

Obama team accuses China of manipulating its currency

By [Graham Wearden](#)

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[Barack Obama](#)'s choice as the next treasury secretary has fired the first shot in what could be a new protectionist battle between America and [China](#).

Tim Geithner told US senators that Obama believes that China has been manipulating its currency, the yuan – an accusation that is likely to hurt relations between the two countries.

In written testimony at a confirmation hearing, Geithner said that “President Obama – backed by the conclusions of a broad range of economists – believes that China is manipulating its currency.”

The former head of the Federal Bank of New York went on to tell the Senate finance committee that Obama will use “all the diplomatic avenues open to him” to push for changes in China’s currency practices.

Geithner is expected to be officially confirmed in his post by the full Senate within days.

While it is an open secret that Beijing does take steps to manage the value of its currency, analysts warned that Geitner’s comments risk disrupting the delicate balance between the two countries.

The yuan has strengthened against the dollar since 2005, when China stopped pegging the currency. From around eight yuan to the dollar in 2005, it was trading at 6.84 earlier today. This rise has pushed up the cost of Chinese exports overseas.

There was no official response from the Chinese government to Geithner’s comments.

America is a hugely important market for China’s factories, which have already suffered from the US economic slump. The flow of goods from east to west has meant China built up huge reserves of dollars and holds more US government debt, in the form of Treasury notes, than any other country.

The prospect that China might respond by selling some these assets off triggered a drop in the value of long-term US treasuries yesterday.

The term “manipulates” is politically sensitive, as under America’s trade laws the US treasury must identify any country that manipulates its exchange rate to gain an advantage in international trade.

But Geithner’s remarks may find favour with the American manufacturers, unions and

politicians who have claimed that Chinese firms have an unfair edge over foreign competitors.

The Senate committee approved Geithner's nomination, however he must wait another week for final confirmation while [Republicans continue to dig into his tax affairs](#). The former top US banker has admitted failing to pay self-employment taxes over a four-year period – an omission he says he has now addressed.

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