

# US groups eye second Obama decision on China yuan

By Doug Palmer  
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WASHINGTON - U.S. labor and manufacturing groups urged President Barack Obama on Tuesday to live up to his campaign rhetoric and formally label China a currency manipulator in a Treasury Department report due out next week.

But Nicholas Lardy, a China economic policy watcher at the Peterson Institute for International Economics, said he'd be "shocked" if Obama took that step now.

Obama faces his second decision on the currency issue in a semi-annual report due to Congress on Oct. 15.

During last year's campaign, Obama criticized then-President George W. Bush for repeatedly failing to label Beijing a currency manipulator, but then made the same decision in his first stab at the issue in April.

Obama's Treasury Department said China's currency, the renminbi, remained "undervalued," but Beijing had allowed the currency to rise 16.6 percent in real terms between June 2008 and the end of February 2009.

It also praised Beijing for enacting a large stimulus package to restore and "rebalance" Chinese economic growth.

The decision disappointed labor and manufacturing groups, who believe China deliberately undervalues its currency by 20 to 40 percent to give its companies a big price advantage in international trade.

Obama made up some lost ground with labor by recently slapping a 35-percent duty on tires made in China after a U.S. trade panel said a market-disrupting surge had occurred.

But "the magnitude of our trade imbalance with China is so enormous that we can not address it with piecemeal measures, one sector at a time. We have to address the basic pricing problem, which is a currency problem," said Thea Lee, policy director for the AFL-CIO labor federation.

The largest U.S. manufacturing group, the National Association of Manufacturers (NAM), also wants Obama to designate China a currency manipulator to increase pressure within the International Monetary Fund on Beijing.

## INITIATE NEGOTIATIONS

"A lot of people were surprised they didn't cite China before. NAM's view is that if the U.S. doesn't cite China under the law, then it is unlikely that the IMF is going to do so," said Frank Vargo, vice president for international economic affairs at the manufacturers' association.

Under the 1988 U.S. law, Treasury is required to "initiate negotiations ... on an expedited basis, in the International Monetary Fund or bilaterally" with any country that it cites for currency manipulation.

China was cited in five reports between May 1992 and July 1994. However, no country has been cited since then.

Designating them now would increase strains on U.S.-China relations at a time when Washington wants Beijing's cooperation on issues ranging from Iran and North Korea to global climate change negotiations and world trade talks.

"There's no question" that China's currency is still undervalued, but a number of positive developments make it unlikely Obama will cite them for manipulation, Lardy from the Peterson Institute said.

"Not only is their trade balance coming down, but they have had very strong consumption growth ... On some of these big things, they're doing what we want them to do. All the trends are in the right direction," Lardy said.

As the world emerges from its worst economic downturn in decades, Washington has urged Beijing to promote domestic demand so its economy is less reliant on exports.

The Obama administration made credible progress on that front at the recent G20 leaders meeting in Pittsburgh, where "China went along with a pretty strong statement about rebalancing and making growth more sustainable," Lardy said.

Meanwhile, the Fair Currency Coalition, which includes labor, steel, farm, manufacturing and textile organizations, is looking beyond Obama's decision to action in Congress.

Charlie Blum, the coalition's executive director, said the group is pressing lawmakers to support legislation in the House of Representatives and Senate that would define currency manipulation as an illegal subsidy under U.S. trade rules.

If it becomes law, that would allow U.S. companies to ask the Commerce Department to impose duties offsetting the price advantage China gets from its exchange rate, Blum said.

Obama backed a similar bill when he was in the Senate.

*(Reporting by Doug Palmer; Editing by Philip Barbara)*