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## China learns Japan's Plaza Accord lesson

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By Alan Wheatley, China Economics Editor

BEIJING (Reuters) - Twenty years ago to the day Japan volunteered to raise the value of the yen, touching off a sharp appreciation that fueled a boom and bust in asset prices that ushered in more than a decade of stagnation and deflation.

China is determined not to make the same mistake.

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As Washington keeps up pressure on Beijing to let the yuan rise more quickly, Chinese policy makers are acutely aware of the lessons from the landmark meeting of finance ministers and central bank governors from the Group of Five industrial nations at New York's Plaza Hotel on September 22, 1985.

Differences in income levels, technological progress and the government's control over the economy and capital flows make the parallel between Japan then and China now a rough and ready one.

But the similarities are striking. Then, as now, the U.S. administration was alarmed by a high and rising current account deficit that was destroying jobs and fanning protectionism.

In 1985, Japan was in the dock because the U.S. Treasury thought its big trade surplus warranted a much stronger yen. In 2005, Washington is telling China its 2.1 percent revaluation on July 21 was a good start but that the yuan remains far too cheap.

Avinash Persaud, chairman of Intelligence Capital Ltd., believes China should firmly say no to a big rise in the yuan if the issue comes up at Friday's meeting in Washington of the Group of Seven rich nations plus five big emerging market economies.

"Large revaluations of the Chinese currency could have a huge negative impact on China, could plunge China into a deflationary environment, could bring about the Japanification of China and will have no impact on global imbalances," Persaud told a recent foreign-exchange conference in Shanghai.

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The fact that Japan's current account surplus withstood a surge in the yen in the years following the Plaza Accord shows that the answer to global current account imbalances is to change savings and investment behavior, Persaud said.

And surge the yen did. [Continued ...](#)

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