

China's Hu upbeat, resists US pressure on currency

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Chinese President Hu Jintao (胡锦涛) urged an end to a “zero sum” Cold War relationship with the US and proposed new cooperation, but resisted US arguments about why China should let its currency strengthen.

Indeed, in a sign that the future of the US currency continues to concern the most senior levels of the Chinese government, he said the US dollar-based international currency system is a “product of the past.”

Overall though, Hu, who will visit Washington this week, struck an upbeat tone about ties with the US in a rare written interview with two US newspapers, the Wall Street Journal and the Washington Post.

“We should abandon the zero-sum Cold War mentality,” he said, and “respect each other’s choice of development path.”

Hu suggested cooperation with the US in areas like new energy sources, clean energy, infrastructure development, aviation and space. He also reassured foreign businesses in China that Beijing would continue to improve laws and regulations affecting them.

And he spoke encouragingly about the outlook for resolving tensions on the Korean Peninsula.

However, Hu also indicated he did not accept US arguments for Beijing to let its currency appreciate. Critics say China’s undervaluing of the yuan gives it an unfair price advantage in international trade, contributing to the huge US trade deficit.

Analysts thought Hu’s generally conciliatory tone augured well ahead of his Washington meetings with US President Barack Obama and other officials.

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“Hu makes it clear that China intends to move forward on opening its markets, freeing up its exchange rate and restructuring its political system, but at its own pace and with little heed to external pressures for more rapid or broader reforms,” said Eswar Prasad, a Brookings Institution economist.

Hu said China is fighting inflation with a range of policies including interest-rate increases, and “inflation can hardly be the main factor in determining the exchange rate policy.”

He suggested that inflation, which hit a 28-month high in China last November, was not a big headache, saying prices were “on the whole moderate and controllable.”

“We have the confidence, conditions and ability to stabilize the overall price level,” Hu said.

US lawmakers are among the biggest critics of China's exchange rate policy. Three Democratic senators — Charles Schumer, Debbie Stabenow and Bob Casey — said on Sunday that they would propose legislation to try and fix the problem. The legislation would impose stiff new penalties on countries that the US Treasury Department designated as currency manipulators.

Hu said it would be a “fairly long process” to make China's own currency an international one.

He also said “the liquidity of the US dollar should be kept at a reasonable and stable level.”

China has argued that the US Federal Reserve's November decision to buy US\$600 billion in US government bonds would undermine the greenback's value and lead to competitive currency devaluations by other countries. China, with foreign exchange reserves of US\$2.85 trillion, is the largest holder of US debt.

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