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## China eases trade rules, allows U.S. fund sales

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By Paul Eckert and Doug Palmer

WASHINGTON (Reuters) - China on Tuesday pledged easier access for U.S. companies to key sectors of its economy by removing barriers to its huge market in government contracts and offering a foothold to U.S. mutual funds.

The pledges were made in two days of talks between the world's two biggest economies which ended with both sides hailing progress in their often tense relationship.

The difficulties in relations, particularly in human rights issues, were underscored by U.S. Secretary of State Hillary Clinton, who described Beijing's rights record as "deplorable" in a magazine interview. China's current crackdown on dissent, she said, amounted to "a fool's errand".

But on economic matters, officials were upbeat after talks.

"We are seeing very promising shifts in the direction of Chinese economic policy," U.S. Treasury Secretary Timothy Geithner said.

The annual Strategic and Economic Dialogue yielded more results on economic issues than some analysts had expected, although many remained skeptical China's market-opening vows would translate into concrete benefits for U.S. business.

The talks between top U.S. and Chinese officials carried extra significance because domestic politics may hamper decision-making next year ahead of a U.S. presidential election and Chinese leadership succession.

While some advances were made on the economic track, there was scant movement on thorny diplomatic issues.

"The outcome of this round of meetings shows a clear understanding on both sides that the two countries have shared long-term economic interests and there is scope for a mutually beneficial bargain," said Eswar Prasad of the Brookings Institution in Washington.

"The real flashpoints are on political and security issues, including human rights," he added.

Clinton, in an interview conducted last month with The Atlantic magazine and released just as the talks ended, said disputes over human rights would not stop U.S. engagement with China.

"We don't walk away from dealing with China because we think they have a deplorable human rights record," Clinton said, according to a transcript released by the State Department.

China, she told the magazine, was anxious about the uprisings jolting the Middle East and North Africa.

"They're worried, and they are trying to stop history, which is a fool's errand. They cannot do it. But they're going to hold it off as long as possible."

Both sides repeated their stances on North Korea, where China has resisted U.S. pressure to act more forcefully to persuade Pyongyang to back down from confrontation and resume nuclear disarmament talks.

The two sides agreed to boost coordination on Afghanistan and discussed upheavals in the Arab world.

They reiterated their positions on Iran but made no new announcements. China has reluctantly backed U.N. sanctions aimed at curbing Tehran's nuclear ambitions, but U.S. officials say that some Chinese entities are not complying with them and have urged Beijing to tighten up.

Even so, a senior Chinese finance official said the talks were a "win-win" for both countries. China claimed Washington gave ground by easing restrictions on high-tech exports though U.S. officials said only they would weigh Beijing's concerns.

On the key issue of exchange rates, Geithner said China needed to allow a faster rise in the value of the yuan, a comment brushed back by China's Vice Finance Minister Zhu Guangyao, who said Beijing will move at its own speed.

The yuan has appreciated 5.14 percent since being loosened from a two-year peg to the dollar last June, well below what many U.S. lawmakers believe is needed to allow for a level playing field for U.S. producers in global markets.

China on Tuesday reported a hefty trade surplus and record exports in April, ammunition for its overseas critics.

Surprisingly, according to a U.S. official, China -- the United States' biggest creditor -- raised no concerns about U.S. budget deficits, which could top out at \$1.4 trillion this year.

MARKET OPENING IN WORDS



In a potentially big step forward for U.S. firms seeking more access to China's financial services market, China agreed to let U.S. and other foreign banks sell mutual funds in China and provide custodial services.

However, some U.S. commentators said China's past behavior suggested U.S. companies might see little benefit.

"They let you in the market under conditions where you cannot be a real competitor," Derek Scissors of the conservative Heritage Foundation said. "That's what they've done every single time, so that's what I expect will happen with mutual funds."

U.S. officials indicated Beijing would also consider letting foreign insurance companies sell auto insurance for the first time in China, which is becoming the world's largest car market.

China also said it would take steps to try to ensure the software that government agencies used was not pirated.

Perhaps of most significance was a fresh pledge China made on government purchasing policies that U.S. and European firms had complained locked them out of a big market.

As part of efforts to spur innovation, Beijing had sought to ensure government purchases came from firms using Chinese-owned technology.

However, in January, China pledged that government purchases would be delinked from its "indigenous innovation" policies.

It stated explicitly that the pledge extended to purchases by local governments -- not only the central government -- answering a big concern of U.S. businesses.

(Additional reporting by Chris Buckley and [Andrew Quinn](#) in Washington and [Ross Kerber](#) in Boston; Editing by Ron Popeski)

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