U.S.-CHINA ECONOMIC DIALOGUE
CONSENSUS

JANUARY 6, 2016
NEW YORK CITY

- There has been a significant slowing of economic growth in China and the United States in recent years. While not to minimize this, the participants believed that greater emphasis needs to be placed on the employment implications of GDP growth in both countries. In the United States, policies that raise the sustainable ratio of employment to population would boost the economy's income generating capacity. It is also imperative for the United States to be substantially more effective in addressing its multiple and highly consequential policy challenges, and push intermediate and longer-term fiscal and education reforms as well as more robust public investment. In China, the shift from manufacturing to services results in considerably greater additions to employment for each unit of increase in GDP. That would allow Chinese GDP growth to slow down, but still generate enough jobs and labor income to sustain economic development.

- Economic growth in China has been slowing for some time, reflecting both structural and cyclical factors. On the structural side, China is making a long-term transition from export-led to domestic-consumption-led economic growth. Signs of this rebalancing include a large increase in the share of services in production and a small increase in the share of private consumption in total demand. On the cyclical side, external weakness and overcapacity in a range of domestic industries are contributing to the slowdown.

- Securing a stable macroeconomic environment in China is vital for China's continued advances in structural reform. Further monetary and fiscal policy actions are necessary in order to stimulate demand in the short run.

- There is great scope for additional investments in China, where the stock of capital per worker remains low compared to high-income economies. Improving the *quality* of investment is key to sustaining economic growth. In light of China's commitment to capital-intensive urbanization and to improve environmental conditions, there are a wide range of investment projects with high economic or social returns that are consistent with market principles and driven by sustainable market mechanisms, and should be implemented as soon as possible.

- At the same time, consumption in China can continue to outpace economic growth for a long time. The further elaboration and enhancement of the social safety net, easing of conditions for migrant workers, and implementation of government measures aiming to boost disposable income should all contribute to sustained consumption gains.

- While prospects this year are still for moderate growth in both China and the United States, the two governments should be concerned about downside risks facing the global economy, including geopolitical risks. Policymakers should continue to take into account how their domestic policies will affect foreign economies and then loop back to affect their own. These include, for example, developments in monetary policy and their impact on asset and currency markets. In the case of China, increased transparency in addressing the rise of non-performing loans (NPLs)—without sustaining weak borrowers—will help foster economic growth.

- In China, the implementation of planned structural reforms is important for boosting economic confidence. For example, the Third Plenum of November 2013 includes a range of reforms for state-owned enterprises, such as promoting mixed ownership and public and private partnerships. In September 2015, the government provided additional clarification of these goals. Having promulgated these plans, the government can build confidence by carrying through this year with clear regulations to implement these reforms. More broadly, promoting competition—rather than promoting specific competitors—is fundamental for sustaining economic growth in both countries.

- Participants welcomed the U.S. congressional legislation approving the IMF 2010 quota reforms. Previous iterations of this Track II had encouraged this action. The IMF reforms will promote the legitimacy of the Fund (and other existing international financial institutions) by giving China and other emerging economies a policy voice more commensurate with their increased role in the global economy.

- Participants again discussed the recent financial reforms in China, including both domestic interest rate liberalization and the ongoing opening of the capital account for cross-border transactions. They welcomed the advance of financial liberalization, again reflecting the implementation of initiatives endorsed at the Third Plenum. There was general agreement on the growth- and welfare-enhancing benefits of financial liberalization, including the ability to mobilize and efficiently allocate savings, while improving the sharing of risks. Inclusion of the RMB in the IMF's SDR basket was viewed as a step toward wider use of the RMB internationally. Participants also discussed the relatively high level of government intervention in China's asset markets—including the equity and currency markets—and encouraged efforts (in line with the Thirteenth Plenum) toward greater reliance on market forces. During periods of market disruption, participants encouraged efforts to enhance transparency and communication about policy goals and actions as a way to sustain the growth of China's capital markets in the long run.

- The participants welcomed the continued discussions between the two countries regarding a Bilateral Investment Treaty (BIT). However, negotiations on a BIT have been underway for some time, so reaching agreement and then achieving enactment of the Treaty in a reasonable time frame will require greater urgency and commitment on both sides. A strong and effective BIT would establish a basis for further bilateral agreements such as a U.S.-China Free Trade Agreement (FTA) and also would encourage progress in trade and investment agreements with other countries. U.S. firms have much to gain from an effective BIT and/or FTA, but such agreements should also enhance clarity of rules and transparency to reduce the uncertainties Chinese firms face when considering an investment in the United States. The greater the range of activities a BIT opens up, the greater the chance of obtaining such support.

- Finally, the participants encouraged the expansion of participation in the Trans-Pacific Partnership from the current 12 signatories to all 21 APEC members.

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