# US fails to pressure China into currency revaluation

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US Treasury Secretary John Snow's visit to Beijing at the beginning of the month failed to pressure the Chinese government to allow currency markets a greater role in determining the value of the Chinese currency, the yuan.

A market-driven valuation of the yuan wanted by the Bush administration would most likely result in an increase of the Chinese currency vis-à-vis the US dollar, making Chinese imports to the US more expensive. At present, the yuan trades in a fixed range of around 8.3 to the dollar.

Snow told the press after his meetings with senior Chinese officials that "on the currency issue," he "was assured that interim policy steps are now being taken and progress in this area will continue". However, the interim steps do not involve any concrete moves toward floating the yuan on global currency markets.

Premier Wen Jiabao declared that "maintaining the stability" of the yuan was in the "mutual interests of the US and China". Zhou Xiaochuan, the governor of China's central bank, stated that though China will "gradually" allow the market to play a "decisive role," there was no timetable.

Instead of any change to the fixed currency system, the Chinese government, at this point, only intends to ease the restrictions on Chinese companies and individuals investing overseas and holding foreign currencies.

At the Asia-Pacific Economic Cooperation (APEC) finance minister's meeting on September 5, most of the participant countries also rejected Snow's call for a "flexible" Chinese exchange rate. The forum's joint statement voiced support for Beijing's position and "appropriate exchange rate policies that facilitate orderly and balanced external adjustment".

The other major Asian countries have a vested interest in maintaining the status quo. As export industries have burgeoned in China, other economies in the region have adapted to function as suppliers of either raw materials or parts to Chinese-based plants. The finished goods are then exported on to markets in the US, Japan and the European Union. Indeed, China's $US103 billion annual trade surplus with the US is offset partly by trade deficits with South East Asian countries, Taiwan and South Korea of more than $55 billion.

Snow's visit was largely an effort by the Bush administration to compete with its Democratic Party opponents, American-based manufacturers and trade union officials who are seeking to develop a nationalist campaign against "cheap" or "under-priced" imports, especially from China.

In the early stages of the campaign for the 2004 presidential elections, leading Democrat contenders have begun using protectionist demagogy to present themselves as defenders of working people.

The *Washington Post* noted on September 2: "Senator John Kerry of Massachusetts said as he laid out his economic agenda last week that 'manufacturing jobs are in a free fall'. Connecticut Senator Joseph I. Lieberman has promised a 'manufacturing recovery plan' that would use tax credits to reward companies for the percentage of manufacturing production they keep in the United States. And Richard A. Gephardt of Missouri offers a trade policy 'that will put an end to the hemorrhaging of manufacturing jobs'."

While his treasury secretary held talks with China's premier over the yuan, Bush sought to match the Democrats by using his September 1, Labor Day address to an audience of union officials and members in the industrial state of Ohio to blame rising US unemployment on "unfair" trade. Ohio, a state the

Republicans only won narrowly in the last elections, has lost an estimated 185,000 jobs since 2001, mostly in manufacturing. Throughout the US, some 11 million people are officially unemployed. Bush declared: "One way to make sure that the manufacturing sector does well is to send a message overseas... we expect there to be a fair playing field when it comes to trade."

On Snow's return, however, Bush indicated he would not take any aggressive action against China. "The best thing to do with these countries [China and its monetary policy supporters], however, is not to ... scream and shout and thump the table here at home. It's to send a clear message to them so that they know our position, so they can digest what we've told them, and that we can work together as friends to resolve any problems we have," he said.

The Bush administration's muted response reflects the complex economic inter-dependency that exists between the US and China.

Writing in the *New York Times*, columnist Paul Krugman commented on September 5 that Bush's "pressure" on Beijing was largely for domestic consumption: "[E]ven a modest currency shift by Beijing would allow Mr. Bush to say that he was doing something about the loss of manufacturing jobs other than appointing a 'jobs czar'. And so John Snow, the Treasury secretary, went off to Beijing to request an increase in the yuan's value. But he got no satisfaction."

Krugman noted that "the US currently has very little leverage over China". After referring to Washington's current reliance on China to sponsor talks over North Korea, he explained: "[P]urchases of Treasury bills by China's central bank are one of the main ways the US finances its trade deficit. Nobody is quite sure what would happen if the Chinese suddenly switched to, say, euros—a two-point jump in mortgage rates?—but it's not an experiment anyone wants to try."

In other words, the debt-stricken character of the US economy has contributed to the Chinese regime emerging as an economic prop of the American ruling elite. Over the past two decades, American-based companies have also sought to maintain profitability by exploiting cheap labour in China and elsewhere.

Protectionist measures against China would both impact on the profits of the thousands of US companies that base their production there, and possibly cause Chinese banks to curtail their massive purchases of US debt, with considerable economic and political consequences in the US.

In China, the Beijing bureaucracy is concerned at the potential impact of a rising yuan on exports and investment, as well as the social and political consequences. The official *Peoples' Daily* on September 5 pointed out that Bush was playing the currency "card" with an eye to next year's US election and that China was not to blame for US economic problems.

The newspaper indicated the extent to which China had already accommodated to the requirements of US capital. "China does not engage only in export without import, we have imported large numbers of Boeing airplanes and Ford motor vehicles, but we have never complained that they [US companies] have seized our rice bowls. In addition, over 50 percent of China's exported products are produced by foreign-funded enterprises in China," it stated.

It concluded by saying that China deserved "some 'thank you' reward" for services rendered.