

U.S. DEPARTMENT OF THE TREASURY

Press Center



The 2011 U.S.-China Strategic and Economic Dialogue U.S. Fact Sheet – Economic Track

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The United States and China are the two largest economies in the world. The growth of our economies is important to both countries and the global economy. During the third meeting of the Economic Track of the U.S.-China Strategic and Economic Dialogue (S&ED), the United States and China made progress on priority issues that will result in meaningful economic gains for U.S. households, workers, and businesses. China pledged to take actions that will provide greater market access and contribute to a more level playing field for U.S. firms and workers, ensure greater protection and enforcement of intellectual property rights, deepen financial sector reforms, and promote greater Chinese domestic consumption and imports through policy shifts, including greater exchange rate flexibility.

The S&ED brings together senior leaders of the U.S. and Chinese governments to discuss the most critical issues faced by our two countries, now and in the years to come. Secretary Geithner, joined by leaders from 15 U.S. government agencies, led a discussion of these issues with the Chinese delegation led by Vice Premier Wang and comprised of all key Chinese economic ministry and agency heads. Through the S&ED, the Joint Commission on Commerce and Trade (JCCT), and other fora, the Obama Administration is working diligently to ensure U.S. companies and workers are treated fairly and can benefit from lasting changes to economic and financial policies in China.

Increasing Opportunities for U.S. Workers and Firms: Last year, U.S. exports grew 50 percent faster to China than to the rest of the world and reached more than \$110 billion, supporting hundreds of thousands of jobs across the United States in a wide range of industries. To promote greater U.S. exports to the large and rapidly growing Chinese market and to level the playing field for U.S. companies and workers, the United States secured the following commitments at the 2011 S&ED. These measures will lead to more American jobs and boost U.S. exports to China and the world by contributing to a more level playing field and expanding trade and investment opportunities for U.S. workers and firms.

Improving Protection and Enforcement of Intellectual Property Rights

- China pledged to improve its high-level, long-term intellectual property rights (IPR) protection and enforcement mechanism, building on the current Special Campaign Against IPR Infringement and Fake and Shoddy Products.
- China pledged to strengthen its government inspection mechanism to make sure that the software being used by government agencies at all levels is legitimate and to strengthen cooperation on software legalization in the JCCT.

Implementing Commitments to Level the Playing Field

- China pledged to eliminate all of its government procurement indigenous innovation products catalogues and revise Article 9 of the draft Government Procurement Law Implementing Regulations as part of its implementation of President Hu's January 2011 commitment not to link Chinese innovation policies to government procurement preferences.

Competitive Neutrality for Private Firms and State-owned Enterprises

- China and the United States discussed the principle of equivalent treatment for state-owned, controlled, or invested enterprises (SOEs), private enterprises, and foreign enterprises with respect to access to credit, tax treatment, regulatory applicability, and access to factors of production. The two countries also discussed the desirability of ensuring that SOEs seek a commercial rate of return and steadily increase their dividend payout.

Ensuring a Level Playing Field for Export Financing

- Both countries recognized the importance of transparency and fairness in providing export credits and agreed to discuss export financing arrangements.

Ensuring Transparency for U.S. Companies

- China pledged to issue a measure this year requiring that all proposed trade- and economic-related administrative regulations and departmental rules be published on the State Council Legislative Affairs Office website for a public comment period of not less than 30 days from the date of publication, subject to limited exceptions.

Expanding Opportunities for U.S. and Foreign Firms through a More Developed, Open, and Market-based Financial Sector: China has committed to continue and extend financial sector reforms as part of its new Five-Year Plan for the economy, actions that will be of great benefit to both China and the United States. U.S. financial services firms are innovative and competitive. Given the many obstacles that U.S. financial services firms face competing in China, China's commitment to further develop its financial services market based on the principles of national treatment and non-discrimination will provide new and significant opportunities to U.S. firms. More market-based and efficient allocation of credit and capital in China will also help level the playing field with China's SOEs, put more money in the pockets of China's consumers, and create opportunities for private enterprises – including American firms – across a broad range of service sectors.

- China committed to deepen the reform of its financial system, including opening new opportunities for U.S. and other foreign financial services firms, to provide more efficient service, control risks, and encourage financial innovation.
- China committed to allow U.S. and other foreign banks incorporated in China to sell mutual funds, obtain licenses to act as mutual fund custodians, and act as Margin Depository Banks in Qualified Foreign Institutional Investor (QFII) futures transactions. Chinese authorities also confirmed that there are no barriers to foreign banks to sell other types of wealth management products to customers or to engage in custodian business with insurance companies.
- China pledged to advance toward allowing U.S. and other foreign insurance companies to sell mandatory third-party liability auto insurance in what is now the world's largest market for automobiles.

- China is now moving to allow foreign banks to underwrite corporate bonds in the interbank bond market. In April, China's corporate bond market oversight body released criteria for underwriters and opened up a one-week period for new applicants, during which time many U.S. and other foreign institutions applied.
- China continues to make measured progress in increasing total quotas under the QFII program (which allows foreigners to invest in Chinese stocks and bonds). China's total QFII quota has increased nearly 25 percent in the past year, to \$21 billion.
- China committed to move toward market-determined interest rates to better price risk and more efficiently allocate capital in its economy.

Safeguarding the Financial System from Illicit Finance Threats

- China pledged to strengthen its financial system against money laundering, counterfeiting, terrorism financing, and WMD proliferation. China also will continue to develop and strengthen its regulatory framework for freezing terrorist assets.

Promoting Strong, Sustainable, and Balanced Growth: For many years, China's economic strategy was dependent on rapid export growth. Today, China is committed to transforming its economy into one where growth is generated by home-grown demand and Chinese household consumption. China has also committed in the G-20 to reducing trade and current account imbalances. A consumption-driven Chinese economy will create more opportunities for U.S. firms to export to China, and is a critical part of ensuring strong, sustainable, and balanced global growth.

Increasing the Buying Power of Chinese Households and Promoting Consumption

Energizing home-grown demand will help China sustain vibrant growth into the future. It will also provide a more rapidly growing Chinese market, increasing the opportunities available to U.S. firms and workers from our economic relationship with China.

- China committed to take steps to increase domestic consumption, including raising household incomes at a pace faster than GDP growth, and ensuring that workers' pay keeps up with increases in productivity.

Increasing Opportunities for U.S. Firms in China's Services Sector

U.S. firms are world leaders in a variety of service sectors. Expanding and opening China's services sector will create opportunities for them. Shifting toward services will also reduce the energy-intensity of China's growth – an objective that the United States and the rest of the world share with China.

- China pledged to raise the share of the services sector in China's economy by four percentage points over the next five years.
- China committed to further open the service sector to U.S. and other foreign involvement, and to encourage capital investment in services by both public and private firms.

Continued Exchange Rate Adjustment

Despite recent movement of the exchange rate, the renminbi remains substantially undervalued. China needs to let its exchange rate adjust at a faster pace to correct that undervaluation. More rapid exchange rate adjustment will help bring down inflation in China.

- A year ago, China's exchange rate was frozen. Today, it is moving. Since last June, the renminbi has appreciated against the dollar by more than five percent and at an annual rate of about ten percent when China's higher inflation is taken into account. China's leaders increasingly acknowledge the importance of currency appreciation as a tool to fight inflation and have committed to promote greater exchange rate flexibility.
- China has recently begun to take steps to make the renminbi an internationally traded currency. And China is committed to the goal of further internationalizing the renminbi. This is a significant policy choice, one which will require more open capital flows into and out of China, and more market-based interest and exchange rates.