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U.S. Presses for Results From China Talks

Paulson Warns

Action Is Needed

On Currency, Trade

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WASHINGTON -- With Congress breathing fire over Beijing's trade and currency practices, Treasury Secretary Henry Paulson warned China that this week's top-level economic talks must produce concrete results if trans-Pacific tensions are to ease.

Just as the Chinese opened the last round of talks, in Beijing in December, by lecturing Americans about how little they understand China, Mr. Paulson took the podium yesterday to explain that Americans are an "impatient" people who demand quick changes in Chinese economic policies that they consider unfair.

"Even the notion of a dialogue may seem too passive for America's action-oriented ethic," he told the large Chinese delegation. "It is up to us, over these two days and in the work that follows, to show that words are precursors to action."

Mr. Paulson and his Chinese counterpart, Vice Premier Wu Yi, designed the talks -- called the Strategic Economic Dialogue -- as a way to build long-term understanding across a range of contentious issues, from copyright piracy and environmental protection, to commercial air routes and U.S. controls over exports of advanced technology.

But Mr. Paulson has come under increasing congressional and public pressure to secure significant -- and quick -- concessions from the Chinese.

Nonetheless, expectations for this week's talks were low, and midway through the first day, the U.S. dispatched Commerce Secretary Carlos Gutierrez to lower them even further. "I wouldn't want to be judged by specific outcomes or specific details," he told reporters.

U.S. officials did predict an agreement to reduce barriers to American sales of clean-coal technology to China. But the U.S. side has been frustrated in its efforts to negotiate a full liberalization of air travel between the two countries. Chinese airlines are apparently worried they would lose out in head-to-head competition with American carriers. "China has instead proposed to incrementally expand carrier rights and to begin negotiations, by a date certain, on a timetable resulting in full liberalization," according to a progress report prepared by the office of U.S. Trade Representative Susan Schwab.

As of last night, the two sides were still at odds over whether China would allow American firms to hold larger stakes in Chinese banks and securities firms, a pet issue of

Mr. Paulson, a former Goldman Sachs chief executive, according to a Treasury official. Mr. Paulson invited Ms. Wu to his Washington home Monday night and spent two hours urging her to give ground on financial-services liberalization, with no immediate results. "While there have been useful exchanges of views on the specific U.S. proposals ... there have as yet been no agreements to take any concrete steps," the USTR report said.

Congress, encouraged by U.S. manufacturers and unions, is increasingly incensed about Beijing's practice of keeping the yuan artificially weak against the dollar, a policy the lawmakers say costs Americans factory jobs. Several bills aimed at punishing China are pending on Capitol Hill, and Congress appears intent on taking legislative action this year.

The yuan has strengthened about 8% since the Chinese began allowing it to move in July 2005. Both the Bush administration and Congress have demanded faster appreciation, but the Chinese have shown little inclination to accelerate the yuan's rise. "Our policy disagreements are not about the direction of change, but about the pace of change," Mr. Paulson said.

In her own opening remarks yesterday morning, before the doors to the chamber were closed and the private discussions began in earnest, Ms. Wu argued that bilateral tensions should be addressed "calmly."

"Against the ever-deepening economic globalization today, confrontation does no good at all for problem-solving, and pressure and posturing can only make the situation more complex," she said.

"We should not easily blame the other side for our own domestic problems," said Ms. Wu. She was accompanied by 16 other ministers and other top-level officials, along with scores of aides, in what is thought to be the largest such Chinese delegation to visit the U.S.

The delegation is scheduled to meet with lawmakers on Capitol Hill later in the week, where both sides are expected to vent their frustrations.

The Chinese did come bearing gifts, however. On the sidelines of the opening session, Chinese Vice Commerce Minister Ma Xiuhong told reporters that a delegation of Chinese businesspeople on a tour of the U.S. had signed deals with American firms to buy "well over" \$20 billion of goods and that the final sum of contracts signed would be finalized in coming days.

Still, Mr. Paulson warned Ms. Wu of "growing skepticism" in the U.S. that Beijing has good intentions when it comes to trade and currency policies. "Unfortunately, in America this is manifesting itself as anti-China sentiment as China becomes a symbol of the real and imagined downside of global competition," he said.

The U.S. delegation included 17 cabinet members and other senior officials, as well as Federal Reserve Chairman Ben Bernanke.