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FROM THE DIRECTOR OF THE JOY LUCK CLU

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Geithner Says Strict Policy on Currency Hurts China

By DAVID BARBOZA

NANJING, China — Treasury Secretary Timothy F. Geithner urged China again on Thursday to adopt a more flexible exchange rate policy, saying failing to do so could worsen inflation in China and impede growth in other parts of the world.

In a speech here, Mr. Geithner never mentioned China's currency, the renminbi. But he made clear that Beijing's strict control over the value of its currency was at odds with flexible exchange rates in other major economies. He said the issue had become "the most important problem to solve in the international monetary system today."

"It does not require a new treaty, or a new institution," he said. "It can be achieved by national actions to follow through on the work we have already begun in the G-20 to promote more balanced growth and address excessive imbalances."

Mr. Geithner's remarks were delivered during a one-day seminar on the international monetary system organized by President Nicholas Sarkozy of France, who is serving this year as head of the Group of 20 industrial and developed nations. The conference was hosted in Nanjing by a group of Chinese academics.

President Sarkozy has promised to use France's leadership of the G-20 to press for greater reform of the international monetary system.

The reforms he has begun to outline are largely aimed at addressing some of the most serious threats to global growth, including large trade imbalances, wildly fluctuating currency values and cross-border capital flows.

But those efforts will probably be hampered by fierce disagreement about how to proceed with reform and how to mediate continuing economic tensions between the United States and China.

While the United States wants China to overhaul its exchange rate policies and allow the renminbi to appreciate and move in line with market forces, China complains that the United States is damaging its interests by adopting loose fiscal and monetary policies.

The United States government, the Chinese argue, would like the Chinese to buy the country's bonds, but seems determined to weaken the dollar's long-term prospect by adopting loose monetary policies, thereby undermining the value of China's huge holdings of Treasury bonds.

Other emerging-market countries are also worried about whether the dollar is facing a long-term decline, analysts say.

"The big issue is the dollar has to and should decline in value because the U.S. is running big deficits," said Eswar S. Prasad, a professor of economics at Cornell University and a conference participant. "And that frustrates China and other emerging market countries. They know they have to buy lots more U.S. Treasuries if they continue accumulating foreign exchange reserves. And the value of those dollar reserves will eventually fall."

Analysts say China also knows it has put itself in a difficult position by closely tying its currency to the dollar and by accumulating huge amounts of dollar-denominated foreign exchange reserves.

At Thursday's seminar, however, Beijing seemed reluctant to discuss its own currency policies. Even before the seminar began, Beijing did its best to play down the importance of the meeting by insisting that discussion of the renminbi's value was not even on the agenda.

Delegates to the meeting said Chinese leaders were worried that the gathering could revive a longstanding debate about the slow pace of China's currency overhaul.

Some of China's top economic and financial planners, including Vice Prime Minister Wang Qishan and the head of China's Central Bank, Zhou Xiaochuan, attended the meetings Thursday. But participants said Chinese officials continued to insist on gradual changes rather than sharp moves that could shock the system.

President Sarkozy, however, seems to be looking for speedier efforts.

On Thursday, he said the international monetary system was already outdated and ineffective and said change was necessary to avoid “currency wars” or recurring financial crises.

In an impassioned address, President Sarkozy called for the International Monetary Fund to play a greater role in supervising the operations of the global monetary system. He also pressed for developing countries to have a greater role in the working of the international monetary system. He also said the I.M.F. should consider including the renminbi in its special drawing right, a kind of synthetic currency.

But like Mr. Geithner, Mr. Sarkozy also suggested that a crucial component in the reform would involve moving toward more flexible exchange rates, a proposal that seemed aimed at pressing China to speed up the pace of its overhaul.

“It is clear that we must evolve towards a more flexible exchange rate system that will allow us to withstand shocks,” Mr. Sarkozy said in his address.

“But this flexible exchange system,” he continued, “cannot evolve without rules, without coordination, without supervision, since instability would prevail. Without rules, the international monetary and financial system is incapable of forestalling crises, financial bubbles and the widening of imbalances.”