

CRITICAL ISSUE

Renminbi Politics: The World vs. China

Appears in the Briefing: China: The Renminbi

Oct 26, 2010

- **Overview:** Piling on to pressure from the U.S., China's currency policy has come under increased pressure from other advanced economies, international organizations and some emerging markets. Tensions over the undervalued renminbi and the prospects for quantitative easing in the U.S. dominated the October 2010 IMF/World Bank meetings in Washington, D.C. On the defensive, China has tried to shift the debate toward the effect on U.S. monetary policy in driving up the value of emerging market currencies and China's efforts to reduce its current account surplus. With the upcoming G20 meeting in November, the RMB will remain under pressure to appreciate.
- European leaders have stepped up their criticism of China's currency policy in 2010. German Economy Minister Rainer Brudersieck, during a visit to China on October 13, 2010, said that "We have to take care that the currency war doesn't become a trade war. China bears a lot of responsibility for ensuring that it doesn't come to an escalation." This followed on comments from Axel Weber, Bundesbank president and ECB Governing Council Member, saying, "China has a current-account surplus because its authorities manipulate their currency."
 News [Wall Street Journal](#) Andrea Thomas Oct 14, 2010
 Germany Warns of Trade War Over Yuan
- No agreements were reached on global rebalancing or currency policies at the annual IMF meeting in October 2010. The U.S. and other advanced economies pressed for China to allow the RMB to appreciate, while China accused the U.S. of playing a destabilizing role in the global economy with its ultra-loose monetary policy. The IMF proposed a new mechanism to scrutinize how different countries' economic policies affect others, although this is not likely to resolve the differences between China and others.
 News [Financial Times](#) Oct 10, 2010
 Battle lines drawn over currency war
- Eswar Prasad, a senior fellow at the Brookings Institution, told Bloomberg, "For lack of a better alternative, the IMF has to play an active role in trying to mitigate currency

competition. But the IMF power is really limited to persuasion because it has few good instruments to promote cooperation among member countries who are unwilling to modify their policies."

News [Bloomberg](#) Oct 10, 2010

Finance Leaders Call for IMF Role in Averting Protectionist 'Currency War'

- Ronald Leven and Richard Berner of Morgan Stanley: "The IMF meetings bring focus on the need for substantial CNY appreciation over the coming year to pave the way for a smooth, broad decline of the dollar. The U.S. needs this decline in order to increase US competitiveness and promote net exports as a meaningful source of growth. The global economy and financial markets need CNY appreciation to promote global rebalancing, to prevent significant appreciation of the other two major currencies—the EUR and JPY—and to promote a more synchronized appreciation of currencies in strongly growing countries with current-account surpluses. Such currency movements will also reduce currency tensions that could lead to more pressure for competitive devaluations—a currency war—or a trade war and protectionism."

Analysis [Morgan Stanley](#) Richard Berner and Ronald Leven Oct 13, 2010

Global: IMF/G7 Meetings: No Resolution for Currency Tensions

- At the IMF meeting, U.S. Treasury Secretary Tim Geithner proposed two strategies to prod China into letting the RMB appreciate, but neither gained much traction. China might allow the RMB to rise if other Asian currencies do as well, which could be helped by a regional accord. Alternatively, China's power and role in the IMF could be linked to its currency policy, and the appreciation of the RMB, Giethner suggested. European leaders took a less confrontational approach, according to the Wall Street Journal.

News [Wall Street Journal](#) Oct 09, 2010

U.S. to Step Up Pressure on China

- Zhou Xiaochuan, the head of the People's Bank of China, told policy makers at the IMF meeting that China would take a gradual approach to RMB appreciation. Yi Gang, a deputy central bank governor, went further and said China would act to reduce its current account surplus to less than 4% of GDP in the medium term. In H1 2010, China ran a 5.5% of GDP current account surplus, down from a peak of 10.6% in 2007.

Blogs [WSJ China Real Time Report](#) Andrew Batson Oct 12, 2010

From Currency To Current Account?

- The RMB began rising more sharply against the USD in September as domestic inflation and international pressure were building. The RMB appreciated 1.7% against the USD in September, the fastest pace since July 2005. However in that period, it depreciated in real terms against its trading partners as its appreciation fell short of that of the euro against the dollar.
- Asian countries tend to watch closely their bilateral exchange rates with the RMB so that their exports to China, or exports to third countries, do not become uncompetitive. Guonan Ma and Robert McCauley argue that the "shared policy of gradual nominal effective appreciation [seen in 2006-08] renders East Asian currencies quite stable against one another. Such a shared policy would create favourable conditions for regional monetary cooperation."

Research Bank for International Settlements Guonan Ma and Robert McCauley Sep 27, 2010
The evolving renminbi regime and implications for Asian currency stability

- IMF managing director Dominique Strauss-Kahn urged China to allow the RMB to appreciate ahead of the October 2010 IMF/World Bank annual meetings. "What we all want is the rebalancing of the global economy, and this rebalancing cannot happen" without "a natural consequence of it, which is a change in the relative value of currencies," he told a press conference. He said the IMF has repeatedly warned "that we believe that the renminbi was substantially undervalued and something has to be done to fix this problem over time."

News New York Times Oct 07, 2010
I.M.F. Chief Steps Into Dispute Over China's Currency Policy

- Writing in the FT on February 3, 2010, Arvind Subramanian, a Peterson Institute fellow, argued that the focus on the imbalances caused by an undervalued RMB is misguided. The competitiveness of other developing countries is undermined by China's currency policy, lowering their growth potential. He writes that developing countries should stand up to China's "mercantilist trade policy." In fact, G10 countries with currencies that have appreciated against the USD have also been hurt.

News Center for Global Development Feb 03, 2010
It is the poor who pay for the weak renminbi (Financial Times)

- One of the outcomes of the G20 meeting in Pittsburgh in the fall of 2009 was a pledge by leaders to engage in a sort of peer review of macroeconomic policies and a surveillance mechanism to help reduce imbalances. However, doing so may be difficult. IMF's attempts at a multilateral exchange rate surveillance showed only limited results in tackling imbalances.

- The report from China's 2009 Article IV consultation, its first since 2007, suggests that several IMF board members believe that the RMB is "substantially undervalued." Dominique Strauss-Kahn, the head of the IMF, reiterated that "the renmimbi is undervalued" at the IMF/World Bank annual meeting on October 2, 2009. China has blocked past Article IV consultations fearing they would decree that the currency was fundamentally misaligned. Subsequently the IMF stopped using the phrase "fundamentally misaligned currency" in any Article IV consultations.

Analysis IMF Jul 22, 2009

IMF Executive Board Concludes 2009 Article IV Consultation with the People's Republic of China

- Willem Buiter, FT: "Should the U.S. Treasury officially determine China to be a currency manipulator, the Administration can unleash a range of remedies, including antidumping measures, countervailing duties and safeguards. Although the WTO permits certain retaliatory responses from importing nations who prove material injury from unfair trade practices, much of what Congress and some members of the administration have in mind may violate WTO obligations. Any bilateral trade war could easily spread to the EU, Japan and emerging markets outside China."