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TRADE

China accused of currency manipulation

The Bush administration accused China of unfair trade practices, contending its currency system puts U.S. companies at a big competitive disadvantage.

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Associated Press

WASHINGTON - The Bush administration warned China on Tuesday it must swiftly overhaul its currency system or face the likelihood of being accused of manipulations to gain an unfair trade advantage -- with economic sanctions possibly following that.

The administration has been prodding China in earnest over the last two years to stop linking its currency, the yuan, to the U.S. dollar. Manufacturers and other critics, including lawmakers in Congress, contend that China's currency system puts U.S. companies at a big competitive disadvantage and has contributed to the loss of U.S. factory jobs.

In China, central bank governor Zhou Xiaochuan said no one should expect quick action. "Our measures will only come out after we have done a good feasibility study," he said.

The department issued the warning as part of its twice-a-year report to Congress. It stopped short of finding that China -- or any other major trading partner of the United States -- was engaging in unfair currency practices.

The administration said China could be branded a manipulator of currency if the country doesn't switch soon to a flexible exchange system -- something advocated not only by the United States but also by other economic powers.

"If current trends continue without substantial alteration, China's policies will likely meet the statute's technical requirements for designation," the department's report said.

American manufacturers say China's system has undervalued the yuan by as much as 40 percent. The weaker yuan makes Chinese goods cheaper in the United States and American products more expensive in China.

The administration said it would monitor China's progress on moving toward a flexible exchange system "very closely over the next six months" in advance of the Treasury's next currency report that will be sent to Congress later this year.