



## **U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS**

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### **U.S. Fact Sheet: Fourth Cabinet-Level Meeting of the U.S.-China Strategic Economic Dialogue**

The United States and China today concluded the fourth Cabinet-level meeting of the Strategic Economic Dialogue (SED). President George W. Bush and President Hu Jintao established the SED to create a Cabinet-level forum to develop strategies to reach shared long-term objectives while managing short-term challenges in our economic relationship. During the meeting held June 17 and 18, 2008 at the U.S. Naval Academy in Annapolis, Maryland, 9 U.S. Cabinet officials and agency heads joined Secretary Paulson for discussions with China's Vice Premier Wang Qishan and a delegation of 18 Chinese ministers and agency heads.

The SED is a mechanism for managing the U.S.-China economic relationship on a strategic basis. Stable and prosperous bilateral economic relations are increasingly important to both countries. At the meeting this week, leaders from both countries discussed the following topics: joint opportunities in energy and the environment, managing financial and macroeconomic cycles, investing in people, trade and competitiveness, and enhancing investment.

The dialogue in Annapolis builds upon the progress that has been made in U.S.-China bilateral economic relations since the beginning of the SED, including: progress on consumer safety issues, with discussions creating a new culture of collaboration between the U.S. and Chinese governments to promote the health and safety of American consumers; progress on financial sector reform, including the value of the RMB; a new bilateral civil aviation agreement, opening the Chinese air passenger and cargo markets to U.S. air carriers; steps to address energy security and environmental sustainability, including an agreement to establish a national emissions trading program in China and an agreement to strengthen cooperation on strategic oil stocks with the International Energy Agency; and a new tourism memorandum of understanding, facilitating visits for groups of Chinese tourists that is projected to be a significant driver of growth for the U.S. travel industry.

#### **Joint Opportunities in Energy and the Environment**

Building upon the Major Economies Process launched by President Bush last September as well as previous SED discussions, the United States and China have agreed to take further concrete steps to enhance collaboration between the two countries to promote energy security, and further environmental sustainability:

- **Ten Year Energy and Environment Cooperation Framework**: At the third Cabinet-level SED meeting, the United States and China announced the establishment of a working group to develop plans for extensive cooperation on energy and the environment over a ten year period. The United

States and China today announced that both countries have agreed to a framework for this cooperation, and have established joint task force groups to tackle challenges in five specific areas: electricity, air, water, transportation, and conservation of forest and wetland ecosystems.

- Eliminating Barriers to Trade in Environmental Goods and Services: Discussions in this area began at a broad level, and are now focused on the scope of product coverage and on the modalities for tariff reduction or as appropriate elimination, to facilitate a comprehensive WTO agreement on environmental goods and services.
- Cooperation with the International Energy Agency: Building on the commitment at the third Cabinet-level SED meeting to strengthen cooperation on construction and management of strategic oil stocks, China agreed to consider voluntary participation in the joint actions of IEA member countries during times of oil disruption, in line with the principles of the Five Country Ministerial and G8 Plus 3 energy ministerial agreements in Japan. Coordination with the IEA during times of oil disruption significantly increases energy security both globally and for the United States. China also agreed to strengthen collaboration with the IEA on areas such as global energy markets, energy efficiency, and clean energy technology.
- Sustainable Forest Management: The United States and China have agreed to promote global sustainable forest management, with both sides identifying specific regions and activities for joint cooperation by the next meeting of the Cabinet-level SED.
- Illegal Logging: The United States and China convened the first meeting of the bilateral forum under the Memorandum of Understanding on Illegal Logging and Associated Trade on June 13, 2008 and agreed to detailed follow-up work on priority areas.

## **Bilateral Investment**

America's policy of bilateral investment is one of our economic strengths, and the United States continues to promote openness to trade and investment. Foreign direct investment into the United States stimulates growth and competitiveness, creates jobs, enhances productivity and prosperity, and fosters competitiveness. The United States and China reached a number of agreements that build upon both countries' mutual interests in supporting and promoting open investment and market-based competition:

- Bilateral Investment Treaty Negotiations: The United States and China have agreed to launch negotiations of a bilateral investment treaty. The conclusion of a BIT would send a powerful signal that our two countries are committed to open investment and to treating each other's investors in a fair and transparent manner. The United States will negotiate on the basis of the U.S. model BIT, which reflects high-standards of investor protection. We will pursue a comprehensive treaty that provides important legal protections for all economic sectors, including the right to non-discriminatory treatment, due process, transparency, free capital transfers, and compensation in the event of expropriation. We will pursue an agreement that enables investors to enforce these rights through independent international arbitration. Our two governments will begin negotiations soon and expect to have several rounds of discussions before the next SED meeting, but the timeline for concluding the negotiation will be determined by the quality of the agreement. We believe that a high-standard BIT is clearly in our mutual economic interests.
- Creation of an Investment Promotion Initiative: The United States and China jointly agree to create an investment promotion initiative, to enhance public recognition of the positive benefits of investment flows between our two countries.
- First Meeting of the U.S.-China Investment Forum: The first meeting of the U.S.-China Investment Forum was held on June 16<sup>th</sup>, with both sides discussing bilateral investment and agreeing to a

framework and work plan. The Investment Forum is a platform allowing the U.S. to focus on practical investor concerns with the Chinese, such as the process of investment reviews, potential investment barriers in China, and encouraging increased job-creating Chinese investment in the United States.

- Sovereign Wealth Funds: China agreed that investment decisions by its state-owned investment firms will be based solely on commercial grounds.

## **Financial Sector Reform**

The United States and China, as leaders in the global economy and in the international financial and trading systems, share a responsibility to promote balanced and sustained growth in their economies. A competitive and efficient financial sector will be an engine for growth in China's fast-growing economy, providing opportunities for American manufacturers and service providers.

During the fourth Cabinet-level SED in Annapolis, both sides discussed market turmoil of recent months and the repricing of risk in global markets. The United States reported on steps it is taking to address market turmoil in the short-term and in the intermediate term steps to address policy issues arising from recent turmoil. The Chinese reported on steps they are taking to open their financial services sector and further integrate into global markets.

The United States and China have reached a number of agreements resulting in further opening of China's financial services sector:

- Consumer Finance: China agreed to allow, on a pilot project basis, non-deposit taking foreign financial institutions to provide consumer finance. This agreement provides new opportunities for U.S. companies.
- Stock Exchange Listings in China: China agreed to allow qualified foreign companies to list on its stock exchanges through issuing shares or depository receipts.
- RMB-Denominated Bonds: China agreed to ease qualifications for foreign incorporated banks to issue subordinated RMB-denominated bonds. This will allow foreign banks, including U.S. banks, to raise capital and grow their business.
- Qualified Foreign Institutional Investors: China agreed to reduce the initial "lockup period" for the investments of certain Qualified Foreign Institutional Investors (QFIIs), creating new opportunities for U.S. mutual funds and money managers.
- Credit Rating Agencies: China agreed to allow existing credit rating agency (CRA) joint ventures to apply for a license to rate corporate bonds without reducing their existing percentage foreign equity stake, following entry into force of new U.S. regulations on Nationally Recognized Statistical Reporting Organizations. This action will expand business opportunities for foreign CRAs, including U.S. CRAs, in the Chinese domestic market.
- Insurance: China confirmed that it recognizes U.S. concerns regarding proposed regulations ("Administrative Methods of Equity Interest") that would restrict investment in Chinese domestic companies and that it will continue to fully consult and consider comments received from all interested parties. China also clarified that it had recently issued regulations ("Overseas Investment with Insurance Funds") which specify the relevant requirements to allow insurance companies in China—including foreign-invested companies-- to invest assets overseas. This should provide greater clarity regarding the requirements to manage such assets and will provide companies with greater flexibility in managing their business.

- Securities Joint-Ventures: As agreed to at the May 2007 Cabinet-level SED meeting, China reported that it had resumed its licensing of securities joint ventures by approving the application of Credit Suisse's investment banking operations in China, allowing Credit Suisse to participate in China's domestic stock underwriting market. Credit Suisse's Investment Banking Operations are headquartered in New York.
- Securities Scope of Business: As agreed to at the May 2007 Cabinet-level SED Meeting, China reported that it had acted to meet its commitment to allow foreign securities firms to expand their operations by granting CLSA brokerage and research licenses. This precedent will benefit U.S. financial institutions.
- Qualified Foreign Institutional Investors (QFIIs): Since committing to QFII expansion at the May 2007 Cabinet-level SED meeting, China has issued quotas for several new QFIIs. This action allows foreign mutual funds, including U.S. mutual funds, to invest in China's domestic stock market. This precedent will benefit U.S. financial institutions.
- RMB Appreciation: The RMB has appreciated 20.3% since July 2005 against the US dollar, and since the last SED, the annual pace of appreciation has accelerated to 14.6% compared to 3.4% in 2006 and 6.9% in 2007.

## **Trade and Competitiveness**

The United States and China have made joint commitments and taken joint actions to ensure that our economies remain competitive in an economic environment shaped by globalization, including:

- Doha Round: The United States and China will work together with other WTO members to actively promote the conclusion of Doha Development Agenda negotiations, with the view to facilitating the development of multilateral trading system.
- Transportation Forum: The United States and China signed a Joint Declaration on Transportation Cooperation establishing a Transportation Forum between the two countries covering all modes of transportation. The Transportation Forum will help identify opportunities for, and work to reduce barriers to, American companies that desire to help design, construct and equip China's new roads, rail, port and aviation facilities, and to provide a broad range of freight, passenger and mail services within the country. The Transportation Forum will help identify transportation infrastructure needs and will identify bottlenecks, to enable a free flow of trade between the U.S. and China.
- Transparency: The United States and China agree to publish in advance for public comment, subject to specified exceptions, all trade and economic-related administrative regulations and departmental rules that are proposed for adoption, and provide a public comment period of not less than 30 days from the date of publication. China agrees to publish such measures for comment on the Chinese Government Legislative Information Website maintained by the Legislative Affairs Office of the State Council, and the United States agrees to publish such measures for comment in the Federal Register maintained by the National Archives.
- Intellectual Property Rights: The United States and China agreed to intensify cooperation on IPR protection through the IPR Working Group under the JCCT as soon as possible after the close of SED IV and prior to the 19<sup>th</sup> JCCT. Both sides agree to start the above mentioned cooperation with an introduction of China's recently published "Outline of National Intellectual Property Rights Strategy" and "Plan for IPR Protection Initiatives in 2008," and both sides may discuss issues that are not related to the claims of the current WTO dispute settlement.

## **The Safety and Quality of Products**

The United States is one of the most open economies in the world. Ensuring the integrity of trade, the quality of products, and the safety of food, drug and medical devices is a continuing priority for the United States. Americans expect that goods and products sold in our marketplace are safe, and the United States continues to take steps with all trading partners to ensure the safety and quality of these goods and products.

To further enhance and strengthen our ongoing dialogue about the integrity of the trade relationship between the United States and China, the two countries reviewed progress on the implementation of a number of agreements to ensure China meets the strict requirements the United States has in place to protect consumers and ensure the safety and quality of products in our marketplace. These agreements cover the safety of drugs, medical products, food and animal feed. In addition, the two countries announced:

- Food and Drug Administration in China: The United States and China reached consensus that U.S. Department of Health and Human Services / Food and Drug Administration personnel shall be placed at the U.S. Embassy and Consulates General in China and agreed to work out detailed arrangements.