

China urges US to stabilise its economy

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By Geoff Dyer in Beijing

Published: December 4 2008 04:32 | Last updated: December 4 2008 12:07

The US was on the receiving end of a new lecture Thursday about its economic fragilities when senior Chinese officials urged the administration to stabilise its economy, boost its savings rate and protect Chinese investments in the country.

The comments were made during a high-level summit called the Strategic Economic Dialogue which was set up to address long-term issues between the two countries but which was dominated Thursday by the global financial crisis.

Wang Qishan, a vice premier and leader of the Chinese delegation at the two-day talks, called on the US to take swift action to address the crisis and said the two countries needed to work together. "We hope the US side will take the necessary measures to stabilise the economy and financial markets as well as guarantee the safety of China's assets and investments in the US," Mr Wang said.

Zhou Xiaochuan, governor of the Chinese central bank, urged the US to rebalance its economy. "Over-consumption and a high reliance on credit is the cause of the US financial crisis," Mr Zhou said. "As the largest and most important economy in the world, the US should take the initiative to adjust its policies, raise its savings ratio appropriately and reduce its trade and fiscal deficits."

Although China is also facing a rapidly slowing economy and rising unemployment, the tone of the comments reflected an underlying shift in power as a result of the crisis. Earlier meetings of the SED, which began in 2006 and are held twice a year, were dominated by US appeals for China to open its financial system and to appreciate its currency more rapidly.

"One result of the crisis is that the US no longer holds the high ground to lecture China on financial or macroeconomic policies," said Eswar Prasad, a senior fellow at the Brookings Institution. "This may actually help turn their relationship into a more equal partnership with less posturing on both sides."

Mr Wang did not say which Chinese investments in the US he was referring to, however China, which has nearly \$2000bn of foreign exchange reserves, last month overtook Japan to become the largest foreign holder of US government debt. Although Chinese officials have privately admitted frustration at their exposure to the US economy, they admit that selling a large part of their US holdings would be counter-productive because it would likely cause bond prices and the dollar to fall sharply.

Mr Zhou said China should not only address the immediate problems of a slowing economy but also "restructure the development model", according to a senior central bank official who relayed his comments. The government should also prepare "for a worst-case scenario."

Hank Paulson, the US treasury secretary, praised China for its role in dealing with the crisis. "International cooperation and coordination have been robust and we appreciate the responsible role China has played in the crisis," he said.

The run-up to the summit was overshadowed by speculation that China might devalue its currency to boost its exporters, following relatively sharp drop in the value of the renminbi on Monday. Some economists predict the currency could weaken modestly against the US dollar over the next few months, however this follows a 20 per cent appreciation in its effective exchange rate with its main trading partners over the last year. A US official at the summit said he expected appreciation of the renminbi to continue in the long-term.

The two governments signed a series of accords on Thursday for co-operation on projects aimed at environmental protection and energy conservation.

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