

More confident China confronts US AP Associated Press in latest talks

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Sun May 8, 1:31 pm ET

WASHINGTON – Five years and one financial crisis since the United States and China commenced regular high-level economic talks, fast-growing Beijing might have the upper hand this week in the latest round of discussions between the world's two biggest economies.

China faces threats of penalties against goods shipped to its largest foreign market unless it does more to end what U.S. manufacturers say are unfair trade practices, including currency manipulation, that have cost American jobs.

At the same time, America's biggest foreign creditor wants assurances that its \$1.2 trillion in U.S. Treasury holdings are safe despite uncertainty in Washington over how much money the U.S. can borrow to pay its bills. If Congress fails to increase that borrowing limit before August, that probably would send interest rates soaring and reduce the value of those Chinese investments.

While analysts don't foresee major breakthroughs at the talks Monday and Tuesday, China's expanding economic might will give it greater leverage now.

"The focus has shifted to making methodical if slow progress," possibly reflecting a maturing relationship between the two nations, said Eswar Prasad, a China expert at Cornell University.

Leading the Obama administration's delegation at the Strategic and Economic Dialogue are Treasury Secretary Timothy Geithner and Secretary of State Hillary Rodham Clinton. Federal Reserve Chairman Ben Bernanke and officials from 16 federal agencies are attending, too.

The Chinese team is headed by Vice Premier Wang Qishan, a top economic policymaker, and includes officials from 20 government agencies.

The talks began during the Bush administration in 2006. Under President Barack Obama, they've broadened to cover foreign policy as well.

The main U.S. economic goal hasn't changed: prodding China to move faster to let its currency rise in value against the dollar. That would make U.S. exports cheaper in China and Chinese

products more expensive in the United States. It also would help narrow America's trade deficit with China, its largest with any country.

When the talks started, Treasury Secretary Henry Paulson, a former head of Goldman Sachs, lectured Chinese officials on how much better their economy would perform if they eased controls on their currency and financial markets.

But the Chinese emerged from the global financial crisis in better shape than other economic powers, largely because of their highly regulated markets. In doing so, and in growing far faster than the U.S., Beijing has gained economic influence.

"The global financial crisis changed the dynamic of the relationship substantially," said Nicholas Lardy, a China expert at the Peterson Institute of International Economics. "It increased China's confidence on economic issues."

While Geithner said last week that the U.S. would press China to accelerate efforts to revalue its currency, the yuan, he also sounded a conciliatory tone. He noted that the yuan has risen in value by 5 percent since last June, and even faster once inflation was taken into account.

Geithner said it was encouraging that Beijing was starting to endorse the U.S. view that a faster appreciation of the yuan would help China choke off inflation, which the country's escalating growth has stoked.

A softer approach on China's currency wouldn't seem to please American manufacturers. They contend that China's currency is undervalued by as much as 40 percent and they want Congress to approve economic penalties if Beijing doesn't move faster.

The U.S. trade deficit with China last year was a record \$273 billion, one-fifth more than in 2009. The administration is considering filing new trade cases against Chinese practices that U.S. companies contend are unfair.

At the meetings, China is expected to raise concerns about the standoff between the administration and Congress on raising the government's \$14.3 trillion borrowing limit. Geithner has told Congress that the U.S. could default on its debt if the limit isn't raised by Aug. 2.

"The Chinese are concerned about this issue because they hold a lot of U.S. debt," said Prasad. "The Chinese are astounded that the U.S. government would let the debate get to the stage where there is even a remote possibility of a default."

On other issues, U.S. officials say they want to see more progress on economic commitments made when Chinese President Hu Jintao visited Obama in January. Those include closer monitoring of Chinese government purchases of software, a move intended to boost Beijing's buying of legal U.S. software and reduce its use of pirated software. American companies say such theft is costing them billions in lost sales.

The Chinese also pledged to revamp a policy that limits the ability of U.S. companies to compete for Chinese government projects unless the products are designed in China. American businesses regard this as an effort to force them to turn over their technology to China or be locked out of its government market.

American businesses say they've seen little progress by China to honor the commitments made during Hu's visit.

On foreign policy, officials said Clinton will renew efforts to gain China's support in confronting nuclear threats from North Korea and Iran, and she will raise the issue of human rights. The Chinese have agreed to have some top military officers meet with their U.S. counterparts. That's a first for these talks and a development seen as an effort to ease tensions.

Chinese officials said Friday they were prepared to discuss human rights. China recently undertook the biggest security crackdown in years, apparently prompted by the communist leadership's fear of Middle East-inspired unrest migrating to China.

Though analysts foresee no significant breakthroughs in this week's talks, Prasad said that might reflect a maturing relationship between the two nations.

"The focus has shifted to making methodical if slow progress rather than ... arriving at dramatic breakthroughs," he said.

Associated Press Matthew Pennington in Washington and Joe McDonald in Beijing contributed to this report.

Online:

Background on the history of the talks: <http://www.treasury.gov/initiatives/Pages/china.aspx>

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