that appreciation was sustained over time, it would make a very substantial difference in correcting what is a major distortion for the Chinese economy and the global economy," Geithner said.

"We're probably....at the end of the second inning...but it is changing and it has to happen, Geithner said.

China must also continue to implement reforms with the aim of reducing its reliance on exports-led economic growth, Geithner said.

The Treasury chief set out a quid pro quo, whereby the U.S. would be willing to give China more access to high-technology goods and investment opportunities.

“We are willing to make progress on these issues, but our ability to move on these issues will depend of course on how much progress we see from China,” Geithner said.

Besides the increasing strength of the yuan, Geithner noted that China has started to loosen controls on capital flows and make it easier for countries to use its currency.

On Tuesday, the state-controlled Bank of China Ltd. announced it is allowing customers to trade the yuan in the U.S., expanding on a program begun in Hong Kong this summer. [See related story on yuan trade.](#)

In addition, China has begun letting exporters park revenue overseas and has given some citizens the ability to invest directly abroad.

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