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CHINA

U.S., China trade talks highlight philosophical divide

As a high-level U.S. trade delegation pushed for reforms in China, Chinese officials said the nation would implement reforms at its own pace.

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Associated Press

BEIJING - U.S. Treasury Secretary Henry Paulson pushed China on Thursday to ease currency controls, appealing for help in shoring up American support for free trade. But a top Beijing official said change already was coming and complained that Americans fail to understand China.

The exchanges at the start of a two-day gathering billed as a long-range "strategic economic dialogue" highlighted the challenge facing Paulson if he wants to mollify American business groups and Democrats in Congress who are demanding changes to rein in China's soaring trade surpluses.

Paulson and others in his high-profile delegation, including Fed Chairman Ben Bernanke, argued that a more flexible currency, more open markets and other changes are in China's own interest and crucial to maintaining free trade.

"To maintain domestic support for continued global economic integration, we both must pursue macro-economic policies that facilitate balanced, sustainable growth and raise living standards," Paulson said in an opening statement.

'MUTUAL TRUST'

His Chinese counterpart, Wu Yi, welcomed the chance to build "mutual trust." But she complained that Americans fail to understand China and said that could damage relations.

"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," Wu said, according to a text released by the Chinese government. "This is not conducive to the sound development of our bilateral relations."

China's trade surplus with the United States has mounted despite American pressure for changes and Beijing's repeated statements that it wants more balanced trade.

The export surge propelled China's economic growth to 10.7 percent for the first nine months of this year. It also has nudged up the Chinese currency, the yuan, which on Thursday hit its highest level since Beijing began easing controls in July 2005, partly in response to American prodding.

Chinese officials say they plan eventually to let the yuan trade freely, but they say the country could not stand the shock of a sudden change.

On Thursday, Bernanke told officials at the talks that China would benefit from allowing the yuan to rise, which could fuel more sustainable growth, according to U.S. Labor Secretary Elaine Chao, also a member of the delegation.

LOW EXPECTATIONS

Paulson has tried to downplay expectations of breakthroughs in this week's talks, describing them as the start of a long-term discussion.

Meeting with Wu, Paulson said China's move to a floating exchange rate could take place over "several years."

But pressure for faster action has mounted as a flurry of new data have come out highlighting the growing scale of China's export dynamo.

The U.S. government reported Monday that its trade deficit with China in November swelled to \$24.4 billion. It is on track to hit \$229 billion this year, far above last year's record \$202 billion level.

The surpluses have strained the ability of China's central bank to contain inflationary pressures.