Will China ever revalue its currency? Maybe next month

China is under international pressure to revalue its currency to address trade imbalances. It didn’t do it at this week’s bilateral meeting with US officials but may ahead of G-20 meetings in June.

By Howard LaFranchi,
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For those in the US who were disappointed that China did not use this week’s US-China dialogue to announce a revaluation of its currency – such as some members of Congress – the next occasion to watch may be next month’s G-20 meetings.

China knows it is under pressure to revalue its currency, the renminbi, as a sign of its willingness to address trade imbalances. But the Chinese government is more likely to act in the run-up to a major international economic gathering than in the context of a bilateral dialogue with the US, say some business and economic experts.

Even if China does respond to international pressure in coming weeks, say some of the same experts, any Chinese action is unlikely to have the kind of impact on US trade figures – and jobs – that Congress is looking for.

“We agree China ought to have an exchange rate that better reflects market influences,” says John Frisbee, president of the US-China Business Council in Washington. “But we don’t think it’s going to have much of an impact on the bilateral trade deficit, nor do we think it’s going to have an impact on American jobs.”

Despite the lack of action on currency, this week’s Strategic and Economic Dialogue in Beijing was positive, Mr. Frisbee says, if for no other reason than it kept bilateral discussions going on issues ranging from market access to fiscal policy and protectionism.

The US delegation to the talks, led by Secretary of State Hillary Rodham Clinton and Treasury Secretary Timothy Geithner, included more than 200 US officials – but failed to deliver any headline results. That outcome led some trade organizations to call the talks a sham and evidence of US weakness toward China, while rumblings resurfaced in Congress over what is considered to be China’s undervalued currency.

Some economic analysts say it was never likely that China would use the occasion of a US-China dialogue to announce a revaluation of the renminbi.

Derek Scissors, an Asia economics analyst at the Heritage Foundation in Washington, says he sees a better chance that China will take action prior to the G-20 meetings next month in Canada. But even then, he guesses that – if it happens – a revaluation will be small and largely a symbolic gesture.

“They’ll say something like, ‘This is what the world has asked of us,’ ” Mr. Scissors says. But “it will be minor and won’t have any effect on US-China trade.”
The US-China Business Council’s Frisbee says he foresees perhaps a return to the situation before July 2008, when China pegged the renminbi to the dollar. Prior to that action, the Chinese currency floated within a narrow band and was thus allowed to gradually though modestly rise in value. “The Chinese know this issue is a political irritant with the US,” he says.

But that scenario is unlikely to satisfy those in the US who want a dramatic move.

The result, Scissors says, could be additional fireworks over the US-China trade imbalance: not on the Fourth of July, but when Congress reconvenes after Labor Day.

Saying a revaluation of China’s currency is “not the administration’s issue” but more Congress’s fixation, Scissors notes that he expects some expression of US frustration in the fall if China has not acted by then.

“When Congress comes back in September of an election year, things tend to happen very fast” on voter-popular measures, he says. If China hasn’t “deflected the fire” from Congress with some action by September, Scissors says, “It’s too late.”