

China Presses US On Debt, But Agrees Too Soon To End Stimulus

By Tom Barkley and Min Zeng, Of DOW JONES NEWSWIRES

WASHINGTON -(Dow Jones)- Visiting Chinese economic leaders Monday pressed their U.S. hosts on the ballooning deficit and the dollar, but agreed that it was too soon to start unwinding stimulus measures.

President Barack Obama sought to set a collegial tone at the opening of his administration's first high-level talks with China Monday by focusing on "mutual interests" the two countries share, rather than growing tensions on trade and currency issues. But following a round of opening speeches echoing that sentiment of commonality, the Chinese turned to the item at the top of their agenda: the risk to their holdings as the biggest creditor nation to the U.S.

Vice Premier Wang Qishan focused his discussions on the stability of the dollar and the need for responsible fiscal and monetary policies to prevent inflation pressures that could erode the value of China's massive dollar assets, Zhu Guangyao, China's assistant finance minister, told reporters at a briefing following the first day of the U.S.-China Strategic and Economic Dialogue.

The dialogue is an outgrowth of high-level economic talks the Bush administration began with China, with a new "strategic" element added to cover issues such as climate change, development and security threats. Treasury Secretary Timothy Geithner and Wang are heading up the economic track, while Secretary of State Hillary Clinton and State Councilor Dai Bingguo are representing their countries on strategic issues.

David Loevinger, Treasury's senior coordinator for China affairs, said both sides had "serious questions" about the sustainability of each other's crisis measures. But they also found broad areas of agreement on a number of economic fronts, including the need to continue focusing on pulling the global economy out of recession.

"I think there was general agreement that it is very important that this doesn't occur too soon because the recoveries are still very fragile, but also an acknowledgement that they have to take place at the right time and not let another set of imbalances and bubbles build up in the economy," Loevinger told reporters on a conference call.

U.S. Federal Reserve Chairman Ben Bernanke also took part in the discussion, talking about some of the exit strategies being considered regarding the central bank's accommodative policies, he said. Lawrence Summers, director of the White House National Economic Council, and budget director Peter Orszag reaffirmed the administration's commitment to bringing the deficit down to a sustainable level by 2013.

Zhu said the discussions were "beneficiary," helping to boost the exchange of views on the two countries' macroeconomic policies.

Meanwhile, the U.S. continued to press China on shifting away from the high-savings rate and export-led growth that have contributed to a huge trade surplus with the U.S.

Loevinger said the Chinese agree with the view that the U.S. economy will no longer be able to return to the role of consumer of the world's products once it emerges from recession.

"There was agreement on both sides that as the economy recovers, it's very important not only to put in place macroeconomic stimulus, but also structural reforms to rebalance the economy," he said, noting that Chinese officials discussed at length efforts to reform state-owned enterprises and health care.

Conspicuously absent from the morning speeches was any discussion of currencies, either the oft-repeated call by the U.S. for China to let the yuan appreciate or China's more recent push for an alternative reserve currency to the dollar.

When asked whether the dollar's reserve status came up, Loevinger said there was a "full discussion of a range of economic and financial issues."

"We talked about China's exchange-rate policy, they talked about their desire to reform the international monetary system, and I'll just leave it at that," he added.

Zhang Xiaoliang, vice chairman of the National Development and Reform Commission, told reporters at a separate briefing that U.S. officials didn't emphasize the exchange rate in Monday's talks.

Eswar Prasad, a senior fellow at the Brookings Institution, who was previously head of the IMF's China division, said the talks were off to a good start but showed a clear shift in the balance of power, as China achieves the status of more equal partner. But despite the focus on shared interests, the two economic rivals can only downplay policy differences for so long, he said.

"As the economic recovery gathers steam, some simmering tensions between the two countries, especially on currency and trade issues, could come bubbling back to the surface," said Prasad.

Indeed, trade tensions could boil over Tuesday, when U.S. Trade Representative Ron Kirk plans to discuss trade and investment policies with his Chinese counterparts.

The economic track will also cover ways for China and other advanced developing economies to gain more say in international forums like the International Monetary Fund.

On the strategic side, there was an in-depth discussion about clean energy and climate change, including a PowerPoint presentation by U.S. Energy Secretary Steven Chu.

"You couldn't convey it in a much stronger way that this issue has risen up to the top of the U.S. national security set of priorities, and obviously that didn't use to be the case," said U.S. climate change negotiator Todd Stern.

Still, Stern acknowledged significant differences with developing countries like China and India on tackling climate change.

At the State Department on Tuesday, Clinton and Dai plan to address how to deal with a variety of global trouble spots, such as North Korea, Iran, Afghanistan, Pakistan and Sudan.

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