



CONSENSUS VIEW OF THE FIFTH U.S.-CHINA TRACK II ECONOMIC DIALOGUE

March 21-23, 2012
BEIJING, CHINA

This year, elections in the United States and a leadership transition in China present new opportunities and challenges in improving the economic relationship and building trust between the United States and China. Rhetoric arising from political uncertainties in both countries is a deviation from the norm and should not forestall finding partnership opportunities. The U.S. economic recovery is gaining traction but remains slow and uncertain. China's economy is slowing down, but the downside risks are manageable (despite serious problems in the residential property area). Europe, however, presents the greatest risk to the world economy, especially if the recession there deepens. While the global economic outlook seems to be improving, numerous challenges remain for China and the United States. Both countries face the task of rebalancing their economies – China to continue the transition to sustainable domestic demand-led growth and the United States to make its fiscal positions more sustainable at the federal and state/local levels while deleveraging of the household sector continues.

The dialogue discussed the economic outlooks in China and the United States, the role of government and ways to improve the strategic trust between the two countries. The following consensus was reached.

Economic Outlooks in China and the United States:

- China has made substantial progress in rebalancing its economy. The export share of the GDP is declining and the government has announced policies that, when implemented, should lead to an increase in the GDP's consumption share. China's current account surplus has narrowed substantially. The United States' trade and current account deficits have narrowed in recent years, but the need for a strong export performance remains.
- Structural reforms, including those in the labor market and resource allocation are going on in China. Wages have been rising quickly and the RMB has also appreciated significantly since it was delinked from the USD in 2005. New household registration policies allows migrant workers more liberty in terms of residence registration that should lead to sustainable urbanization, more consumption and growth, as well as changes in lifestyle, education and social security patterns.
- The U.S. economy appears to be on a path of continued moderate growth but faces fiscal challenges which have yet to be comprehensively addressed. There are signs of strengthening in the manufacturing sector and rising exports reflect this. Continued rapid export growth will be essential for some years to come.
- The deleveraging of the household sector is proceeding in the United States but more progress is needed to correct long-term fiscal deficits.

The Role of Government:

- Since the financial crisis, the role of government in the Chinese and American economies has been subject to serious debate. In the post-crisis period, government intervention in the economic arena in both countries has increased, and the costs and benefits of such increased government interventions still need to be assessed. Increased regulation burdens the recovery as well as the long term growth prospects in both countries.
- Although its share in GDP has been declining, the state-owned sector in China still enjoys monopoly power in several key economic areas. These monopolies/oligopolies reduce competition and efficiency and increase pricing. It is important to distinguish between 'natural monopolies' (e.g. in sectors where only one supplier can effectively function) and sectors where monopolies are not needed.
- The Chinese government has acknowledged that the growth of SMEs has been retarded by burdensome government regulations and by limited access to credit.
- Government played a crucial lead role in the early stages of China's economic growth, but as the economy has become more developed, market forces need to play a much more important role to sustain

future growth. Now the country needs to support the private sector in order to strengthen innovation and risk taking.

- Chinese government's excessive involvement in the economy has caused international concerns when Chinese companies go abroad. Such involvement has created the impression that China is subsidizing its foreign investment and is not playing by the same rules as other countries. It is important for China to address such concerns.
- It is important for both countries to have an economy where foreign and local companies are treated equally by government and the courts. To achieve this goal, China should clearly delineate the roles of the government and the court system to ensure that the rule of law is observed and the judiciary system is impartial.
- Both sides believe that increased transparency in rule-making limits corruption and increases competition, resulting in lower prices and increased efficiency.
- China's tax system favors capital and investment. In order to transition to consumption-driven growth under the 12th Five Year Plan, the tax on the service sector and household consumption needs to be reduced.

Building Strategic Trust:

Trust between the United States and China has faltered in recent years in the strategic and economic arenas. This dialogue has identified the following areas of improvement that would help rebuild trust between the two countries.

- People-to-people contact and good commercial relations promote strategic trust. Issuance of 5-year multiple-entry visas by both countries would benefit both of these areas.
- A Free Trade Agreement (FTA) between the United States and China would create jobs in both China and the United States and help rebalance trade. Announcement of negotiations for a FTA would signal each government's desire to improve economic relations and enhance strategic trust as would the discussions themselves. As a first step both sides should seek to reach an agreement on an across-the-board reduction of import tariffs, recognizing that China's tariffs are higher than U.S. tariffs and the United States would benefit more from such reduction. The United States and China should promptly commence these discussions.
- As bilateral investment issues increase in importance, both the United States and China need to clearly signal that they welcome foreign investment from each other and will treat foreign investors fairly and transparently. The United States should approve its model Bilateral Investment Treaty (BIT) and thereafter the United States and China should commence negotiations for a BIT. A BIT would provide protection for investors from both sides and thus greatly benefit bilateral trade.
- Both sides need to distinguish between national security and economic security. Clear definitions of each need to be made and agreed upon. Both FTA and BIT procedures would facilitate reaching clear definitions on these issues and concerns.
- Protection of intellectual property rights in China is improving but the Chinese government should increase its commitment of such rights for both foreign and domestic entities. American companies should be encouraged to resort to the Chinese court system more frequently for redress on IPR issues.
- A new era of bilateral investment should insure that Chinese overtures to invest in U.S. financial sectors and infrastructure and the U.S. investment in China are judged based on appropriate regulatory and commercial criteria, not on political grounds. The United States should demystify CFIUS. Both China and the United States should allow banks from the other country broader access to its financial markets.
- China should strive to further enhance its offer and commitment to join the Government Procurement Agreement.



National Committee on
United States - China Relations



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