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China has poll breather on yuan pressure

By Tim Brown

Speaking Freely is an Asia Times Online feature that allows guest writers to have their say. [Please click here](#) if you are interested in contributing.

BEIJING - Pressure is picking up once more on China to appreciate its currency at a faster rate, with a call by the Group of Seven of leading industrialized nations for more efforts to strengthen the yuan echoed last Thursday in Beijing by International Monetary Fund managing director Dominique Strauss-Kahn. On the same day, Bloomberg reported that China had surpassed Canada to become America's largest importer.

The elevation of China's trading position and non-US demands for a stronger yuan lend support to advocates of revaluation of the

currency in Congress, which last summer debated legislation to increase pressure on Beijing to move faster in this direction.

"The trade numbers that came out today and which show another record deficit with China is further evidence that this problem is getting worse and not better," said Ohio Democratic Representative Tim Ryan, a co-sponsor of currency legislation.

The debate in Congress may well return to prominence on Capitol Hill, given three other big China-related stories from last week - US allegations of espionage, Steven Spielberg's high-profile resignation from involvement with the Beijing Summer Olympic Games to be staged in August, citing the country's policies on Darfur, and questions over the safety of a drug compound shipped from China to the US for the manufacture of heparin.

Yet the Chinese government still has some breathing space before it will be threatened by the effects of any legislation, which is unlikely until after the new president is sworn into office next January 1. The George W Bush administration is unlikely to agree to it; nor is any meaningful legislation likely to muster the two-thirds majority needed to override a presidential veto.

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The administration's leader on the issue, US Treasury Secretary Henry Paulson, testified before the Senate Budget Committee this month that the effort to pass yuan legislation was "bordering on the silly". He expressed his desire for appreciation to occur more quickly, but countered this expression with the realization that "the rate of appreciation of the currency roughly doubled last year to 6.7%".

The administration has been just as consistent in its efforts to squelch legislation as Congress has been in promoting it.

And why now, or at any time before Bush leaves office, should the administration make a deal with Congress? Bush will not be in office 10 months hence. The fact that the timetable for favor-swapping is dwindling means that favor-swapping is less likely to occur. Prospective future favors are becoming a non-issue. In other words, the idea that "tomorrow will be brighter because of the deals I make today", doesn't make much sense.

The only reason for the administration to compromise on yuan legislation would be that it would receive a commensurate "gift" from Congress. Congressional politicians prefer to trade favors with the newly elected popular president coming into office, rather than with the less-popular president exiting it.

According to Dr Gregg Johnson, assistant professor of political science at the University at Buffalo, "A newly elected president claims to have an electoral mandate to pursue the policies he or she advocated during the campaign. Legislators are more willing to stand up for these policies and less likely to resist them when the president is seen as popular, like they are during their first year in office. The most obvious example of this is FDR's [Franklin D Roosevelt's] First 100 Days legislation that was designed to ameliorate the causes of the Great Depression.

"President Bush lacks standing as a 'lame duck' - he's in his last year and cannot run for reelection - and, barring a real meltdown of the US economy, Congress is unlikely to pass anything negative before November's election."

Johnson further noted that neither the US nor China "has strong short-term incentives to push too hard on the topic. The US relies on China and other nations to cover its enormous budget deficit (as well a private sector debt) and China relies on the US as its largest export market. We are too economically interdependent to really push each other too hard on this topic."

Lending further credence to the likelihood that a bill will not be passed until a new president takes office is the fact that no major US newspaper wrote on Thursday about China's recent usurpation of Canada as America's number one source of imports. People in the US are not really talking about this story and other China-related concerns. They're talking about the presidential elections.

Of course, it would be assuming too much to say for certain that a yuan bill won't be passed on Bush's watch. However, if history is any measure, that is the likely scenario. As China's first great historian Sima Qian (ca 145-90 BC) noted, "Those who do not forget the past are the masters of the future."

Tim Brown is a freelance reporter based in Beijing. He can be contacted at tim.brown100@yahoo.com

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