



China, U.S. Deepen Financial Ties, Aid Global Trade (Update1)

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By Li Yanping and Rebecca Christie



Dec. 5 (Bloomberg) -- China and the U.S. pledged \$20 billion to fund trade and agreed to deepen financial ties, stepping up efforts to counter the credit crisis in their final economic talks before President-elect **Barack Obama** takes office.

The U.S. agreed to speed up approvals for Chinese financial institutions investing in the country, the nations said in a joint statement as the Strategic Economic Dialogue ended in Beijing today. China said it would widen access to its bond market and ease borrowing limits for foreign banks.

The fifth round of talks was also the last for their initiator, U.S. Treasury Secretary **Henry Paulson**, which leaves China to face a new president who has already branded the nation a currency manipulator. The crisis has underscored the joint interests of the two countries, after China surpassed Japan in September to become the biggest foreign holder of U.S. Treasuries.

"The ground has shifted on both sides of the Pacific and it has become more important than ever for these two economies to get their bilateral relationship straight," **Eswar Prasad**, a senior fellow at the Brookings Institution in Washington, said in an e-mailed note titled: 'Lame Duck Meets Hobbled Panda.'

The extra trade finance will be supplied by import-export banks of both countries, Paulson said after two days of talks.

Sovereign Wealth Investment

The money would be available to "creditworthy importers in developing economies" to finance exports from the U.S. and China and to benefit the global economy, Paulson said. "China is stepping up its efforts to promote global growth and stability."

The U.S. welcomed investment by China's sovereign wealth fund, the joint statement said.

"Previously, one of the U.S. priorities was to get access to China's own financial market," said **Paul Cavey**, the head of China economics at Macquarie Securities Ltd. in Hong Kong. "The U.S. needs more money, so it's a change of tone."

Both sides praised the talks' effectiveness and Chinese Vice Premier **Wang Qishan** said China expected a "candid and pragmatic dialogue" with the new administration.

U.S. Senator **Max Baucus** urged Obama to continue the talks and to find ways to make the discussions more productive.

"A better dialogue will be one that addresses agriculture trade problems, like China's beef ban, as well as goods and services trade," Baucus, a Montana Democrat who is the chairman of the Senate Finance Committee, said in a statement released in Beijing.

Pressing for Yuan Gains

Paulson pressed China to let the yuan appreciate, after the central bank on Dec. 1 allowed the currency's biggest drop since the end of a fixed-exchange rate in 2005. The yuan's gains against the dollar ground to a halt in mid-July.

The currency climbed for a third day to 6.8800 against the dollar as of 3:03 p.m. in Shanghai, from 6.8817 yesterday.

"While recognizing that currency movements will be uneven over shorter periods, the United States encouraged China to continue, and accelerate, renminbi appreciation and flexibility," a U.S. statement said, using another term for the currency.

Chinese officials said during the talks that the nation remained committed to currency reform and a "stable" yuan -- and told the U.S. to tackle problems in its own **economy**, such as excessive consumption and debt.

Banks, Bonds

Paulson welcomed China's moves to let foreign banks trade bonds on the same terms as Chinese banks and the nation's membership in the Financial Stability Forum. China will also let foreign banks operating on the mainland borrow capital from their affiliates overseas on a temporary basis to boost confidence and liquidity.

China and the U.S., the world's biggest polluters, also signed seven accords to cooperate in projects that promote energy and environmental conservation.

Agreements were "probably really just a favor to secretary Paulson, who is a China favorite, to give him something that he's accomplished near the end of his term," said **Donald Straszheim**, head of Straszheim Global Advisors in Los Angeles. "To expect any real substantive breakthrough at a time like this, when it's Bush officials on the way out rather than Obama officials on the way in, is unrealistic."

Wang yesterday described the financial crisis as "the most pressing task that we are facing" and urged the U.S. to protect Chinese assets in that country.

China's role as a buyer of U.S. debt may become more important as the U.S. spends to revive its economy and thaw credit markets.

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