Written by Reuters
Monday, 23 November 2009 15:59

BEIJING, Nov 22 (Reuters) - International pressure on China to lift the value of its yuan against the dollar could stoke risks to growth in 2010, an economist at a top state thinktank has said, warning of a deepening dilemma facing currency policy.

Yu Bin, head of macro-economic research at the State Council Development Research Center, told a meeting in Beijing the nation could enjoy annual growth of over 8.5 percent next year, but currency pressures, falling consumer demand and other worries could erode that growth, the Hong Kong-based Wen Wei Po newspaper reported on Sunday (www.paper.wenweipo.com).

Yu's warning of a currency "dilemma" confronting Chinese policy-makers underscored the tricky choices they face in navigating between foreign calls to let the yuan rise against the dollar and domestic fears that such a move could pummel exporters and drag down growth.

China allowed the yuan to rise 21 percent against the dollar between July 2005 and July 2008 before effectively repegging the yuan to help its exporters cope with a slump in global demand.

Beijing now faces mounting international calls to let the yuan, or "renminbi", rise on the grounds that it is undervalued and stoking imbalances with other big economies, but it showed no public sign of budging during last week's visit by U.S. President Barack Obama.

Yu told the meeting on Saturday that the Chinese economy faced risks if the dollar continues to depreciate against other major currencies, and from pressure to let the yuan rise in value against the dollar.

"China is stuck in a dilemma," he said, according to the paper.

The weakening of the dollar could mean China pays relatively more for bulk commodities, said Yu, whose thinktank advises the State Council, or central government cabinet. Those commodities, such as oil and ore, are crucial ingredients for Chinese growth.

"With the depreciation of the dollar, maintaining stability of the renminbi exchange rate against the dollar will make the renminbi appreciate against the yen and euro, fanning trade friction and increasing pressure for appreciation of the renminbi," the report cited Yu as saying.

"If the renminbi appreciates too quickly, this will be a blow to China's huge export-driven industries, while a small appreciation will draw more capital into China speculating on the renminbi exchange rate, creating instability in financial markets", added Yu.

The Wen Wei Po is a Chinese-language newspaper under mainland control.

China's central bank recently tweaked its description of how it manages the currency, setting off speculation it might give the yuan more room to move.

But market expectations of appreciation have remained muted and Chinese officials and state-run newspapers have forthrightly rejected calls for a rapid shift.