

November 14, 2009

Obama Walks a Delicate Tightrope on His 1st Trip as President to China

By [DAVID BARBOZA](#)

SHANGHAI — Against the backdrop of a tentative global recovery, [President Obama](#) and China's leaders will meet in Beijing next week to discuss how to improve relations between the world's reigning economic superpower and its greatest challenger.

Among the most contentious issues will be currency. Washington believes China's currency, the renminbi, is undervalued, giving Chinese exporters an unfair advantage. Beijing worries that [the dollar](#) is depreciating too quickly, threatening to erode the value of China's huge holdings of [United States Treasury](#) bills.

During meetings on Tuesday and Wednesday, President Obama is expected to press Beijing to allow its currency to rise, ending an effective peg to the dollar.

President [Hu Jintao](#) of China is expected to politely decline, insisting that exchange rate reform will come in due time.

Instead, as China has increasingly done publicly, he will suggest that Washington get its fiscal house in order and control its ballooning debt.

"This currency issue feeds into domestic politics in both countries," says Eswar Prasad, a senior fellow at the [Brookings Institution](#). "President Obama needs to bring up the issue. But the problem is he has few levers."

Many analysts say China will move to a more flexible currency, just not now.

Beijing, they say, is already convinced that exchange rate reform offers benefits. It would, for example, give the government greater control over monetary policy.

It also would lower the cost of imports, help restructure the Chinese economy, and aid it in building a consumer-oriented economy rather than one so heavily dependent on exports.

"It's time for China to make structural adjustments and move out of low-value-added, heavily polluting industries," says Fred Hu, a managing director at [Goldman Sachs](#).

Still, analysts say currency appreciation won't occur to any significant degree until the middle of next year, largely because too many jobs are at stake. But China's hand could be forced if the dollar continued to decline against other major currencies, dragging the Chinese currency down with it and making China's exports even more competitive, says Nicholas R. Lardy, a senior fellow at the Peterson Institute for

International Economics in Washington.

Governments in Asia, Latin America and the [European Union](#) are already alarmed by the cheap renminbi and say it is hurting domestic manufacturers.

President Obama's first trip to China comes at a time when United States unemployment is at a 26-year high. American labor unions, one of the president's major constituencies, are pressing for sanctions against China. While the administration has tried to maintain a hard-nosed but civil stance toward China, it has also slapped Beijing with sanctions that the Bush administration chose to eschew.

But even Mr. Hu, head of a nominally communist nation, faces challenges at home. Although China's economy is growing at a robust 8 percent, and according to many economists, leading the world out of recovery, China's exports have plummeted by more than 20 percent this year and at least 20 million factory jobs have been lost in the coastal provinces.

Beijing doesn't want to bring more harm to its huge migrant work force by letting the renminbi rise and with it the cost of Chinese goods aboard.

Also, China's leaders generally don't like to appear to be bending to pressure from the West.

Washington's strongest levers to move Beijing — the threat of sanctions — could backfire, analysts say, stoking trade wars and perhaps leading China to slow its purchases of United States Treasury bills. Such an action alone could lead to a run on the world's reserve currency.

"This is the power the Chinese have right now," says Mr. Prasad at Brookings.

The Obama administration seems to recognize how delicate the situation has become. Since taking office, Mr. Obama has been reluctant to publicly assail China on its currency.

Indeed, in its report to Congress last month, the Treasury department declined to cite China as a currency manipulator, which, under the law, could lead to trade sanctions.

Recently, the administration has signaled a tougher approach by imposing punitive tariffs against Chinese tires and steel pipes.

There is common agreement, though, on some of the most pressing challenges facing the two countries.

The United States and China seem to agree that global imbalances pose a serious threat to economic stability, and that each nation must change course.

Americans need to save more and China needs to consume more, and restructure its economy in a way that will prevent it from building up huge trade surpluses and then accumulating huge foreign exchange reserves.

Richard Portes, who teaches economics at the London Business School, says this was at the heart of the global economic collapse.

But moving to a more flexible exchange rate in China is one of the instruments that many analysts say is

necessary to get there.

Some progress has already been made, experts say, because of slowing demand for imports and Chinese efforts to bolster consumption.

Weijian Shan, a partner at TPG Capital, the investment firm, says it is in China's best interest to make its exchange rate more flexible and to push ahead with reforms that can help eliminate imbalances within its own economy.

He says China's economy is too heavily focused on fixed-asset investments and exports. Raising the value of the Chinese currency should discourage exports and encourage a move toward domestic consumption and the creation of higher-value goods.

"Revaluation in an orderly way is good for China," Mr. Shan says. "America doesn't need to put pressure. China knows about it. And in my view it's going to happen."

[Copyright 2009 The New York Times Company](#)

[Privacy Policy](#) | [Terms of Service](#) | [Search](#) | [Corrections](#) | [RSS](#) | [First Look](#) | [Help](#) | [Contact Us](#) | [Work for Us](#) | [Site Map](#)
