

U.S. Tells China Subprime Woes Are No Reason to Keep Markets Closed

By Steven R. Weisman
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ANNAPOLIS, Md. -- Bush administration economic officials, frustrated over the pace of change in China, warned Chinese leaders Tuesday not to let American regulatory failures in the subprime mortgage crisis become an excuse for not deregulating Chinese markets and opening them to foreign investment.

The American appeal was made at the opening of two days of talks at the United States Naval Academy focused on easing economic tensions over trade, food, product safety and other issues.

“The United States and China don’t always agree on economic issues,” said Treasury Secretary Henry M. Paulson Jr., opening the discussions on a day of sunshine and soft breezes at the center of the naval campus on the Severn River. “Sometimes we may even disagree quite strongly. But we keep talking.”

Almost immediately, despite the bucolic setting, the talks produced a sharp disagreement over the lessons from the current global financial crisis.

In the latest sign of Chinese willingness to criticize the Bush administration, Zhou Xiaochuan, minister of the Peoples Bank of China, the country’s central bank, said pointedly that this was the first time since the semiannual talks began in 2006 that China needed to learn from American mistakes as well as its successes.

Mr. Zhou said that the Chinese had listened intently to a presentation on the American economic situation from Ben S. Bernanke, chairman of the Federal Reserve, on what was being done to overcome the recent credit turmoil.

After hearing from Mr. Bernanke and others about efforts by American companies to recover from the crisis, Mr. Zhou said he was impressed that many shaky American financial companies had increased their capitalization in recent months, as both Mr. Bernanke and Mr. Paulson had urged them to do.

The American side did not give any details on Mr. Bernanke’s presentation, but Mr. Zhou said the overall session was “something we have never experienced before,” in that the discussion focused on the “inadequacy of regulations” governing subprime mortgages and other complex financial products.

The implication taken away by the American side was that he was telling them that deregulating Chinese financial markets, as demanded by Wall Street and the Bush administration, might bring unwelcome consequences.

American delegates cautioned that China would be wrong to slow its deregulation of financial markets or to ease up on opening them to foreign investment, said Alan F. Holmer, special envoy for China under Secretary Paulson, who is leading the American side in the talks.

“There are lessons to be learned from the economic developments in the U.S.,” said Mr. Holmer, adding that “there would be significant costs to China if they were to slow down with respect to their financial sector liberalization.”

The slowness of China’s moves to open up its economy to investment by American financial services, from insurance to credit cards, has frustrated Mr. Paulson and others in the Bush administration for years. American officials now say the Chinese are citing the failure to regulate subprime mortgages as a reason for not moving faster.

Mr. Zhou also charged — as have other Chinese recently — that the declining value of the dollar in relationship to other currencies, including the yuan, was contributing to rising prices for oil, food and other commodities throughout the world.

Blaming the decline of the dollar — and by extension blaming low interest rates in the United States, which are driving investments to other currencies — is an argument increasingly being heard as Mr. Paulson has traveled in the Middle East, Europe and East Asia.

American officials said that Mr. Paulson again rejected the argument, saying that high oil and food prices reflected the fundamental imbalance of supply and demand for both.

On another point of contention with China, Michael O. Leavitt, secretary of health and human services, said some progress had been made in pressing China to upgrade safety inspections of exports of food, drugs and other products. He said China would soon agree to open offices for American food and product safety inspections in Shanghai, Beijing and Guangzhou.

But the top Chinese product safety official, Li Changjiang, said China would not open up offices for the Americans until the United States agreed to expand the Chinese embassy to include safety inspectors from China based in the United States.

“We have yet to receive the final go-ahead from the U.S. authorities on this matter,” he said.

The two sides agreed to set up a framework to discuss environmental and energy cooperation, specifically to improve joint efforts on clean air, water, energy generation, transportation and conservation.