The clock ticks

American pressure for China to revalue the yuan is reviving. Others are less fussed.

LIKE his leggier boss in the White House, Tim Geithner, America's treasury secretary, is fond of basketball. In April he called a timeout in America's long campaign for a stronger Chinese exchange rate, postponing a report that might have accused China of currency manipulation. His objective, he said, was to use his talks with China in May and the G20 gatherings in June to make "material progress" on rebalancing the world economy. The last of those meetings, the G20 summit in Toronto, will take place on June 26th and 27th.

In basketball timeouts provide an opportunity to regroup and substitute players. In politics they give new problems a chance to come into play. The Greek sovereign-debt crisis deflected the world's attention from China's currency and sank the euro, which meant the yuan has strengthened overall even as it has remained fixed to the dollar. It also unnerved China's policymakers, who began to fret again about financial instability and a slowdown in the euro area, their second-biggest export market. This was not the time, they concluded, to fiddle with the yuan.

That sits awkwardly with Mr Geithner's hopes for global rebalancing. In this vision of the future, American saving would rise as overstretched borrowers repaid their debts. American households have indeed pulled back dramatically if you count their reduced outlays on houses and home improvements, argues Jan Hatzius of Goldman Sachs. The combined spending of American households and businesses now falls short of their income by about 6.8% of GDP. In 2006 spending exceeded income by 3.7% of GDP.

This retrenchment was offset, and made possible, by a dramatic fiscal swing in the opposite direction. But America cannot long maintain a budget deficit of almost 9% of GDP. A sustainable recovery would require America to sell more to foreigners, aided by a cheaper dollar. And surplus countries, living well within their means, would have to buy more.

Things went according to script until the end of last year, but have since reversed. America's trade deficit has widened notably this year, to a 16-month high of $40 billion in April. Europe's travails suggest the outlook isn't much better: it will probably be importing less and exporting more, because of fiscal retrenchment and a lower euro, taking market share from American exporters.

America can take some comfort from a narrowing of China's current-account surplus, from 11% of GDP at its peak in 2007 to 6.1% last year. China's imports have ballooned this year, thanks to its prodigious stimulus spending and a rise in commodity prices. It even recorded a trade deficit in March. But in the year to May exports increased by almost half, resulting in a trade surplus of about $20 billion for the month, the biggest since October. The fear is that China's strong imports of machinery, oil and ores in the early months of this year may simply have gone into one end of a production pipeline, out of which are now emerging excessive volumes of steel and heavy-industrial products that it cannot sell at home. As Janet Zhang of GaveKal Dragonomics points out, China's steel exports in May were 89% higher than their average over the previous four months.

Criticism of China's currency has resurged almost as quickly as its exports. In international basketball, only the coach can call a timeout. But in America, any of the players can interrupt the game. American policymaking is equally chaotic. Unlike Mr Geithner, many congressmen believe China has already run out of time. Charles Schumer, a Democratic senator, has introduced a bill that would authorise America to slap duties on imports deemed to benefit from an artificially low currency. He plans to seek a vote within a few weeks.

With no parallel bill in the House of Representatives, Mr Schumer's proposal is a long way from becoming law. But Senate passage could press the administration into taking a firmer line. The government could formally label China a currency manipulator in the delayed report, due in early July; or it could rule in favour of several companies—including three papermakers—that have requested duties on Chinese imports because of the cheap yuan.

Would a stronger yuan really save America's papermakers and other struggling firms? Between mid-2005 and mid-2009, China's real trade-weighted exchange rate appreciated by about 5.5% a year. If instead it had risen by 10% a year, as many in America would have liked, China's exports would have been about 30% lower by mid-2009, according to a study by Shaghil Ahmed of the Federal Reserve.

But in China a drop in exports does not translate straightforwardly into a drop in the trade surplus. China re-exports a lot of what it imports, turning hard drives into iPods and iron ore into steel. So when its foreign sales fall, its overseas purchases drop as well. Alicia García-Herrero of BBVA, a Spanish bank, and Tuuli Koivu of the Bank of Finland find that a 10% appreciation of the trade-weighted yuan reduces imports of components by about 6%.

America hoped that other G20 members, particularly in the developing world, would rally to the cause of revaluing the yuan. In April the president of Brazil's Central Bank described China's currency as a "distortion". His counterpart in India made some milder remarks, but India's government has remained silent. It is the co-chair of the G20's working group on rebalancing. As a rare example of a big Asian economy with a current-account deficit, it cherishes its role as honest broker.

America's huge trade deficit with China (see chart) sets it apart from many other G20 members. Japan has a surplus of $45.5 billion with China and South Korea $59.1 billion. Even Brazil can boast more than $14 billion. In the past 12 months China has run a trade deficit with the G20 excluding America (even counting the entire European Union as a member).

Getting global imbalances onto the G20's agenda took some work. China first resisted the idea, fearing the group would put it under too much pressure. But for champions of yuan reform the hope is less that the G20 sides with America against China, more that China feels comfortable enough to use the forum to unveil a policy shift that is in its own long-run interest.

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