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REFILE-U.S., China talks aim to keep irritants in check

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- * Geithner, Clinton host U.S. side of talks
- * Currency a perennial issue, human rights also to come up
- * Mutual interest in global recovery creates a bond (Fixes typo in paragraph 7, edit lead)

By [Glenn Somerville](#)

WASHINGTON, May 9 (Reuters) - The United States and China launch two days of talks on Monday which will give the world's two biggest economies a chance to manage their often tense policy differences. [ID:nL3E7G80CW]

Washington's demands for currency reform by Beijing are likely to be countered by expressions of concern by China, the biggest creditor of the United States, about soaring U.S debt levels.

This year's Strategic and Economic Dialogue meeting, covering economic and diplomatic issues, takes place barely a week before the U.S. hits a legally set debt limit on May 16.

Ahead of the two days of talks, Chinese officials made clear they were monitoring talks between the Obama administration and Republicans on competing proposals for tackling a projected \$1.4 trillion budget deficit.

"We hope that the United States in its fiscal clean-up will be able to adopt effective measures based on President Obama's proposal," Chinese Vice Finance Minister Zhu Guangyao told reporters in Beijing on Friday.

U.S. officials laid out a menu of demands that include more access for American firms and faster implementation of financial market reforms as well as a more flexible foreign exchange regime and higher Chinese interest rates.

With the U.S. economy growing only modestly after the 2007-2009 financial crisis, and Washington still reliant on selling its debt to China, both countries have a stake in keeping relations on an even keel to foster global recovery.

No breakthroughs are likely, but the talks may defuse some of the potential for flare-ups over debt and other issues, said Jin Canrong, a professor of international relations at Renmin University in Beijing.

"There are structural conflicts in the China-U.S. relationship," Jin told Reuters. "Although this year relations have had a good start, the problems are still there and could burst out at any time and lead to a step back in relations."

U.S. Treasury Secretary Timothy Geithner was meeting Chinese Vice Premier Wang Qishan over dinner on Sunday night ahead of the formal talks.

The strategic side of the dialogue will be headed up by Secretary of State Hillary Clinton and Chinese State Councilor Dai Bingguo, an adviser on foreign policy to the country's top leaders.

MANAGING DIFFERENCES

The United States has said that it intends to press China on human rights issues, potentially sensitive because of Chinese concern that uprisings in Arab nations could trigger unrest.

But on this issue, as with some on the economic track, officials appeared to indicate the emphasis will be on managing differences to keep them from boiling into outright dispute.

Vice Foreign Minister Cui Tiankai said on Friday the spirit established in January talks between President Barack Obama and his Chinese counterpart Hu Jintao, when they agreed to respect one another's development path, should continue.

"We hope that in observing the development of human rights in China, the outside world will stick to the facts, or to use a popular Chinese phrase, that it will adopt a sunnier disposition," Cui said.

Currency policy is a perennial topic, specifically U.S. allegations that China's yuan is undervalued and should be permitted to appreciate more rapidly in the interests of better balancing trade between the world's No. 1 and No. 2 economies.

Ahead of these talks, Geithner said that letting the yuan appreciate more rapidly would allow the Chinese to better control inflation and U.S. officials said he will urge China to let official interest rates rise more rapidly as part of the bid to reduce imbalances by encouraging more domestic consumption.

"We're going to encourage China to move more quickly in lifting the ceiling on interest rates on bank deposits in order to put more money in Chinese consumers' pockets," Treasury's senior coordinator for China, David Loevinger, told reporters at a briefing last week.

Treasury delayed a scheduled April 15 report on currency practices of key trade partners that, in theory could have labeled China manipulator and opened the way to imposing trade measures against it. In practice, Treasury has opted to use persuasion to try to convince Beijing to let the yuan rise as an inflation-fighting tool.

"You are hearing Chinese officials recognize more directly in public now that they need to do that to help underpin an effective strategy to contain inflation risks," Geithner said at U.S.-China Business Council meeting last week.

China, flush with cash now as holder of the world's largest foreign reserves that are about two-thirds dollars, wants to ensure its firms are not discriminated against in the United States.

While U.S. Commerce Secretary Gary Locke -- nominated to be U.S. ambassador to China -- last week complained that U.S. companies are shut out of whole industries in China or are pushed to give up proprietary information as a cost of entry.

Analysts caution that dramatic outcomes are unlikely from this week's talks, unsurprising as the two leading economies enter a more mature relationship.

"The focus has shifted to making methodical if slow progress rather than on resolving major conflicts or arriving at dramatic breakthroughs," said Eswar Prasad, a senior fellow at Washington's Brookings Institution. (Additional reporting by Chris Buckley and Doug Palmer;; Editing by Sandra Maler)

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