

## WORLD NEWS: US-China dialogue 'achieving results'

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By Krishna Guha and Eoin Callan in Washington and Richard, McGregor in Beijing  
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Top US and Chinese government officials meeting in Washington today for the second round of strategic economic talks between the two countries will show that their dialogue is delivering results, the US Treasury secretary Hank Paulson has told the Financial Times.

Mr Paulson said: "I believe we are going to achieve results that we would not have achieved without this dialogue."

Eight months after the US-China strategic economic dialogue was unveiled in Beijing, there is rising pressure on Mr Paulson to demonstrate that the intensive economic engagement he champions is delivering real progress.

Congress is once again stirring to action on China, with the possibility of tough legislation being passed by at least the House of Representatives.

Mr Paulson admitted that it was "hard to measure" the impact of his approach. But he said: "I think we have greater co-operation than we had before we established the strategic economic dialogue."

The Treasury secretary said this week's talks would focus on services, energy and the environment as well as the currency and intellectual property.

"You have heard me talk about financial services a lot," he said. He said the discussions would also touch on travel and air cargo, and on barriers to trade in environmental services.

Mr Paulson said the US and China would explore new cleaner energy technologies including methane capture in coal-fired power plants. "If we get together, we can drive standardisation," he said.

Myron Brilliant, of the US Chamber of Commerce, said: "If you're looking for home runs, you won't get any. But what you will see is progress in the US-China relationship."

A US trade official said: "We are making the case for continued regulatory reform, improved transparency and greater market access."

Mr Paulson is potentially vulnerable to charges that he - as a former chairman of Goldman Sachs - is too focused on a Wall Street agenda of liberalising China's financial services industry.

He has tried to explain that he sees financial sector reform as a means to rebalance the Chinese economy. Rob Nichols of the Financial Services Forum said: "It will permit Chinese people to invest and insure against risk and therefore be free to spend more, which would boost consumer-driven growth and demand for US goods."

The Chinese delegation, led by vice-premier Wu Yi, will also meet Nancy Pelosi, House speaker, and other leaders of Congress.

Last week, China said that it was widening the daily trading range of the renminbi. The US Treasury secretary called the move "positive" but said the question was: "How much is the currency going to move within the band within each day and how much will it appreciate over time?"

Mr Paulson declined to comment specifically on news that China was to invest \$3bn in Blackstone, the US private equity group, but said "any kind of foreign direct investment is something that we welcome".

Experts are divided as to whether Mr Paulson's dialogue is making a difference to the pace of reform in China. "It is hard to see it," said a former US official. Eswar Prasad of Cornell University said: "It has not delivered as much concrete progress as might have been hoped for at the beginning" - in part because of a lack of specific benchmarks.

By contrast, Cheng Li at Brookings said: "Absolutely it is useful - much better than criticising each other." Nick Lardy, at the Peterson Institute, added: "I am much in favour of this structure - the question is: Is it politically sustainable?"

A former US official said the dialogue won Mr Paulson a year's relative quiet from Congress, but at the price of raising expectations to unrealistic levels. Officials fear the politics of the relationship could get ugly as the 2008 presidential election approaches, particularly if unemployment moves up.

Signs of overheating in China reinforce Mr Paulson's message that it is in China's own economic interest to rebalance its economy. However, Chinese policymakers are growing cautious before the Communist party congress in October.

The Congress, which will see sweeping changes in the leadership, is also the battleground for intense competition among ministers seeking to be promoted to senior economic posts.

Such a politicised atmosphere is making even normally adventurous policymakers risk-averse. "Who wants to take responsibility for faster currency appreciation or liberalising financial markets this year? No one," said an economist at a Chinese bank in Beijing.

*Reporting: Krishna Guha and Eoin Callan in Washington and Richard McGregor in Beijing*

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