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# FOREX VIEW: China Moves Away From G7 Heat On Yuan Peg

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NEW YORK (Dow Jones)--China doesn't want to take any more heat over the yuan, so it's moving away from the G7 fire.

By not sending a top-level delegation to the Spring Meeting of the International Monetary Fund and World Bank this weekend, China effectively squelched much of the chatter that preceded the two most recent gatherings of finance ministers and central bankers from the Group of Seven leading industrialized nations.

But a diminished Chinese presence this time round won't mean the China-related economy will be pushed to the back burner. The role China now plays in the world economy is simply too big to be ignored by the G7 or other countries.

In its latest World Economic Outlook, the IMF raised its forecast for China's economic growth this year to 8.5%, up one percentage point from its September estimate. Last year, China recorded GDP growth of 9.5% in 2004, which was its fastest annual pace in eight years.

The sheer size of China's economy, encompassing 1.3 billion people, has coupled with 25 years of reforms to give the country enormous clout in world markets. China's import and export activities send ripples, and sometimes tidal waves, through virtually all asset classes around the globe. Equities, fixed income, commodities and foreign exchange are all feeling the impact of China's emergence on the world financial stage.

For several years, the G7's gripes about China have largely centered on the yuan's de facto peg to the dollar, which other nations contend leaves the Chinese currency undervalued and gives mainland manufacturers unfair advantages. The yuan's stability has been given much of the blame for the imbalances that have occurred as other currencies shouldered the burden of the dollar's depreciation.

To some China watchers, the criticism of China's currency regime has served as a surrogate for frustration over broader trade and economic issues. Now these issues may be pushing the yuan into the background a bit.

The concern over the yuan's exchange rate certainly won't disappear. China had foreign exchange reserves of $659.1 billion as of the end of March, a 50% increase from a year earlier, the central People's Bank of China said Thursday. China now holds the second biggest store of foreign currency in the world and is gaining quickly on first-place Japan.

Yuan May No Longer Hold Center Stage

The surge in exports of Chinese textiles after the elimination earlier this year of the Multifiber Agreement quota system has helped to call attention to other facets of China's economic muscle. Likewise, the effect of China's purchases in world commodities hasn't gone unnoticed.

President George W. Bush acknowledged as much Thursday when he said one of the reasons Americans are paying $2 a gallon for gasoline is "because the demand for energy in China is huge and supply around the world hasn't kept up with the increase in demand." Bush was responding to a question after an event in Washington. He also stated the U.S. was "pressing" China on the yuan.

That may be the reason why China is sending deputies to the IMF meeting instead of Finance Minister Jin Renqing and PBOC Governor Zhou Xiaochuan, who both attended the previous two G7 sessions.

China's leaders "don't want to be exposed to pressure unnecessarily," said **Usha Haley**, professor of international business and management at the University of New Haven.

China doesn't necessarily view the currency issue in the same light as the U.S., the European Union and Japan, said analysts. "China faces too many other more important issues ... than yuan valuation," wrote Carl Weinberg, chief economist at High Frequency Economics in Valhalla, N.Y., in his weekly email update. "Furthermore, it does not see the value of the yuan as the root cause of global balance of payments imbalances."

The lesson to the G7 is that "China will refuse to send senior government officials to a meeting where they likely only be berated for not revaluing the yuan," Weinberg stated.

Other Bones To Pick

Outside the realm of trade and economics, China has other bones of contention with individual G7 members, namely the perpetual issue of Taiwan's status and the possible inclusion of Japan on the United Nations' Security Council. In the grand scheme of things, the yuan doesn't rank all that high as an immediate concern of the Chinese leadership.

It's virtually impossible for anyone to draw any accurate conclusions about what the absence of top Chinese financial representatives in Washington this weekend means in terms of a timetable for the yuan's revaluation. Mainland officials, most recently PBOC Governor Zhou, have repeatedly stated China will make changes to its currency system when domestic conditions are right, not because of outside pressure.

But China's newfound muscle in the international arena, whether it's a question of national security or economic issues, will guarantee the G7 won't forget about China, no matter what the status of its delegation to an IMF meeting.

(Robert Flint, an assistant news editor, has covered currency markets for Dow Jones Newswires for the past seven years and was previously Beijing bureau chief and chief correspondent in Scandinavia.)

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(Vivian Tse in Beijing contributed to this article.) [ 04-14-05 1642ET ]

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