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U.S., China Clash on Currency

Both Countries Assertive as Economic Talks Open in Beijing

By Ariana Eunjung Cha

BEIJING, Dec. 14 -- U.S. and Chinese leaders clashed publicly on the opening day of strategic economic talks, with Treasury Secretary Henry M. Paulson Jr. pushing China to revalue its currency and Chinese Vice Premier Wu Yi saying Americans do not have a full understanding of the situation.

After standing by as U.S. officials criticized her country's economic policies in the media during the past week, Wu set the tone for the meeting with assertive introductory remarks that spanned 20 typed pages and 5,000 years of Chinese history.

"Some American friends are not only having limited knowledge of, but harboring much misunderstanding about, the reality in China," Wu said, according to a copy of her remarks provided by the Ministry of Foreign Affairs. For example, Wu noted that China needed to create enough jobs to absorb an estimated 300 million rural workers -- equal to the entire population of the United States -- into its urban economy in the next two decades.

Paulson was equally aggressive in his follow-up speech, saying that the U.S. government's "strong view" is that China should allow its currency, the yuan, to be more flexible. Most countries allow the value of their currencies to be set in global markets, but China intervenes to keep its currency pegged to the dollar at an exchange rate that many Western economists regard as skewed in China's favor.

The Chinese economy "would be more effective under a regime where currency values are determined in a competitive, open marketplace based upon economic fundamentals," Paulson said. A revaluation of the yuan upward would make U.S. goods cheaper in China and Chinese goods more expensive in the United States.

Throughout the day, U.S. officials pushed on issues such as trying to resolve the huge trade imbalance between the two countries and making sure that China lives up to commitments it made five years ago when it joined the World Trade Organization. By the afternoon, they said they were optimistic.

"They were very much in a receiving mode," Labor Secretary Elaine L. Chao said in an interview with reporters. "They were listening very carefully."

Commerce Secretary Carlos M. Gutierrez said that the meeting "exceeded expectations" and that "it was a very candid . . . honest, solid dialogue."

High-level U.S. officials, interviewed after the close of meetings for the day, said the two sides agreed on many things in principle, such as the need to keep their economies open to other countries. But specific measures and a timetable were less clear, with the United States pushing for rapid change and China seeking to move cautiously.

Skepticism toward foreign trade, particularly with China, played a major role in the recent U.S. elections, and proposals for punitive tariffs or other protectionist measures could gain support in Congress next year.

"I sense that they have an understanding of the stakes," Gutierrez said. "And the stakes are very large. You are talking about a lot of business, a lot of jobs on both sides. We are their No. 1 customer."

While most of the day was focused on U.S. requests of Beijing, China also listed some priorities: fewer obstacles to the export of U.S. technology and to Chinese investment in the United States. The complaint about U.S. export controls, in particular, led to some tense exchanges, U.S. delegates said,

"They would like no restrictions, and we have restrictions, so there are certain things that they would like that we can't give on," Gutierrez said.

U.S. Trade Representative Susan C. Schwab said in an interview that she told the Chinese that their country was "slowing if not backsliding" on economic reforms.

Paulson is a former Wall Street executive who has made dozens of trips to China. He has taken command of the Bush administration's economic discussions with that country and took a high-level delegation of Cabinet members and others with him on this trip as he seeks to make progress toward resolving thorny disputes.

The format of the meeting included formal presentations and broad debate on issues such as China's transport problems and the U.S. culture of easy credit.

Perhaps the meeting's most anticipated and sensitive talks -- about whether China should allow the yuan to rise in value -- were anchored by a statement from Federal Reserve Chairman Ben S. Bernanke, who accompanied Paulson on the trip.

Bernanke said an increase in the currency's value would benefit China, according to U.S. officials present at the talk.

"Other people piped in to say the U.S. has a very interested stake in China's economic well-being," Chao said.

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Currency policy tops U.S. mission to China

By Mark Magnier
Times Staff Writer

BEIJING — Treasury Secretary Henry M. Paulson and Federal Reserve Chairman Ben S. Bernanke called on China today to liberalize its currency, protect its intellectual property and stimulate consumer spending at the close of a two-day trip aimed at addressing economic irritants between the two nations.

The seniority and size of the U.S. team, which included six other cabinet secretaries and the U.S. Trade Representative, was impressive, but apparently not enough to exact many concessions from the Chinese. The trip comes at a time of growing concern in Congress and among Americans over record trade deficits and widespread patent and copyright infringement.

High on the agenda was China's tightly controlled currency. Many U.S. companies, labor groups and Congressmen see the government's heavy-handed policy as an unfair trade advantage that weakens U.S. competitiveness.

"China's currency policy is a core issue," Paulson added. "We indicated (this) to China in the clearest possible terms."

Chinese officials reportedly agreed in broad terms on the need for greater liberalization over time, but declined to be pinned down to any sort of timetable — even as they acknowledged ongoing differences between the world's first- and fourth-largest economies.

"That such differences remain is understandable because the actual situations of China and the United States are completely different," said Chinese Vice Premier Wu Yi.

China's leadership remains wary of moving too quickly in light of the nation's shaky banking system, growing wealth gap and mounting concerns over social instability.

Chinese officials also agreed in principle that their economy would benefit from many of the other structural reforms proposed by the American officials, which included better intellectual property protection, lower Chinese trade surpluses and a more open service sector.

The November trade gap with China was \$24.4 billion and is on track to hit \$229 billion this year, well above the record \$202 billion posted in 2005. But they did not share the Americans' sense of urgency.

"We have a view that there's more risk in going too slowly than too fast," Paulson said, "and the Chinese see it differently."

The two sides agreed at this first meeting of the so-called Strategic Economic Dialogue that the Nasdaq Stock Market Inc. and the New York Stock Exchange will open business offices in China.

And they agreed to discuss a range of other bilateral issues, including financial services liberalization, aviation access, investor rights protection, energy and the environment. A second Dialogue meeting is scheduled for May in Washington.

Chinese analysts said the two sides were still far apart on the perceived value of currency liberalization. But some praised Paulson for taking a broader focus on capital market reform, rather than simply hammering away at currency issues.

"I think the U.S. has opened a new battlefield and is now firing on different fronts," said Zhu Feng, an international relations professor at Peking University. "This shows more flexibility by the U.S. and makes Chinese people feel more comfortable. Paulson is much more tactical."

Li Ruobing, 29, an employee at an import and export company in Beijing, said further appreciation of the Chinese yuan would hurt his employer, but help him as an individual by allowing him to buy more abroad as a tourist.

"Of course, America will continue to pressure us on the yuan," he said. "And we're not strong enough to resist. Eventually we'll have to give way more."

Opinions on Chinese websites appeared divided over the summit. Some viewed the powerful U.S. delegation as a bullying tactic. Others felt it gave China great "face" and indicated the growing respect America affords the Chinese economy.

Even as the two economies become increasingly interdependent, many in China worry that the U.S. is becoming more protectionist, Zhu added, amid fears this could spill over into the political and security arenas.

At a speech earlier in the day at the Chinese Academy of Social Sciences, a government think tank, Bernanke argued that more open markets, fewer capital controls, more spending and less saving would benefit China and the global capital system.

Some, however, questioned Paulson and Bernanke's altruistic tone and call for quick results. "Is the U.S. trying to help the Chinese agenda or bring the Chinese agenda into your agenda?" said Wang Yiwei, an American studies professor at Fudan University in Shanghai. "America wants everything to happen tomorrow. There's a cultural difference here."

U.S. officials acknowledged there are good reasons why Chinese consume relatively little and save a lot: the country has a very weak social safety net. Only 14% of the population is covered by health insurance and 16% of the labor force can expect to receive a pension.

The solution, Bernanke and Labor Secretary Elaine Chao said, was for Beijing to spend more on welfare so the Chinese could feel more secure and otherwise enjoy the fruits of their labor.

Wang Xiaofeng, 38, a Beijing-based magazine writer, said his life is incomparably better than even 10 years ago and there's much more consumer choice and disposable income.

Previously most clothing in China only came in black, blue or green, he said, compared to now when there are thousands of choices. But he still saves roughly half of his income.

"America has a very good and mature social security system, so they 'dare' to spend," he said. "China has a huge population and not all that much money for good infrastructure. So we save because we don't feel secure. Americans and Europeans can afford to be confident because they have enough to eat."

Straits Times (Singapore)

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Misunderstanding hurting mutual ties: Vice-Premier Wu

By China Correspondent, Tschang Chi-Chu

IN BEIJING - CHINESE Vice-Premier Wu Yi opened the US-China Strategic Economic Dialogue yesterday with a **brutally honest critique of the United States.**

Madam Wu said that some Americans had a lot of misunderstanding about China that was impairing the 'healthy development' of Sino-American relations.

'We have had the genuine feeling that some American friends are not only having limited knowledge of, but also harbouring much misunderstanding about, the reality in China,' she said in her opening remarks.

China's highest-ranking female official then proceeded to paint a stark picture of the Communist Party's arduous task of governing the world's most populous developing country.

One-quarter of the country's 1.3 billion people, primarily those living in the rural areas and central and western regions, are not 'well-off'.

Even though Madam Wu did not directly address calls by US Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben Bernanke for a stronger yuan in the short term, her message was clear: **China needs to create more jobs so a marked appreciation of the yuan, which would force some Chinese exporters into bankruptcy, is not forthcoming.**

Madam Wu pointed out that farmers account for a higher proportion of employment in China than in any other industrialised nation or developing country.

Over the next 20 years, 300 million migrant workers are expected to leave their farms for the cities.

China needs to create between eight million and 10 million new jobs a year over the next several decades.

The only way to create so many jobs, she said, was to keep the world's fourth-largest economy growing at 7 per cent to 8 per cent annually.

The Chinese government moved to show that it understands the political pressure the Bush administration is facing from American companies shutting down factories and laying off workers before moving production to China, by trying to allay fears that China's re-emergence as a global economic power poses a threat.

Stressing five times in her speech that China has chosen a path of 'peaceful development', she said, 'We especially hope people will see that China's development is...an opportunity.'

Madam Wu acknowledged that China was extremely concerned about its US\$157 billion (\$240 billion) trade surplus. She said China would continue to increase its imports to narrow its trade surplus.

The US and China agreed on major issues discussed at the strategic economic dialogue: further opening up of markets and energy and the environment.

Energy ministers of five of the world's largest energy consumer nations - the US, China, Japan, India and South Korea - will meet in Beijing tomorrow.