

SECOND MEETING OF THE U.S.-CHINA STRATEGIC & ECONOMIC DIALOGUE JOINT U.S.-CHINA ECONOMIC TRACK FACT SHEET

As special representatives of President Barack Obama and President Hu Jintao, U.S. Treasury Secretary Tim Geithner and Chinese Vice Premier Wang Qishan concluded the meeting of the Economic Track in the second U.S.-China Strategic and Economic Dialogue in Beijing today. They were joined by a high-level delegation of Cabinet members, agency heads and senior officials from both countries.

The two sides reaffirmed their commitment to continue executing the important cooperative measures pledged to at the first meeting of the Strategic and Economic Dialogue, held in Washington on July 27-28, 2009, and pledged a range of additional measures to further economic cooperation and promote strong, balanced, and sustainable global economic growth.

I. Promoting a Strong Recovery and More Sustainable, Balanced Growth

When the Strategic and Economic Dialogue held its inaugural meeting in July 2009, we pledged to maintain forceful stimulus measures to help our individual economies and the global economy emerge from the international financial crisis. We also pledged measures to promote a more balanced pattern of growth in our economies and strong and sustainable global growth once a recovery was fully in place.

Since S&ED I, the global economy has turned the corner, and a recovery is strengthening due in part to the timely and comprehensive stimulus policies of both countries. China pledged last July to increase the role of domestic consumption in driving its growth, and followed through by bringing about a significant increase in the contribution of consumption to GDP growth in 2009. Since the United States pledged at S&ED I to take measures to increase national saving, private saving in the United States has increased, while the United States is at the same time following through on its commitment to secure long-term fiscal sustainability and boost public saving by implementing measures including comprehensive reform of health care.

We pledge to strengthen macroeconomic policy dialogue and coordination on issues including fiscal, monetary and structural reform policies. To jointly promote a balanced and sustainable global economic recovery, we affirm that macroeconomic policies should depend on the specific circumstances in each economy, and should, while taking into account global conditions, be consistent with commitments made at the Leaders Summit in Pittsburgh under the G-20's Framework for Strong, Sustainable, and Balanced Growth. To this end:

- As its economic rebound strengthens, China will safeguard the expanded role of consumption in driving its economic growth through pro-consumption fiscal and monetary measures and continued structural reforms.
- As private demand in the United States recovers, the focus of U.S. fiscal policy will shift from sustaining aggregate demand and supporting employment to reducing the medium-term federal deficit and ensuring long-term fiscal sustainability.
- We will work together to pursue policies of adjusting domestic demand and relative prices to lead to more sustainable and balanced trade and growth.

In order to achieve medium- and long-term sustainable economic development, and recognizing our shared responsibility for bringing about a more balanced and sustainable pattern of post-recovery global demand and growth, the two sides commit to promote more balanced patterns of growth in each economy, building on our progress over the last year.

Future growth in the United States will be based on a more balanced and sustainable foundation, with domestic investment increasingly financed by domestic rather than foreign saving. The United States is committed to steering a fiscally responsible course. The President's Budget has already put into place concrete measures that together will achieve \$1 trillion in deficit reduction over the next ten years by imposing historic fiscal restraint. These include imposing a full three-year freeze on non-security discretionary funding, requiring the financial services industry to fully pay back the costs of the Troubled Asset Relief Program, allowing the 2001-2003 tax cuts for households earning more than \$250,000 to expire, and eliminating funding for inefficient fossil fuel subsidies. Congress has also enacted pay-as-you-go legislation, requiring Congress to save a dollar elsewhere if it increases non-emergency spending or cuts taxes by a dollar. The National Commission on Fiscal Responsibility and Reform will identify policies for the United States to address its fiscal risks and stabilize the debt-GDP ratio at an acceptable level once the economy recovers.

By enacting reform to slow growth in health care costs, the United States has taken a significant action to address a key threat to its long-term fiscal future. In addition, the United States will take further actions to improve incentives for private saving by expanding vehicles for employment-based retirement savings.

China will continue its efforts to enhance the contribution of domestic consumption to strong, sustainable, and balanced growth. China will improve the distribution of national income, gradually increasing the proportion of household income as a share of national income. To promote efficient job creation, China will accelerate development of the service sector, speed up the reform of monopolies, and increase access to finance for small- and medium-sized enterprises. To further improve people's well-being, China will continue to strengthen the social safety net, including expanding scope of pilot projects for a new rural pension insurance system, accelerating the creation of a sound system of old-age services, and expanding the national social security fund through a variety of channels.

The two sides, recognizing the importance of small and medium-sized enterprises (SMEs) for economic growth and sustainable development in both the United States and China, pledge to sign a cooperation protocol on SMEs, and to hold a U.S.-China forum focusing on promoting cooperation. Both sides also commit to strengthen economic cooperation at sub-national levels, including through promoting the establishment of state-to-province, and city-to-city partnerships.

II. Promoting Mutually Beneficial Trade and Investment

We are committed to building a more open system of global trade and investment and opposing trade and investment protectionism, recognizing the importance of open trade and investment in fostering economic growth, job creation and innovation in the United States and China. We agree that it is critical to follow World Trade Organization (WTO) rules strictly when initiating trade remedy investigations and imposing trade remedy measures, to prevent their abuse. We will work together to

ensure a balanced and ambitious Doha agreement, building on existing work, including with regard to modalities. Consistent with the guidance of the recent stock-taking exercise, the United States and China will negotiate actively in all appropriate fora and configurations. Both of our countries acknowledge the important development objectives of the round.

Based on the SED III Innovation Outcome the United States and China reaffirm that their innovation policies will be consistent with the following principles: non-discrimination; support for market competition and open international trade and investment; strong enforcement of intellectual property rights; and, consistent with WTO rules, leaving the terms and conditions of technology transfer, production processes and other proprietary information to agreement between individual enterprises. The United States and China agree to conduct intensive expert and high-level discussions commencing as soon as possible this summer about innovation issues, under the auspices of the Sino-U.S. Joint Commission Meeting on Scientific and Technological Cooperation. These meetings will include all relevant U.S. and Chinese agencies. The United States and China will take into account the results of these discussions, in formulating and implementing their innovation measures.

The United States appreciates China's commitment to submit a robust revised Agreement on General Procurement (GPA) offer before the July 2010 meeting of the WTO Government Procurement Committee and expects the revised offer, and welcomes China's issuance for public comment of draft regulations on the determination of "domestic products" under its government procurement law.

The United States shall seriously consider and provide fair and reasonable treatment to Chinese enterprises with respect to their requests for treatment as "market oriented industries" in trade remedy investigations, and will consult through the U.S.-China Joint Commission on Commerce and Trade in a cooperative manner to work towards China's Market Economy Status in an expeditious manner. China expressed its concern regarding control of U.S. technology exports. The United States and China commit to adhere to the consensus reached in the first S&ED to take effective measures under the Guidelines for US-China High Technology and Strategic Trade Development to actively implement the Action Plan on Expansion of US-China High Technology and Strategic Trade Cooperation in Priority Sectors, including reviewing by the U.S. government concerns raised by the Chinese government on export control issues.

The United States and China reaffirm their commitment to the ongoing bilateral investment treaty (BIT) negotiations. The two sides agree that successful negotiations would support their commitments to an open global economy by facilitating and protecting investment, and enhancing transparency and predictability for investors of both countries.

Both sides are committed to transparent foreign investment regulations. The United States reaffirms that, in accordance with statutory requirements, proposed future revisions to CFIUS (Committee on Foreign Investment in the United States) regulations will be published in the Federal Register for public comment for a period of not less than 30 days prior to final publication. China confirms that in accordance with the State Council notices, China will publish proposed future revisions to the Catalogue Guiding Foreign Investment in Industries on the State Council Legislative Affairs Office's (SCLAO) China Legislative Information Network System to publicly solicit comments for a period of not less than 30 days prior to final publication.

The United States is encouraged by steps that China has taken since S&ED I to streamline its system for approving foreign investments. To build on this progress, China commits to simplify procedures,

shorten deadlines, enhance transparency, and reduce approval and verification scope of reviews. The United States confirms that the CFIUS process is subject to transparent and strict statutory deadlines and commits to abide by them. The United States will continue its efforts to clarify the CFIUS process including key definitions and concepts.

In accordance with its economic situation and consistent with its national industrial adjustment and rejuvenation plans, China will revise its Catalogue Guiding Foreign Investment in Industries, encourage and expand areas that are open to foreign investment in high-end manufacturing, high-tech industries, modern services, new energy, energy saving and environmental protection sectors. The United States welcomes foreign investment, including from Chinese firms. The United States confirms that the CFIUS process ensures the consistent and fair treatment of all foreign investment without prejudice to the place of origin. China will continue to follow the generally accepted principles and practices of Sovereign Wealth Funds (SWFs). The United States reaffirms its commitment to upholding the open and non-discriminatory principles towards foreign investors, including SWFs, as described in the Declaration on Sovereign Wealth Funds and Recipient Country Policies announced by the Organization for Economic Cooperation and Development in June 2008.

The United States acknowledges that many of China's SOEs (state-invested enterprises) have adopted shareholding and corporate governance structures with diversified shareholders, and many of them are listed companies. China continues its efforts to make more and more SOEs market-oriented legal entities. China will continue to reform its SOEs, and promote further investor diversification, including by issuing publicly traded shares and inviting strategic investors, including non-public and foreign investors, to take equity stakes.

At the conclusion of the Economic Track, the Export-Import Bank of the United States and the Export-Import Bank of China agreed to establish cooperation mechanisms on trade finance, and noted that they have vigorously implemented their previous commitment to provide trade finance facilities up to \$20 billion. In addition, the banks will explore joint and co-financing opportunities, develop initiatives to promote exports by small and medium-size enterprises (SMEs), and encourage participation and engagement in multilateral forums to promote cooperation and enhanced communication in the area of trade finance.

The United States and China commit to strengthen communication to address inspection, quarantine, and quality and safety supervision of U.S. soybean exports to China, with the goal of signing an MOU before S&ED III. The General Administration of Customs of the P.R.C and USTR agreed discuss the results of product-specific case studies conducted on rules of origin issues, and pledge to conduct another joint Experts Dialogue on rules of origin issues before S&ED III.

III. Financial Market Stability and Reform

We will continue to reform our respective regulatory frameworks so that our financial institutions support growth in the real economy and foster innovation in the context of the overall stability of the financial system. The United States and China will seek to promote financial markets that serve the needs of households, businesses, and productive investment by strengthening oversight, transparency, and accountability. We will take action at the national and international level to implement prudential regulatory standards in a way that promotes a level playing field and avoids fragmentation of financial markets, protectionism, and regulatory arbitrage. We support the national implementation of higher level and better quality capital requirements and counter-cyclical capital

buffers as elements of the Basel Capital Framework, together with strengthened liquidity risk requirements and forward-looking provisioning, as a means to reduce incentives for banks to take excessive risks and create a financial system better prepared to withstand adverse shocks. We support the introduction of a leverage ratio as a supplementary measure to the Basel risk-based framework.

Recognizing the increasing integration of our financial sectors in a global context, we pledge to strengthen cooperation on financial regulatory issues with cross-border implications. The Federal Deposit Insurance Corporation (FDIC) and the China Banking Regulatory Commission (CBRC) will enhance supervisory cooperation and information sharing on resolution of troubled cross-border banking institutions in each other's jurisdiction. The FDIC and People's Bank of China (PBOC) will strengthen cooperation in the areas of deposit insurance, financial services, resolution of failed financial institutions as well as any other relevant financial stability issues. Both sides will further strengthen cooperation and exchange regarding the improvement of insurance regulation, including with regard to insurance management of assets issues.

The United States is committed to enacting comprehensive financial regulatory reforms that will confront excessive risk-taking, reduce moral hazard, provide greater protection for consumers, better address micro- and macro-prudential supervision, and take on the problem of financial firms that are perceived as "too big to fail."

The United States pledges to continue to have strong oversight of the Government Sponsored Enterprises (GSEs). In addition, the United States is committed to ensuring that the GSEs have sufficient capital and the ability to meet their financial obligations. The Administration's broad housing policies, including support for the ongoing functions of the GSEs, together with Treasury's and the Federal Reserve's purchases of mortgage-backed securities, have been crucial to restoring stability in the housing market and to maintaining the availability of mortgage credit. The Administration will request input from all stakeholders and will seek to work closely with the Congress to work out a comprehensive GSE reform plan. The Administration is also committed to pursuing further reforms in a way that will ensure the ability of GSEs to honor their obligations.

Having initiated stock index futures trading, China will permit qualified foreign-invested firms duly incorporated in China to carry out stock index futures business in accordance with relevant laws and regulations and will allow Qualified Foreign Institutional Investors to invest in stock index futures products on the basis of prudential supervision.

The United States welcomes China's improvements in both the accuracy and frequency of balance of payments and official reserve data reporting in line with international standards. China notes its intention to further these efforts based on its domestic situation and statistical capacity.

IV. Reform of International Financial Architecture

We reaffirm our support for the G-20 to play a bigger role in international economic and financial affairs as the premier forum for international economic cooperation, and agree to make joint efforts to ensure that the Toronto and Seoul Summits will deliver positive outcomes.

We reaffirm that the International Monetary Fund (IMF) must play a critical role in promoting global financial stability and rebalancing growth. We reaffirm our support for meeting the commitments set

forth by G-20 Leaders at the Pittsburgh Summit with respect to IMF quota and governance reform. We welcome the successful efforts by the G-20 members in the last year to increase the IMF's resources by up to \$500 billion through the New Arrangements to Borrow. We agree to work together to modernize the IMF to fulfill its role.

We welcome the critical actions taken by the Multilateral Development Banks (MDBs) to mitigate the impact of the global financial crisis on the world's poorest, and reaffirm support for their central role in reducing global poverty. Both sides commit to working together to ensure adequate resources for the MDBs through General Capital Increases; we welcome recent agreements in principle to support capital replenishments at the World Bank, Inter-American Development Bank, and African Development Bank, commensurate with robust reform commitments. We also welcome the agreement on a new shareholding arrangement for the World Bank, which will better reflect the weight of the developing and transition countries in the global economy, while protecting the voice of the smallest poor countries. We also look forward to working toward a successful replenishment of the MDBs' concessional windows, recognizing the critical importance of these facilities to the poorest countries.

To address challenges that are global in nature and require globally coordinated action, both sides agree that the World Bank, working with the regional development banks and other international organizations, should strengthen its focus on: food security through enhancements in agricultural productivity and access to technology and food; human development in the poorest and most challenging environments; private sector-led growth and infrastructure; and effectively responding to countries' demand for integrating climate change into economic development.

We agree to further strengthen our cooperation in the Financial Stability Board (FSB) and the Global Forum on Transparency and Exchange of Information for Tax Purposes. The United States supports the maintenance of current FSB seats held by China and Hong Kong SAR, given the current size of their economies, financial market activity, and national financial stability arrangements. As FSB members, the United States and China commit to pursue the maintenance of financial stability, maintain the openness and enhance the transparency of the financial sector, implement the key international financial standards agreed by G-20 leaders, and commit to undergo periodic peer reviews.

Annex:

I. Participants in the Economic Track of the Second Strategic and Economic Dialogue

U.S. Participants:

- Secretary of the Treasury Tim Geithner
- U.S. Ambassador to China Jon Huntsman
- Secretary of Commerce Gary F. Locke
- Secretary of Health and Human Services Kathleen Sebelius
- U.S. Trade Representative Ronald Kirk
- Chair of the Council of Economic Advisors Christina Romer
- Director of the Office of Science & Technology Policy John P. Holdren
- Chairman of the Federal Reserve Ben Bernanke
- President of the U.S. Export-Import Bank Fred P. Hochberg

- Chairman of the Federal Deposit Insurance Corporation Sheila C. Bair
- Director of the U.S. Trade & Development Agency Leocadia Zak
- Administrator of the Energy Information Administration Richard Newell
- Under Secretary for International Affairs of the Department of Treasury Lael Brainard
- Under Secretary for Economic, Energy and Agricultural Affairs of the Department of State Robert D. Hormats
- Under Secretary for Farm and Foreign Agricultural Services of the Department of Agriculture Jim Miller
- Special Assistant to the President for International Economics and Senior Director of the National Security Council David Lipton
- Deputy Under Secretary for International Affairs, Department of Labor Sandra Polaski
- Assistant Secretary for Policy and International Affairs, Department of Energy David B. Sandalow
- Director of the Office of International Affairs of the Securities and Exchange Commission Ethiopis Tafara
- Director of the Office of International Affairs of the Commodity Futures Trading Commission Jacqueline Mesa
- Deputy Assistant Secretary of the Department of Transportation Susan McDermott
- Department of Justice Antitrust Division Economics Director of Enforcement Kenneth Heyer
- Iowa State Insurance Commissioner Susan Voss

Chinese Participants:

- Vice Premier Wang Qishan
- Minister of Finance Xie Xuren
- Minister of the National Development and Reform Commission Zhang Ping
- Minister of Commerce Chen Deming
- Minister of Health Chen Zhu
- Governor of the People's Bank of China Zhou Xiaochuan
- Minister of the General Administration of Quality Supervision, Inspection, and Quarantine Wang Yong
- Chairman of the China Banking Regulatory Commission Liu Mingkang
- Chairman of the China Securities Regulatory Commission Shang Fulin
- Chairman of the China Insurance Regulatory Commission Wu Dingfu
- Chinese Ambassador to the United States Zhang Yesui
- Deputy Secretary-General of the State Council Bi Jingquan
- Vice Minister of the Office of the Central Leading Group on Financial and Economic Affairs Liu He
- Vice Minister of Foreign Affairs Cui Tiankai
- Vice Minister of the National Development and Reform Commission Zhang Xiaoqiang
- Vice Minister of Science and Technology Cao Jianlin
- Vice Minister of Industry and Information Technology Lou Qinjian
- Vice Minister of Finance Zhu Guangyao
- Vice Minister of Transport Xu Zuyuan
- Vice Minister of Agriculture Niu Dun

- Deputy Governor of the People's Bank of China Yi Gang
- Vice Minister of the General Administration of Customs Sun Yibiao
- Vice Minister of the Legislative Affairs Office of the State Council Yuan Shuhong
- President of the Export-Import Bank of China Li Ruogu

II. Institutional Arrangements and Exchanges

The United States and China agree that deepening bilateral economic cooperation and exchange between relevant agencies will advance our common objectives of increasing prosperity and improving livelihoods for people in each country, taking full advantage of opportunities for mutually beneficial trade and investment, and strengthening our financial systems.

In support of these objectives, both sides commit to further economic cooperation through additional dialogues and initiatives, including: continuing a dialogue between the U.S. Department of Labor (USDOL) and China's Ministry of Human Resources and Social Security (MOHRSS) to discuss issues of mutual interest and conduct exchange and cooperation regarding setting and enforcing minimum wage standards, strengthening social insurance, improving employment statistics, and promoting social dialogue; continuing to create an ongoing process to facilitate both policy and operational cooperation on a variety of AML/CFT issues and to establish an anti-counterfeit currency training mechanism, and; enhancing cooperation and communication on cotton issues. In addition, both sides commit to hold the second seminar on rural finance, the fourth U.S.-China Investment Forum, the third U.S.-China Transportation Forum, and a forum on U.S. and Chinese experiences with health care reform. The two sides also pledge to continued scientific cooperation between the U.S. Department of Agriculture and China's Ministry of Agriculture, and commit to holding U.S.-China forums of communication and cooperation on traditional Chinese medicine on a regular basis.

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