



US, China set to grapple with economic growth concerns

by P. Parameswaran
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WASHINGTON (AFP) – The United States and China hold high level talks this week expected to be dominated by concerns whether China can maintain high growth rates at a time when global expansion has been dampened by financial turmoil.

The two powers will hold their twice-yearly "strategic economic dialogue" on December 4-5 in Beijing, the last under the administration of President George W. Bush whose successor Barack Obama has not indicated whether the cabinet-level talks will continue under his watch.

Launched by Bush and Chinese President Hu Jintao two years ago, the dialogue will be led by US Treasury Secretary Henry Paulson and Chinese Vice Premier Wang Qishan, a key economic policy maker.

Wide ranging topics from economy to trade, and investment to environment will feature during the meeting but the unending financial turmoil and its impact on the two huge economies are expected to take center stage.

Of particular concern to the United States, which is reeling from financial chaos and recession, is whether China can maintain rapid growth and help keep the global economy afloat without disrupting Beijing's long term strategy of weaning away from largely export-led growth to one that is more consumption-driven, experts said.

"The biggest concern for the United States right now is that the Chinese not lose focus on their long term objective of rebalancing growth," said Easwar Prasad, the former chief of the China division at the International Monetary Fund.

As the global credit crisis begins to take hold in China, the second biggest economy in Asia may be about to experience its worst slowdown in recent memory, with the World Bank warning last week growth in 2009 could hit a nearly two decade low of 7.5 percent.

China's economy, the world's fourth-largest, expanded by 9.0 percent in the third quarter, the lowest level in more than five years.

It launched an unprecedented four-trillion-yuan (590-billion-dollar) package to stimulate the economy but experts are concerned that the stimulus deal including higher export rebates and removal of caps on bank credit could signal a return to a highly investment and export led growth model.

"Its recent fiscal stimulus package will certainly contribute to economic growth; however, in order to rebalance its economy, China needs to expand government spending on its social safety net, liberalize interest rates, and appreciate its currency," said Nicholas Lardy, a China expert at the Washington-based

Peterson Institute for International Economics.

Despite its 20 percent rise since a peg against the dollar was scrapped in July 2005, the Chinese yuan currency remains undervalued, giving China an unfair trade advantage, US manufacturers complain.

Furthermore, they fear Beijing may move to keep the yuan down against the dollar to make its exports more competitive during the current economic slowdown, a move that could reignite concerns in the US Congress about a ballooning US trade deficit with China.

The yuan closed Monday at a five-month low of 6.8848 against the dollar.

But Chinese experts said any US move to raise the currency issue at the dialogue could be repulsed by Beijing, which they said wanted the meeting to focus on containing financial turmoil that first erupted in the United States, and on reigniting global economic growth.

"The yuan's exchange rate is no longer that important," said Wang Yong, professor in international relations at Beijing University.

"Some protectionist groups in the United States may still be concerned about it. But it actually does no good to solving the structural problems between the two countries or dealing with the crisis, which the US side knows well," he said.

Wang said Beijing was also expected to underline the importance of the Obama administration continuing with the dialogue as a forum for addressing bilateral issues at the top level.

"The SED's (strategic economic dialogue's) continuation will help keep a stable Sino-US relationship as problems can be solved via this channel," he said.

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