

# Paulson Sees Progress in U.S.-China Ties

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ANNAPOLIS, Md. — The United States opened two days of intense economic talks with China on Tuesday with the Treasury secretary Henry M. Paulson Jr. declaring that despite recent tensions over trade, investment and food and product safety, ties between the two countries were “growing in a positive direction.”

“The United States and China don’t always agree on economic issues,” Mr. Paulson said in prepared remarks Tuesday at the United States Naval Academy on the Severn River here. “Sometimes we may even disagree quite strongly. But we keep talking.”

Seeking to smooth the way for the discussions, Mr. Paulson said that while China faced many economic difficulties, so did the United States. One reason that China does not import more American goods, he said, was that its savings rate was so high. In the United States, he said the savings rate was too low.

The last round of talks in December in Beijing set up a 10-year goal of cooperating on energy and the environment, and Mr. Paulson said he hoped that the two countries could take additional steps in that area.

“As the two largest net importers of oil, China and the United States face similar challenges as demand for energy increases, and the global production capacity has remained relatively flat for the past 10 years,” he said.

In the last several months, Mr. Paulson said there has been progress on issues like monitoring the safety of food and other products imported from China.

Now, he said, China needed to do more to crack down on piracy and counterfeiting of American goods, including software and movies, and opening its markets to American investments and goods. The trade deficit between the United States and China topped \$250 billion last year, causing some anxiety in Congress.

Mr. Paulson’s comments came the morning after Chinese and American businesses, seeking to overcome mutual suspicion of foreign investment, announced \$14 billion in new deals.

The deals involve \$8 billion in Chinese investments and purchases of aircraft engines, telecommunications equipment, semiconductors and electronic components, said Chen Deming, minister of commerce in China. Another \$6 billion involved American purchases and investments in China.

Among the American companies signing deals were Chrysler, Cisco Systems, Ford Motor, General Motors, I.B.M., Motorola, Sun Microsystems, Qualcomm and Texas Instruments.

In an interview on Monday, Mr. Paulson said the meetings were not meant to resolve specific disputes but to discuss how to overcome economic downturns and deal with impending crises in energy and the environment.

“The tone will be one of constructive engagement,” Mr. Paulson said. “We’re going to be dealing with some of the most fundamental economic issues there are. I know some people would like to see quick fixes. But the most important issues don’t avail themselves to quick fixes.”

The Chinese delegation is scheduled to meet with President Bush at the White House on Wednesday afternoon.

The Annapolis talks are the fourth in a twice-a-year series that Mr. Paulson started when he left Goldman Sachs to become Treasury chief in 2006. The biggest issue at the time was American irritation over China’s intervention in currency markets to purchase dollars and keep the value of the dollar high in relation to China’s currency.

Since mid-2005, China has allowed its currency, the yuan, to appreciate nearly 20 percent, easing at least some of the criticism in Congress. The Bush administration continues to accuse China of raising barriers to foreign investment, and China has increasingly complained that its attempts to invest in America often provoke an outcry.

Mr. Paulson said that, although China had made only limited reforms in its economy and taken limited steps to open its market to American goods and investment, the “strategic economic dialogue,” known as the S.E.D., produced more progress than otherwise would have been the case.

“I would argue that the reason we’ve made progress is that the S.E.D. is a mechanism for convincing China that certain things are in their interest,” he said, citing American efforts to get China to open its economy to foreign investment and to lift government subsidies of export industries.

In recent months, the Chinese government has pushed back with demands that the United States do more to open its economy to Chinese investments and to halt the depreciation of the dollar against European and other currencies, a trend many economists say has helped drive up oil and food prices.

The Chinese delegation will be led by Wang Qishan, a vice premier and former mayor of Beijing, and a graduate of Northwestern University, who took office as the country’s chief economic negotiator earlier this year. He succeeded Wu Yi, one of the highest-ranking women in China and often described as a tough negotiator.

Mr. Paulson said that though China had lately stepped up its criticism of the United States, “I sure didn’t find Wu Yi to be a shrinking violet.”