Clock Ticks on U.S.-China Goals

Major Trade Issues Likely to Be Put Off To Next President

By Deborah Solomon, Jason Leow and Jason Dean
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Treasury Secretary Henry Paulson hosts one of the final rounds of dialogue with his Chinese counterparts Tuesday, but focus in Washington and on Wall Street is already shifting to the next administration to resolve differences between the two nations.

When it was created two years ago to help persuade China to change its economic policies, Mr. Paulson's Strategic Economic Dialogue was viewed with high hopes because of his ties to China and his influence within the White House. But many of the goals he outlined have yet to be met. Chief among the outstanding issues are China's trade surplus with the U.S., China's controls on its exchange rate, its growing energy consumption and its sluggish moves to open up its financial sector to competition. Safety of Chinese exports is also expected to remain an issue.

These topics have dominated Mr. Paulson's discussions with the Chinese during the past two years and are expected to come up again during meetings the U.S. is holding Tuesday and Wednesday in Annapolis, Md.

While China has let its currency rise against the dollar and has made some small concessions in other areas, the dialogue hasn't produced any breakthrough agreements. Big differences remain between what the U.S. wants in regard to China's economy and what China is prepared to deliver.

"In terms of concrete deliverables, it's hard to make a strong case that we got a lot of things from [Mr. Paulson's] dialogue that we wouldn't have gotten otherwise," said Nicholas Lardy, a senior fellow at the Peterson Institute for International Economics in Washington.

It's not yet clear whether an administration of Sen. John McCain or Sen. Barack Obama would continue the process started by Mr. Paulson, though both presidential candidates have cited the need to engage with China on climate change. Sen. Obama has taken the tougher stance on China, blaming it for a loss of jobs in the U.S. He has also backed legislation to brand China a currency manipulator.

In a speech in April, Mr. Obama criticized China for not opening its markets while "undervaluing their currency and giving their goods yet another unfair advantage." Chinese officials hope to avoid an administration that resorts to more frequent use of punitive tariffs or other trade sanctions on Chinese goods.

Congressional pressure will undoubtedly force the next president to continue pushing the Chinese to appreciate their currency, which critics say is kept artificially low to help boost Chinese exports. Beijing, which has let the yuan gain 20% against the dollar since removing its peg in July 2005, has said it is committed to making the exchange rate more market-determined but wants to do so gradually. And continuing concerns about China's desire to invest in the U.S. through its sovereign-wealth fund will also require continuing negotiations.

"The [next] president's challenge is how to advance the economic agenda without making an antagonist of an adversary," said Gary Hufbauer, also of the Peterson Institute.

The fact Mr. Paulson was unable to make greater headway portends a big challenge for the next president. Mr. Paulson was seen as having a great chance of making progress, given his deep relationships with Chinese leaders. He knew Premier Wen Jiabao from Mr. Paulson's days as head of Goldman Sachs Group Inc. and is friends with the recently appointed head of the Chinese delegation to this week's dialogue, Vice Premier Wang Qishan.

One of Mr. Paulson's biggest goals -- getting China to open its financial-services sector to foreign competition -- has been frustrated. While the Chinese agreed last year to allow foreign firms to issue yuan-denominated stocks and bonds, they have resisted going further, citing the troubled U.S. economy and the subprime crisis as reasons not to open their doors further.

After agreeing at the dialogue in May 2007 to resume issuing licenses for foreign-securities joint ventures, the Chinese securities regulator waited until this month to issue its first such approval -- not for an American company, but for Credit Suisse Group. That deal awaits approval from other Chinese agencies.

Daniel Rosen of China Strategic Advisory, a consulting firm, said the Chinese are unlikely to give any additional concessions before Mr. Bush's term expires.
"If China is going to make concessions in the financial-services sector, does it really want to do so right now, in a lame-duck presidential administration, or hold on to them to make a down-payment in the next administration?" Mr. Rosen said.

This week, China and the U.S. are expected to agree on a 10-year "framework" for cooperation on energy and environmental issues. Those topics will continue occupying a growing role in bilateral relations, given America's role as the world's biggest consumer of energy and China's role as the fastest-growing energy user and polluter.

Write to Jason Dean at jason.dean@wsj.com