U.S.-China Track II Economic Dialogue

CONSENSUS

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The bilateral relationship between China and the United States—the two largest economies—is arguably the most important in the world. In an environment of heightened global uncertainty and increased trade and security frictions, managing this relationship effectively is critical to the welfare of both countries.

The upside is that effective collaboration and cooperation can foster stronger long-run economic growth in both countries, where activity has slowed in recent years. Achieving this goal will require active efforts on both sides to identify and implement a range of mutually beneficial policies. Above all, it is critical to avoid the tit-for-tat escalation of new obstacles to trade. A collapse of trade arising from such retaliation would severely damage both economies, reducing jobs and incomes. This outcome is widely seen today as one of the greatest threats to global prosperity.

The dialogue participants believe that avoiding such harm requires a policy focus in both countries on actions that will expand trade and investment opportunities. Such liberalization has the potential to accelerate growth and create jobs in both countries, and to provide for a more efficient allocation of global resources.

The dialogue participants see numerous opportunities in this regard. At the top of the list is the completion of a long-negotiated Bilateral Investment Treaty (BIT) that would open new sectors for U.S. firms in China, in addition to supporting those firms that already have invested heavily in selling to China. It would also provide Chinese firms with greater certainty regarding their growing investments in the United States.

U.S. firms in the services industry are particularly competitive, and would be among those that would benefit greatly from opening access and the enforcement of equal treatment rules in areas such as insurance, overnight delivery, and healthcare. Direct investment by Chinese firms already supports more than 100,000 U.S. jobs, but the potential remains large. This includes, for example, investments in U.S. infrastructure, where the need for additional resources is both widely acknowledged and foreign participation would be consistent with the enforcement of well-defined national security standards.

A second initiative would be the advancement of the multilateral Trade in Services Agreement (TISA). Having diminished in recent years, the outlook for economic growth in both countries over the coming years will depend substantially on the expansion of services. A broadening of trade in services underpinned by enforceable rules would contribute substantially in this regard, boosting business confidence and investment.

A third initiative would be for the United States to join the Asian Infrastructure Investment Bank (AIIB). Just as in the United States, the need for funding increased infrastructure outlays in Asia is widely acknowledged, and consistent with the goals of the World Bank and the Asia Development Bank. Active U.S. participation in the AIIB—in terms of increased lending capacity as well as in establishing a robust governance framework—would help the new multilateral institution in its efforts to ensure the highest standards of professionalism, procurement, and lending, while promoting greater finance of infrastructure projects.

Finally, in order to manage heightened tensions currently evident between the United States and China, early confidence-building actions are highly desirable. This should include informal meetings at the highest levels of government to foster better mutual understanding. These meetings would help both sides display the patience that will be needed to foster a constructive relationship in the face of the inevitable, unanticipated events that, unmanaged, can trigger rapidly escalating friction. Other confidence-building actions might include procurement and infrastructure missions by Chinese firms, particularly in the U.S. states and municipalities that are keen to secure the gains from cross-border trade and investment.