Economists see strong U.S. case on China currency

By Paul Eckert
Reuters
March 12 2010

* Krugman: "Hard to fudge obvious fact China manipulating"

* Bergsten: Yuan undervalued at least 25 to 40 percent

* U.S. action would get wide support

WASHINGTON - U.S. President Barack Obama has no reason to shy away from formally labeling China a currency manipulator and American pressure to get Beijing to allow its yuan currency to rise would enjoy worldwide support, some prominent U.S. economists said on Friday.

Next month, the U.S. Treasury Department must decide again whether to label China a currency manipulator in a semi-annual report.

Obama has resisted making that designation in the two Treasury Department currency reports issued under his watch, favoring instead behind-the-scenes talks with Beijing, like his predecessor, George W. Bush.

But with Chinese trade surpluses increasing again amid the widespread belief that China is exporting its unemployment through mercantilist currency and other trade policies, the time has come for tougher U.S. actions, said the economists.

"It's probably going to be really, really hard for them yet again to fudge on the obvious fact that China is manipulating," Paul Krugman, a Nobel Laureate in economics and a Princeton University professor, said at a symposium held by the Economic Policy Institute, a Washington think-tank.

"Without a credible threat, we're not going to get anywhere," he said.

The symposium, "What Can U.S. Do About China's Currency Manipulation?" was held against a backdrop of rising pressure from Congress to act on a trade gap that economists reckon has cost as many as 1 million jobs.

Democratic Senator Charles Schumer, author of a previous bill threatening high tariffs against Chinese goods in order to force Beijing to revalue its currency, separately on Friday said he would begin revamping legislation in coming days.

"Now more than ever, there is a consensus to finally confront China's currency manipulation," Schumer said in a statement.

Labeling China a currency manipulator under a 1988 U.S. law would require the Treasury Department to begin "expedited" negotiations with China on the currency.

C. Fred Bergsten, head of the Peterson Institute for International Economics, told the panel that a dozen studies by his think-tank in recent years had established that "the renminbi is undervalued by at least 25 to 40 percent."

He called that estimate a "conservative" conclusion that did not factor in China's rising productivity gains and assumed that China would still run a modest current account surplus.

China had allowed its currency to trade a bit more widely in a July 2005 policy shift but has since shifted course and repegged its currency to the dollar.

Beijing's "staggering and unprecedented" currency intervention of $30 billion to $40 billion a month has prevented a real revaluation, said Bergsten.

Krugman said a move by the United States to tackle currency policies that amount to subsidies of Chinese exports would take place at a time when China is in a very weak position.

"We should not be afraid of what the Chinese might do if we pressured them to stop this currency manipulation," he said.

Past arguments that China's reinvestment of the dollars earned from exports into U.S. debt kept interest rates low no longer hold in a world flooded with savings, said Krugman.

"There is a growing intellectual consensus that the preferred approaches have not worked," said Bergsten, referring to U.S. discussions with China over the past seven years and a push by the Group of 20 major economies to tackle economic imbalances.

"Currency manipulation equals protectionism," he said. "That being the case, reaction to it should not really be thought of as protectionism."

Bergsten said he doubted whether a World Trade Organization case against China would succeed, but suggested that other U.S. measures including temporary tariffs would get world support.

Developing countries like India and Mexico "are screwed the worst by Chinese policies" and are furious at Beijing but stay publicly silent in the absence of U.S. action, he said.

A unilateral U.S. tariff move against China "would wind up fairly quickly in a multilateral, more or less equivalent, step by most countries in the world," said Bergsten.

(Additional reporting by Donna Smith; Editing by Leslie Adler)