



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

July 18-19, 2014 Beijing

- China and the United States both face deep challenges with respect to their medium and longer-term growth prospects. China has proposed a wide-ranging set of reforms that, if implemented, would go far in addressing its growth agenda. In addition to serving China, these reforms also would benefit the economies of the United States and other countries.
- Effective liberalization will advance the Chinese economy into a new phase of development, with a more balanced economic structure, including greater reliance on market incentives, private consumption, and services. Compared to the manufacturing and construction sectors, the ongoing rise of labor-intensive services will create substantially more jobs for every percentage point of economic growth. Implementation of China's reform agenda – including the reform of SOEs and the reduction of barriers to entry in services – also will facilitate cooperation with the United States and other countries in promoting global trade and finance by encouraging greater trust in China's willingness to further open its economy.
- The United States does not have a specific reform agenda to address its growth imperatives. Supply reforms that revitalize business formation and job creation are key to restoring a healthy U.S. long-term growth outlook. As the prospect nears for a normalization of U.S. monetary policy, the U.S. government should turn its attention to this long-term growth agenda. Failure to act would acquiesce to a diminished path for future increases in U.S. living standards.
- With the regard to China-U.S. economic relations, early completion of the Bilateral Investment Treaty (BIT) presents the top opportunity at this time to improve cooperation consistent with raising growth prospects. The leaders of both countries achieved a breakthrough on BIT at their 2013 gathering in Sunnylands. Renewed leadership is again needed to finalize the BIT in an early time frame. The current strength of two-way investment flows presents a window of opportunity for progress. Accordingly, the BIT should be at the top of the agenda for the November 2014 bilateral meeting between the countries' leaders in conjunction with APEC. A commitment by the leaders to completing the treaty by a specific date would provide critical momentum for the negotiations and encourage greater certainty for businesses. A failure to make timely progress would put at risk support for closer economic integration as cross-border investment flows become more asymmetric.
- Looking beyond the near-term horizon, there is enormous scope for progress on liberalizing trade and cross-border finance that would contribute to economic growth prospects in both countries.
- We again urge both governments to seek a bilateral free trade agreement (FTA). As a first step, each government should establish a high-level working group to conduct a feasibility study for an FTA between the United States and China to take place in the context of the Strategic and Economic Dialogue. While negotiating an FTA may take years, the process of negotiation itself promotes trust.

- With regard to ongoing trade negotiations, we recommend that – without delay – China join Trans-Pacific Partnership (TPP) negotiations and the United States join negotiations for the Regional Comprehensive Economic Partnership (RCEP). Implementation of China’s reform agenda is fully consistent with participation in TPP. The current path of negotiations is suboptimal, because leaving one country out of each group would favor trade diversion, rather than trade creation.
- We also again urge both governments to promote a speedy Trade in Services Agreement (TISA), which would spur a potentially large increase in services trade and a greater integration of our economies. It also would build trust and encourage greater confidence in the success of bilateral free trade negotiations and of TPP negotiations with Chinese participation.
- Finally, as the world’s two largest economies, China and the United States both have a special responsibility and powerful incentives to provide the global public goods needed to promote economic growth and welfare. Only by working together can our two countries address the most challenging transnational problems, such as climate change, terrorism, global pandemics, poverty elimination, and cyber security. Working together to address these problems also will build the mutual trust needed for effective cooperation in addressing other matters. In addition to the traditional multinational forums that exist to address these problems, both countries should establish regular bilateral mechanisms to discuss these issues and develop understanding of each other’s point of view and identify areas ripe for joint efforts. As one example of providing global public goods, we welcome China’s recent initiative in establishing the New Development Bank for infrastructure and as a means for promoting financial stability.