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Talks With China End With Few Signs of Progress on Currency Issue

By STEVEN R. WEISMAN

BEIJING, Friday, Dec. 15 — Top officials from China and the United States concluded two days of talks on economic disputes Friday by setting up several study groups and making general pledges, but avoiding any sign of concrete progress on the principal American demand that China stop undervaluing its currency as a way to promote exports.

Despite the lack of specific pledges on currency and other issues, Treasury Secretary Henry M. Paulson Jr. declared that the strategic economic dialogue involving several cabinet-level officials and the Federal Reserve chairman would pave the way for progress in the future.

Mr. Paulson asserted that as a result of the talks, China would move to open its economy and enforce intellectual property rights, and would adopt “greater flexibility” in exchange rates. The United States, he said, would strive to increase its savings rate so that it borrows less from China to feed an addiction to imports.

“While we cannot resolve every difference we have had,” Mr. Paulson said, “the candid conversations we have had will make progress much more achievable.”

Also on Friday, Ben S. Bernanke, the Federal Reserve chairman, in a comment likely to draw attention in Washington, called the undervalued yuan an “effective subsidy” for China’s exports in the advance text of a speech. Though he did not use the phrase when he delivered the talk, it is certain to be seized upon by critics of China in Washington who are demanding some sort of protectionist retaliation.

The working groups established will encompass health care, aviation, energy and the environment, and will try to clarify regulatory processes in both country as well as remove obstacles to investments.

China’s currency policy will continue to be discussed in existing groups, American and Chinese officials said. But the Americans noted that China had allowed the yuan to rise in value by 5.8 percent against the dollar in the last 18 months in what could be a response to American pressure.

“We have seen some greater flexibility of late, and will continue to press for more in the future,” said a senior Treasury official said.

The closing ceremony on Friday capped an unusual two-day dialogue behind closed doors on economic issues, promoted clashing visions of how quickly China should move to modernize its economic policies to resolve tensions with Washington.

In marathon meetings at the Great Hall of the People, Mr. Paulson led an elaborate effort by the United States to persuade China to reform its policies. Though American officials argued that a faster pace of reform was in China's interest, Chinese officials countered that their country must proceed at its own pace, given its history of poverty, colonial subjugation and civil wars, and that American officials must try harder to understand China's constraints and achievements.

The divergent perspectives were recounted during and after the daylong session by American officials who briefed reporters, but they were also reflected in the opposing statements of Mr. Paulson and his counterpart, Wu Yi, a vice prime minister, who gave a lengthy talk that was both defensive and defiant.

Ms. Wu's comments, accompanied by a PowerPoint presentation and pictures illustrating 5,000 years of Chinese history, were clearly directed not simply at her audience sitting across from the Chinese delegation but also at Congress, where anti-Chinese protectionist measures are being readied in case Mr. Paulson does not win concessions.

"We have had the genuine feeling that some American friends are not only having limited knowledge of, but harboring much misunderstanding about the reality in China," Ms. Wu said in her presentation, according to a text released by her government.

"Our particular hope," she added, "is to let people in the world know that China's development is an opportunity instead of a threat to the world, that it is a propelling force behind the growth of the world economy."

Mr. Paulson's keynote address called for "tangible results" from the strategic economic dialogue. His aides said he was talking about a timetable of two years, not this week.

Ms. Wu said that China's reforms were speeding faster than her listeners appreciated. Her colleagues cited a barrage of statistics, showing for example that spending by Chinese consumers was already transforming China into a country more reliant on domestic spending than exports for growth.

"Reform and opening up are the most distinct characteristics of contemporary China," she said, while emphasizing that China would maintain a "socialist market economy system" with government ownership its "mainstay." There was no indication that she felt China needed to change that system faster than it was doing already.

The issue of currency reform was cited several times, American officials said. Mr. Paulson opened the Thursday morning session by again urging that China let its currency float freely so that it could rise in value against the dollar, making Chinese exports more expensive for Americans to buy.

In his comments, Mr. Bernanke said that letting the yuan float would be beneficial for China's economic growth and for allowing its central bank a freer hand.

He explained that to keep the value of Chinese currency low to promote exports, China has to buy dollars and flood the country with local currency. This would produce inflation, so China instead sells bonds and bills to Chinese to "sterilize" the economy from inflation brought on by an oversupply of money.

It was a highly theoretical discussion from the Fed chief, delivered at a prestigious government-financed policy institute, the Chinese Academy of Social Sciences. Because it was a sophisticated analysis of how markets work, it may have more of an impact on Chinese leaders than the preaching about capitalism they have heard from the Bush administration in the last two days.

As if anticipating the American appeal, the yuan did rise against the dollar on Thursday, to 7.8197 yuan to the dollar, bringing its appreciation to well over 5 percent since mid-2005. Many economists say that if the yuan were to float freely in the markets, it would rise 20 percent or more.

The United States contends that China has for years kept the yuan's value artificially low by buying up the dollars earned by Chinese corporations and husbanding them as reserves. At present, China has an estimated $700 billion in dollar-denominated reserves.

Several American officials said that the toughest talk on Thursday came from Susan C. Schwab, the United States trade representative, who went through a litany outlined in a report her office issued on Monday, saying that China was "backsliding" in its obligations to the World Trade Organization to open its economy.

Ms. Schwab said the theme of her presentation was that the "Asian model" of state control of the economy and huge exports was no longer suitable for China, which now needs to focus on domestic consumption rather than exports to achieve economic growth.

American officials said that thesis was disputed by Ma Kai, chairman of the National Development and Reform Commission of China, and others who argued that China's model of mixing state control and free markets was more appropriate given the country's volatile history.

Economists say Chinese do not consume goods because they save a larger portion of their income than Americans.

The Chinese had their own bill of particulars, American officials said. China contends that the United States unfairly accuses it of dumping low-cost exports into American markets, and it also wants the United States to lift a ban on sales of high-technology products to China.