

U.S. DEPARTMENT OF THE TREASURY

Press Center



Sixth Meeting of the U.S.-China Strategic and Economic Dialogue U.S. Fact Sheet – Economic Track

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Secretary Jacob J. Lew led a U.S. delegation of senior economic officials to Beijing on July 9-10, for the sixth round of the U.S.-China Strategic and Economic Dialogue (S&ED), which included meetings with President Xi Jinping, Premier Li Keqiang, Vice Premier Wang Yang, and other senior economic officials from key Chinese economic ministries. During the two days of meetings, the U.S. and Chinese participants engaged in constructive and candid discussions on China's plans to implement the ambitious economic reform agenda announced at the Third Plenum last November. Secretary Lew welcomed the Third Plenum's focus on undertaking aggressive structural reform, opening China's markets, and allowing the market to play the decisive role in the economy, while emphasizing the need for China to do so in a way that is consistent with international norms and standards. At this year's S&ED, which brought together key economic decision-makers from across the Chinese government, the United States secured important commitments spanning our economic agenda that will create new opportunities, deliver concrete benefits, and further level the playing field for American workers and firms, as well as help shape the direction of China's implementation of its reform agenda.

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Exchange Rate Liberalization: *China moving to a flexible, market-determined exchange rate – which will help rebalance China's economy while ensuring fair competition to the benefit of American workers and firms – remains a top priority for the Administration.*

China committed to continue moving to a market-determined exchange rate, to increase exchange rate flexibility, and to reduce foreign exchange intervention as conditions permit. A market-determined exchange rate will help create a level playing field, and is critical to shifting the Chinese economy away from exports and towards growth that relies on Chinese consumption demand, which will create increasing opportunities for U.S. firms and workers to sell to a larger and rapidly growing Chinese domestic market. China also affirmed that it is making technical preparations to subscribe to the IMF's Special Data Dissemination Standard (SDDS), which will be critical to meeting global standards for international reserve and exchange rate policy transparency.

Leveling the Playing Field and Supporting Fair Competition: *As the fastest-growing major economy, China offers substantial opportunities for U.S. workers and firms. Addressing practices that distort trade and impede investment will help the United States access China's growing market and create more jobs for U.S. workers.*

Intensifying the U.S.-China Bilateral Investment Treaty (BIT) Negotiations: Building on China's S&ED V commitment to pursue a BIT with the United States that will cover all phases of investment, including pre-establishment, and all sectors of the Chinese economy except where exceptions are negotiated on a negative list basis, the United States and China committed to intensify negotiations toward a high-standard BIT, and to begin the critical "negative list" negotiation early in 2015. The two sides committed to ensure, through this negotiation, that foreign and domestic investors would benefit from equal access and treatment in each other's markets, subject only to negotiated and transparent exceptions. A successful BIT negotiation based on these principles would open up China's highly restrictive markets to foreign investment and help create a wide range of opportunities for U.S. firms to participate in China.

Competition Law: In response to concerns of U.S. companies and government officials regarding enforcement of China's Anti-Monopoly Law, China recognized that the objective of competition policy is to promote consumer welfare and economic efficiency, rather than to promote individual competitors or industries, and that enforcement of its competition law should be fair, objective, transparent, and non-discriminatory. We are also encouraged by China's commitment to provide any party under investigation with information about the competition concerns with the conduct or transaction, as well as an effective opportunity to present evidence in its defense.

State-owned Enterprise (SOE) Reform and Transparency: China committed to take steps to level the playing field for foreign companies competing with state-owned and state-invested enterprises (SIEs) in China, including through deepening SOE and SIE reforms, improving SOE and SIE corporate governance structures, increasing market-based recruitment of SOE management personnel, nominating and selecting personnel on boards of directors in accordance with Chinese law and corporate governance principles, and publishing further detailed information on the income and expenditures of the budget that covers SOEs, the State Capital Operational Budget (SCOBS).

Advancing Market-Based Energy Price Reforms and Eliminating Preferential Input Pricing for SOEs: China pledged to accelerate the process of market-based price reforms of petroleum, electricity, and natural gas, and to promote competition in energy

markets that will help to increase efficiency and fairness in the allocation of vital resources. China also pledged to ensure that enterprises of all forms of ownership have equal access to factors of production. This will help level the playing field for domestic and foreign enterprises competing with Chinese SOEs that often pay below market cost for their inputs, and is a key step to ensure that SOEs do not have an artificial advantage.

- **Addressing Excess Production:** In support of China's efforts to rein in excess production capacity in key manufacturing sectors and to foster a business environment in which the market can play a decisive role in allocating resources, China committed to establish mechanisms that strictly prevent the expansion of crude steelmaking capacity and that are designed to achieve, over the next five years, major progress in addressing excess production capacity in the steel sector.
- **Information Technology Agreement (ITA) Expansion:** The United States and China had constructive discussions on the expansion of the ITA and committed to work in the coming weeks to create conditions to restart plurilateral negotiations. Conclusion of a plurilateral ITA expansion agreement would facilitate global trade and create additional opportunities for U.S. exporters by eliminating tariffs on a wide range of technology products.
- **Disciplining Export Financing:** Bringing Chinese government export financing in line with international guidelines is a critical element to creating fairer competition for U.S. exporters. To this end, China supports concluding the negotiation of sectoral guidelines as soon as possible in International Working Group on Export Credits, and reiterated its commitment to develop new horizontal international export credit guidelines that are consistent with international best practices. These disciplines would help subject Chinese export credit activity to clear financing and transparency standards, helping to ensure that U.S. exporters are not disadvantaged by Chinese government export financing.
- **Expanding Opportunities for U.S. Services Providers:** In order to foster the development of the services sector as announced at the Third Plenum, China pledged to accelerate revisions of its foreign investment catalogue to further open up to U.S. and other foreign investment. China further committed to revise regulations that would result in opening the construction, engineering, and design services sectors to foreign services providers.
- **Strengthening Trade Secrets Protection:** China affirmed that it does not condone any trade secret theft for commercial advantage and recognized that the enforcement of trade secrets is essential to maintain fair competition and to the development of an innovative economy. China also committed to vigorously investigate and prosecute trade secret theft cases, to publish civil and criminal judgments, and to protect trade secrets submitted in regulatory, administrative, and other proceedings.
- **Enhanced U.S.-China Cooperation on Intellectual Property and Rule of Law:** The United States and China committed to enhance exchanges between their judiciaries and other government bodies on intellectual property (IP) matters including IP enforcement, transparency and specialized IP courts. Both sides also committed to deepen cooperation on Customs IPR enforcement. These efforts will help improve enforcement of intellectual property, build relationships between our judiciaries, and contribute to creating a better commercial law environment.
- **Promoting Regulatory Transparency and Improving Administrative Licensing:** China committed to the legal review of and limitations on any new regulatory documents, strict implementation of laws to ensure fairness in administrative licensing and approvals, and protection of confidential business information, including trade secrets. These commitments will help provide U.S. firms doing business in China greater legal and regulatory certainty.
- **Ensuring Public Availability of Chinese Documents:** China committed to enhance transparency by requiring English translations of Chinese departmental rules to be made available, to supplement the already existing English translations of laws and regulations. China also clarified that Chinese agencies are legally bound to publish drafts of regulations and rules in advance for at least a 30-day public comment period on the website of the State Council Legislative Affairs Office.
- **Enhancing Drug Safety:** To ensure patients' access to safe drugs and protect supply chain integrity, multiple Chinese ministries will convene to develop a potential regulatory and enforcement framework for the oversight of bulk chemicals that can be used as active pharmaceutical ingredients. A roadmap for implementation will be developed by the end of 2014, and China committed to consider necessary legislative changes to address this issue.

Opening Energy Markets and Taking Steps to Enhance Energy Security and a Clean Energy Future: China made commitments in several areas to work in tandem with the United States on climate change issues, including on reducing fossil fuel consumption and carbon emissions. Recognizing China's expanding role in global energy markets, the United States secured China's commitment to press ahead with energy pricing and transparency reforms that are critical to U.S. energy security, global market efficiency, and fair competition for U.S. firms.

- **Enhancing Cooperation to Address Climate Change and Air Pollution:** The United States and China affirmed their commitment to undergo a fossil fuel subsidy peer review under the G-20 process, which will help identify ways to phase out inefficient fossil fuel subsidies that encourage wasteful consumption and that can contribute to climate change. The two countries also concluded the terms of reference for the peer reviews, paving the way to begin the process. Building on our shared goals of transitioning towards a low carbon economy and improving public health, the United States and China also committed to exchange views on the important role that official

financing support policy can play in accelerating the transition to a global energy economy that is more energy efficient and less carbon intensive.

· **Promoting Energy Transparency and Information Sharing:** China signed a Memorandum of Understanding with the United States to increase cooperation and exchanges on transparency, data quality, and policies of China's Strategic Petroleum Reserves. China also committed to accelerate its capacity to publish more complete and timely energy statistics. Together, these commitments will help to manage uncertainty in the global energy markets, respond to future supply disruptions and reduce oil price volatility.

Promoting Rebalancing and Consumption-led Growth: *Moving to a new growth model that is structured around household consumption – rather than on investment and exports – and one that relies on the market to foster new firms, industries, and technologies will encourage a pattern of Chinese growth that supports stronger and more sustained growth of the global market, creating more opportunities for U.S. workers and firms.*

· **Increasing SOE Dividend Payouts:** China pledged to significantly increase the dividends that SOEs pay to the government, by steadily raising the payout of state capital funds to the general public budget to 30 percent by 2020 to strengthen social security and improve peoples' welfare, as well as further leveling the playing field with private enterprises.

· **Interest Rate Liberalization:** China took an important step by committing to further advance market-based interest rate reform and to let the market play a decisive role in the allocation of financial resources. To advance this goal, China committed to promote the expanded issuance of bank certificates of deposit (CDs), including to individuals, and financial institutions' offering of investment products with market-determined interest rates. This will deepen domestic financial markets and raise household incomes for ordinary Chinese savers. It will also support China's transition to a more market-oriented financial system.

· **Boosting Household Income and Consumption:** China recognized that boosting household income is a key component of rebalancing the Chinese economy towards consumption, and announced that it would take key steps to do so – steps that would contribute to the long-term health of the Chinese economy and enable households to spend more on goods and services, including from U.S. suppliers. These include committing to expand social insurance coverage and raise take-home pay by reducing social insurance contribution rates. In addition, China committed to allow farmers more rights when leasing, transferring, and mortgaging land, and to make sure they receive fair compensation for their land use rights when land is acquired. China also committed to complete the business tax to Value-Added Tax reform, in order to eliminate double taxation and promote economic transformation.

Expanding Opportunities for U.S. Firms Through a More Open and Market-Oriented Financial System: *Ambitious financial sector reform and opening, along with interest rate liberalization, will channel financial resources from China's state-owned firms to China's private sector, and will expand opportunities for U.S. firms. These reforms will give Chinese citizens higher returns on their savings and means to provide for themselves in old age and protect against uncertainty. Providing U.S. and other foreign financial institutions with greater access to Chinese markets will help greatly enhance the development and efficiency of the financial services industry.*

· **Expanding Opportunities for U.S. Financial Services Providers and Investors:** China announced that it intends to further open up the securities and futures sectors, as well as is actively reviewing policies to further open up its banking sector to greater equity participation by foreign investors, and further expand the business scope of securities joint ventures. Allowing U.S. and other foreign firms to acquire greater equity stakes, and to expand their scope of business is essential for our firms to be able to compete fairly with Chinese financial institutions. China welcomed the participation of U.S. investors and financial services firms in its local government bond market. China also recently revised relevant regulations to allow Chinese companies to write enforceable guarantees on offshore bonds, improving protections for foreign investors.

· **Developing China's Financial Markets:** China committed to accelerate the establishment of a deposit insurance system and improve the resolution mechanism for financial institutions, including through issuing regulations on bank resolution. These measures will support China's financial stability and provide a foundation for further progress on interest rate liberalization. China intends to revise relevant laws and regulations to recognize the enforceability of close-out netting for derivatives contracts, important for promoting the safe development of China's debt and derivatives markets.

· **Strengthening Financial Regulatory Cooperation:** The United States and China committed to enhance cooperation and share information on shadow banking risks and policy measures through the Financial Stability Board (FSB), as well as participate in a peer review on the implementation of the FSB's shadow banking policy recommendations. U.S. and Chinese audit regulators have committed to establish a cooperative mechanism for cross-border audit inspections. Together, this progress will help protect U.S. investors and maintain the integrity of U.S. capital markets. The Federal Insurance Office (FIO) and China Insurance Regulatory Commission (CIRC) also committed to sign an information-sharing memorandum to cooperate on prudential aspects of international insurance matters. The United States and China committed to enhance technical cooperation on the development and regulation of local government bond markets. The United States and China welcomed the implementation of the G-20 commitment to centrally clear standardized Over-the-Counter (OTC) derivatives and committed to exchange views on OTC derivatives regulation in each country.

