Oil to the Fore in U.S.-China Talks

Focus Shifts From Currency

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As high-level delegations from the United States and China meet this week in Annapolis for their latest talks on economic coordination, the Bush administration's concerns about the value of the Chinese currency have been overshadowed by anxiety over the global price of oil.

Since the Strategic Economic Dialogue began two years ago, U.S. policymakers have repeatedly pressed Beijing to curtail manipulation of its currency. China's objections failed to change the subject. But now, rising oil prices have taken center stage much as they are dominating economic and political discussions worldwide.

On the first day of talks, U.S. officials repeated their call yesterday for China to stop subsidizing fuel for its citizens, arguing that it contributes to surging demand for oil and thus higher global prices. Since Chinese citizens pay a fraction of the market price, they have less incentive to pull back in their use of gasoline and heating oil.

Beyond that, the United States wants China to release more information about what it is doing with its strategic petroleum reserve and to share more information with the International Energy Agency so the world can better deal with supply disruptions or other shocks.

But while China's population is larger and consumption is growing at a much faster rate than in the United States, the Chinese note that the average American consumes about 14 times as much oil as his Chinese counterpart.

The focus on energy and environmental issues does not sit well with longstanding critics of the talks, who argue that the Bush administration isn't being aggressive enough in pushing China to change policies that disadvantage U.S. companies.

"I really don't think that anything Washington does is going to significantly affect China's domestic energy policies," said Alan Tonelson, a research fellow for the U.S. Business and Industry Council who views the talks as more an exercise in public relations than a path toward progress. "China will choose to subsidize or not subsidize fuels because of how it sees China's own economic and energy interests."

In the previous three rounds of talks, U.S. officials have concentrated their diplomatic efforts on China's intervention in the currency markets to give its exporters an advantage.

"The currency is certainly an important issue, but it's not just about the currency this time," said Rob Nichols, president of the Financial Services Forum and a former Treasury Department official.

The shift partly reflects what is going on in the world. China has allowed its currency, the yuan, to rise about 20 percent against the dollar in the past three years. The financial crisis that started in the United States -- and was caused in part by lax regulation -- has given Beijing another argument against U.S. demands that China further deregulate its financial markets.

The shift also reflects a desire by Treasury Secretary Henry M. Paulson Jr., in the final months of the Bush administration, to make the high-level talks and a stronger economic relationship with China part of his legacy. He said he hopes the next president continues the tradition of the twice-yearly discussions between top economic officials of the two countries, which have occurred since 2006 and alternate location between the United States and China.

"The United States and China don't always agree on economic issues," Paulson said in a news conference. "Sometimes we may disagree quite strongly, but we keep talking."

It helps that leading the talks across the table is Wang Qishan, the new Chinese vice premier, with whom Paulson has had a collaborative relationship since his days as chief executive of Goldman Sachs. The previous leader of the Chinese side, a veteran trade negotiator, was more combative.

"When conflicts or problems arise, we need to solve them through dialogue and communication and improve mutual understanding . . . to avoid complicating and politicizing economic and trade issues," Wang said in a news conference. "Our cooperation is an irreversible and unstoppable current."

Some skeptics of the Bush administration's approach on China argue that the premise of this economic dialogue is flawed because China is being asked to adopt policies that are out of step with its political traditions. Moreover, they say the administration has little leverage in its twilight months.

"We've been asking them to adopt our policies in terms of exchange rates, financial deregulation and everything else, to follow our model rather than selectively deciding what fits our mutual interests and pursuing that," said Colin I. Bradford, a senior fellow at the Brookings Institution. "My feeling is there is an enormous need to restart the dialogue with China in a new administration."