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UPDATE 4-US gives China pass on currency, Congress unhappy

Thu, Jul 8 2010

* US says yuan undervalued, doesn't say China manipulates

* Geithner says watching how far, fast yuan rises

* Lawmakers say keeping options open to pressure China (Recasts, adds details, analysis, background)

By [Doug Palmer](#) and [Glenn Somerville](#)

WASHINGTON, July 8 (Reuters) - The Obama administration declined to label China a currency manipulator in a long-delayed report on Thursday, spurring fresh calls from U.S. lawmakers for tough new steps to pressure Beijing.

Some lawmakers claim China's yuan is misaligned in value, distorting trade and stealing U.S. jobs. A key senator pledged to press ahead with a bill threatening China with tariffs on some of its products unless there is significant movement upward in the yuan.

Treasury Secretary Timothy Geithner has pursued a more diplomatic approach, trying to persuade Beijing it would be in its own best interest to adopt a market-based currency regime.

The Treasury's semiannual currency report, originally due on April 15, said China's yuan remains undervalued. But it noted Beijing made a "significant" move last month by ending a peg between the value of the yuan -- also called the renminbi -- and the dollar.

"What matters is how far and how fast the renminbi appreciates," Treasury Secretary Timothy Geithner said in a statement issued with the report.

"We will closely and regularly monitor the appreciation of the renminbi and will continue to work towards expanded U.S. export opportunities in China," he said.

No country was named a currency manipulator, a designation that could trigger negotiations leading to possible trade sanctions against the offending country.

The Treasury's semiannual reports on exchange rate policies of foreign countries examine whether a country is manipulating its currency "for purposes of preventing effective balance of payments adjustments or gaining unfair competitive trade advantage in international law."

One week before a meeting of group of 20 leaders in Canada last month, Beijing freed its currency [CNY=CFXS](#) from a nearly two-year-old peg to the dollar. The yuan has risen 0.74 percent since then. [ID:nTOE66706P]

The report's conclusions were fully expected and, within minutes, drew the attention of both Democratic and Republican lawmakers who indicated they remain displeased over what many in Congress perceive as Beijing's unfair tactics in piling up huge trade surpluses.

"This report is as disappointing as it is unsurprising," U.S. Senator Charles Schumer, a Democrat, declared. "It's clear it will take an act of Congress to do the obvious and call China out for its currency manipulation."

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Senator Charles Grassley, a top Republican, also criticized the decision and called for a formal trade case against Beijing on the issue.

"Everyone knows China manipulates its currency. If the president continues to avoid acknowledging China's currency manipulation and fails to address it in a meaningful way, Congress will have to act," Grassley said in a statement.

Many U.S. lawmakers believe that China's currency is undervalued as much as 40 percent, which they say gives China an unfair advantage in international trade, and they have pressed for action on a bill that would allow new duties on some Chinese goods.

Schumer has called for legislation to lower the threshold for punitive action against countries whose currencies are

found to be "fundamentally misaligned." [ID:nN08242794]

Similarly, the chairman of the U.S. House of Representatives Ways and Means Committee, Sander Levin, said the United States should keep "all options" open to pressure China on its currency.

He said the move to end the currency peg was "a first step, but clearly, only that" and suggested all remedies should be kept handy to ensure that yuan appreciation continues.

"Toward that end, Congress and the Administration should fully explore the option of challenging China's current practices through a (World Trade Organization) complaint," Levin, a Democrat, said.

The head of the Senate Banking Committee, Christopher Dodd, another Democrat, said he planned to summon Geithner to testify on the report, but he did not set a date.

Derek Scissors, China economist at the Heritage Foundation, said the Obama administration's decision takes the heat off for now as Washington gears up for congressional elections in November.

"Treasury can stall (Congress) until October and then no legislation gets passed before the poll, which is what most people in Congress want anyway," he said. The next Treasury report on currency practices is due on Oct. 15.

The Treasury said the size of China's foreign currency reserves is an indication of how its currency is undervalued. In the period from February-December 2009, China boosted its reserves by \$487.1 billion, six times more than any other country as Beijing intervened heavily to hold the yuan pegged to the U.S. dollar. [ID:nN08240603]

Eswar Prasad, a senior fellow at the Brookings Institution, praised the Treasury report for striking "a fine balance -- continuing to push China to allow its currency to appreciate by noting the currency's undervaluation but not letting things boil over by calling China a currency manipulator."

Meanwhile, the Commerce Department remains under pressure from Congress to investigate whether China's undervalued currency is a trade subsidy that should be offset with U.S. countervailing duties on Chinese goods.

Commerce officials said in April they would consider the issue in two cases involving paper and aluminum products from China, but have not yet decided whether to launch a probe. <~~~~~>

Insider report: link.reuters.com/bev56m

For the full Treasury report see: here link.reuters.com/jux36m

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