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Amid Diplomatic Furor, China, U.S. Reach Economy Deals

By BOB DAVIS

BEIJING—China and the U.S. closed a two-day economic strategy meeting with several handshake agreements that observers called modest progress on the margins of a full-blown diplomatic dispute that overshadowed the gathering.

China agreed to make changes to boost domestic consumption, harness profits from state-owned firms to boost social spending and slightly open the Chinese economy to additional competition, though none of the commitments are binding on Beijing. The U.S. said it would move more promptly in working out rules governing export of high-tech goods, so long as they are used for non-military purposes.

The pledges came as a result of an annual U.S.-China Strategic and Economic Dialogue, a meeting that came this year amid ongoing drama over a blind Chinese activist who had sought U.S. protection. While the U.S. and China used the meetings to try to influence the policies the other will take over the coming year, the results don't represent a treaty or a pact and aren't enforceable.

The meeting yielded "modest but tangible progress" toward market-oriented reforms in China, said Eswar Prasad, a China scholar at Cornell University. Most importantly, he said, the concern that Beijing's perception of U.S. meddling in its affairs—which also loomed over the events surrounding the ouster of senior official Bo Xilai—would lead to an anti-U.S. backlash "seems to be receding."

Although neither recent political case was a subject of the economic talks, they set the tone for the discussions, which ended up yielding concrete results.

China made a number of pledges that, if carried out, would help the country shift its economy to rely more on domestic consumption than investment or exports, as Chinese and U.S. leaders have long urged, though for different reasons.

The U.S. thinks such a change would boost U.S. exports and lessen Chinese competition. Beijing believes the change would create a firmer foundation for growth.

China's proposed measures include cutting taxes and tariffs on consumer goods, and boosting dividends paid by huge state-owned companies. The dividend revenue would be paid into the national treasury and help finance social spending. With a stronger social safety net, Chinese and U.S. economists have argued, Chinese consumers would be more likely to spend rather than save their earnings.

Changes in dividend policy "would be quite significant because it would signal the weakening of vested domestic interests that have blocked reform in the past," said Nicholas Lardy, a China scholar at the Peterson Institute for International Economics in Washington D.C.

For its part, the U.S. agreed "to facilitate the export of civilian high-tech exports to China for civilian end-users," according to a fact sheet distributed by the U.S. Treasury. China has long sought to import top-line computer and communications gear, as well as other high-tech items, but Washington has held up sales because of concerns that the technology could be used by China's military.

Chinese officials remain skeptical that the U.S. will carry through on its pledges. "I'm still waiting," Chinese Commerce Minister Chen Deming said Thursday. "I hope I will have enough patience and this day of easing the export controls will not be far off."

China's Vice Premier Wang Qishan was somewhat more hopeful. He told reporters Friday that China had agreed to accelerate its economic transformation and that the U.S. has committed to taking Chinese concerns into account when reforming its own export regime.

The U.S. pledges are "nothing that hasn't been said before by various parties," said William Reinsch, president of the National Foreign Trade Council in Washington D.C. "What is new is the level of detail and specificity" offered by Washington, he added.

Gary Hufbauer, a trade analyst at the Peterson Institute, said he doubted "there will be much liberalization" of exports because of U.S. Defense Department concerns.

The most specific Chinese agreement in the meetings was a pledge allowing foreign firms to own as much as 49% of joint ventures involved in securities trading and underwriting. Foreign companies are currently limited to a 33% stake in such firms. That was seen as an effort by Guo Shuqing, the reform-minded chairman of China's Securities Regulatory Commission, to introduce more competition in the securities industry.

On currency matters, a regular part of any U.S.-China economic meeting, the two sides presented their positions and agreed in principle on the need for "exchange rate flexibility in both directions."

Still, U.S. Treasury Secretary Timothy Geithner made clear the U.S. wanted the yuan to head in one direction—greater appreciation. The U.S. argues that such a move will help China rebalance its economy by boosting consumer purchasing power. The Obama administration is also under fire by lawmakers and Republican presidential candidate Mitt Romney for not pressing China hard enough to boost the yuan, which could help U.S. exporters.

"It is our view, looking at the broad measures we have available, that the exchange rate is likely to, and needs to, continue to appreciate further against the dollar and other currencies," Mr. Geithner said in a post-meeting press conference. China didn't make any public commitment along those lines.

—Aaron Back contributed to this article.