

## **When it comes to manipulating currency values, China is hardly alone in the world, writes Businessweek.com columnist Chris Farrell**

By [Chris Farrell](#)

The stakes will be unusually high when the global finance mandarins of the World

Bank and the International Monetary Fund gather for their annual meeting this weekend in Washington, D.C. Their task in backroom negotiations and high-level corridor discussions is to head off an incipient currency war that could degenerate into a round of beggar-thy-neighbor policies reminiscent of the 1930s. (The famous phrase is attributed to Joan Robinson, the Cambridge University economist who may have been inspired by the popular 19th century card game Beggar-My-Neighbor.)

The Institute for International Finance, a global association that represents more than 420 of the world's major financial institutions, is nervous enough to publicly call for the first global currency pact since the Plaza Accord of 1985. "A core group of the world's leading economies need to come together and hammer out an understanding," said Charles Dallara, the managing director of the Institute for International Finance, on Oct. 4.

He's absolutely right. The current currency conundrum makes the risk of another downward spiral in the fragile global economy all too real.

For a while, it was striking how governments refrained from pursuing protectionist policies during the Great Recession. It seemed that a major lesson of its predecessor, the Great Depression of the 1930s—that nations' embrace of tariffs and other barriers to trade in an effort to protect domestic industry was a disaster for everyone—had been absorbed. That's still the case, but the current recovery has been so anemic that governments everywhere are under enormous pressure to grab a bigger slice of a diminished economic pie for their companies and workers by cutting the value of their currency.

Japan, South Korea, Taiwan, Brazil, and Switzerland have all intervened in the currency markets to lower the value of their money to stay competitive. The Bank of England looks favorably on a weak pound. U.S. officials talk a good game about maintaining the value of the dollar even as they hope its decline will shore up the nation's beleaguered manufacturing industries.

### U.S.-China Tensions

But with so many countries trying to tamp down the value of their currencies, the tension has flared into the open. The European Union is worried that the Continent's recovery will falter with the euro appreciating some 15 percent against the U.S. dollar and its shadow currency, China's yuan. (The yuan's value is pegged to the greenback; it is trading around 6.69 per dollar.) The U.S. House of Representatives passed on Sept. 29 the Currency Reform for Fair Trade Act that would allow the government to slap countervailing duties on imports from countries deliberately undervaluing their currencies (which rhymes with "China").

"We're in the midst of an international currency war, a general weakening of currency," warned Brazil's Finance Minister Guido Mantega on Sept. 28. World Bank President Robert Zoellick a week later said that he didn't think "we're moving into an era of currency wars but there's clearly going to be tensions." That's hardly a reassuring comeback.

The core of the global imbroglio is the contentious economic relationship between the world's two leading economies, China and the U.S. The political and economic leaders of both countries need to act as global statesmen and not parochial politicians. It isn't impossible that cooler heads will prevail. Yet there's no gainsaying that this looks like the most critical juncture in policymaking since the collective embrace of John Maynard Keynes and Milton Friedman following the collapse of Lehman Brothers in 2008.

The U.S. has long charged that the yuan is undervalued and China's "manipulated" currency gives its industries a huge advantage in the global competition for markets and profits. To be sure, China's government allowed the yuan to appreciate against the dollar by some 21 percent from 2005 to 2008, and it relaxed the peg again in June 2010. But the yuan is only up some 2 percent since the change in currency policy.

[Powered by WizardRSS](#) | [Full Text RSS Feeds](#)

**Source:** <http://news.google.com/news/url?sa=t&amp;fd=R&amp;usg=AFQjCNFM9pIZQjOEBS>

## **Bogie, Claude Rains Wouldn't Be Shocked by Rigged Currency Casino - BusinessWeek**

Written by Administrator

Tuesday, 05 October 2010 20:32 -

---

[WJHnSSeVf9mDBtNQ&url=http://www.businessweek.com/investor/content/oct2010/pi2010105\\_110226.htm](http://www.businessweek.com/investor/content/oct2010/pi2010105_110226.htm)