U.S.-China Economic and Security Review Commission

Monthly Analysis of U.S.-China Trade Data

July 7, 2015

Highlights of this Month's Edition

- **Bilateral trade:** Monthly U.S. goods trade deficit with China is up 15 percent from the previous month as imports outpace exports.
- **Bilateral policy issues:** Latest S&ED yields few concrete outcomes, no resolution on issues related to cyber security or China's activities in the South China Sea.
- **Policy trends in China's economy:** Government introduces a slew of reforms to stimulate economy and halt stock market slide; Standing Committee adopts a far-reaching national security law that redefines the government's "core interests" to include almost every aspect of private and public life, and behavior of foreign corporations and foreign NGOs operating in China.
- **Sector spotlight – E-commerce:** Foreign investors granted full ownership of some e-commerce businesses across China amid liberalization in other value-added telecommunications services in Shanghai FTZ.

Bilateral Goods Trade

U.S. Goods Deficit Up as Imports Outpace Exports

U.S. trade deficit in goods with China was $30.5 billion in May 2015, a 15 percent increase from the previous month, and 5.8 percent increase year-on-year (see Table 1). The increase was due to weak U.S. exports, which fell 6.3 percent year-on-year and 6 percent month-on-month, and a marked increase in imports from China, which jumped 6.3 percent year-on-year and 9.5 percent over April.

Table 1: U.S. Goods Trade with China, January-May 2015

(US$ billions)

	Jan	Feb	Mar	Apr	May
Exports	9.6	8.7	9.9	9.3	8.8
Imports	38.2	31.2	41.1	35.8	39.2
Balance	(28.6)	(22.5)	(31.2)	(26.5)	(30.5)
Balance YTD					
2014	(27.8)	(48.7)	(69.1)	(96.4)	(125.2)
2015	(28.6)	(51.1)	(82.4)	(108.9)	(139.3)
yoy growth %					
Exports	-7.8%	-9.8%	-9.4%	-6.6%	-6.3%
Imports	-0.1%	0.7%	10.3%	7.2%	6.3%

Source: U.S. Census Bureau, NAICS database (Washington, DC: U.S. Department of Commerce, Foreign Trade Division, July 2015). http://www.census.gov/foreign-trade/balance/c5700.html.

May continues the overall downward trend for the U.S. trade balance this year. Year-to-date, the cumulative deficit reached $139.3 billion, a $14 billion, or 11.3 percent, increase over the same period in 2014.

Bilateral Policy Issues

Minimal Progress at Seventh Strategic and Economic Dialogue (S&ED)

At the seventh round of the S&ED talks, held in Washington on June 23–24, 2015, participants discussed over 100 issues but accomplished little. One theory holds that major decisions were postponed until President Xi Jinping's state visit in September 2015. The lack of progress is also due to the Chinese government's preference for the status quo.[1] Several of the outcomes announced at the conclusion of the S&ED merely repackaged China's existing reforms as new commitments. Overall, the S&ED yielded slight progress on environmental and financial issues but reached an impasse in addressing fundamental strategic and economic issues such as China's activities in the South China Sea, cybersecurity, anticorruption cooperation, and investment barriers. Outcomes of the S&ED include:

- **China's commitment to reduce intervention in the renminbi (RMB) exchange rate:** China promised to intervene in its exchange rate only when "disorderly market conditions" make it necessary.[2] This commitment serves the Chinese government's purpose of portraying the RMB as a liberalized currency, and allows Beijing to promote the RMB for inclusion as a reserve currency in the Special Drawing Rights (SDR) basket at the International Monetary Fund (IMF).[3] As U.S. Treasury Secretary Jacob J. Lew cautioned early on in the S&ED, "the real test will come when the market again pushes for RMB appreciation against the dollar."[4]
- **China pledged to expand foreign investors' access to its capital markets:** The Chinese government repackaged its financial reforms as an S&ED commitment. The reforms were previously outlined at the Third Plenary Session of the Chinese Communist Party's 18th Central Committee in December 2013. At the S&ED, China again promised to loosen restrictions on access to its capital markets for foreign financial firms and investors, particularly in its pilot Shanghai Free Trade Zone (FTZ).[5] The promises outlined in more detail than previous commitments greater freedom for foreign firms to issue ratings on local government bonds; set up futures, private security fund management, and joint venture securities companies; and participate in interbank and listed bond markets.[6] If implemented, these policies could open up greater market access to the world's third-largest bond market after the United States and Japan, though strong state controls will remain in place.[7]
- **Enhanced cooperation on climate change and environment protection:** The United States and China bolstered their environmental cooperation, with nearly half of the strategic outcomes listed related to climate change and environmental protection.[8] Most notably, the United States and China established a formal U.S.-China fisheries dialogue and announced the creation of six new collaborations under the EcoPartnerships program, which brings together nonprofit, public, and private organizations to address air pollution, carbon dioxide sequestration, iron and steel slag waste, aircraft biofuel, solar thermal power, and sea turtle migration.[9,*] The two sides also highlighted exchanges or past agreements such as the extension of the Clean Energy Research Center in November 2014, overstating the accomplishments of the seventh S&ED.[10]
- **Next step for the Bilateral Investment Treaty (BIT) negotiations:** The S&ED scheduled the second round of negotiations for the negative list of the BIT for September 2015.[11] China previously submitted a long negative list, but progress to whittle it down in the last 19 rounds of technical discussions has been slow, with minimal relaxation of market barriers on foreign investment.[12] As of April 2015, the Chinese

[*] For additional analysis on China's clean energy policy and U.S.-China clean energy cooperation, see U.S.-China Economic and Security Review Commission, *2014 Annual Report to Congress*, November 2014, 183–226; U.S.-China Economic and Security Review Commission, *Hearing on U.S.-China Clean Energy Cooperation: Status, Challenges, and Opportunities*, April 25, 2014. *http://www.uscc.gov/Hearings/hearing-us-china-clean-energy-cooperation-status-challenges-and-opportunities-webcast*.

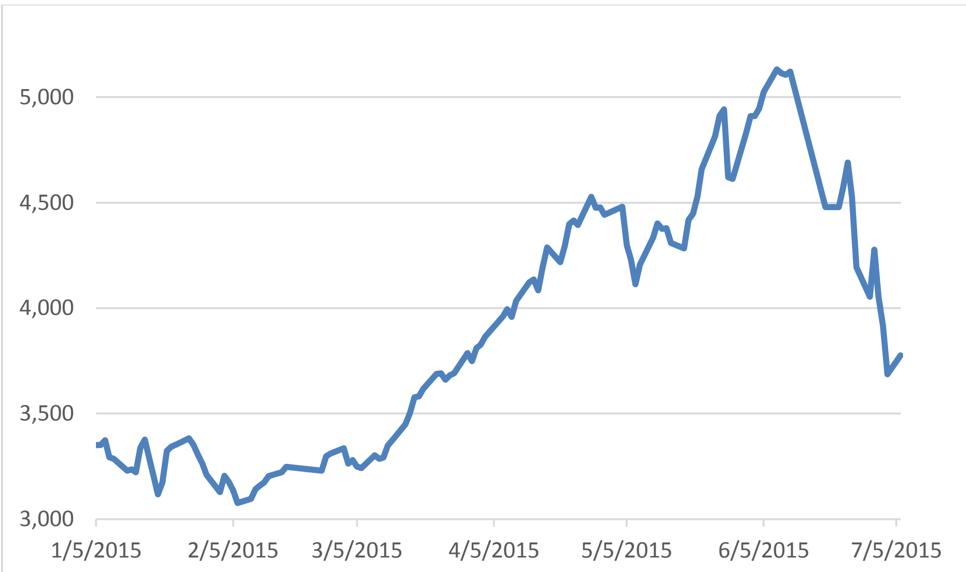
government maintained a list of 119 restricted sectors in its pilot Shanghai FTZ.[13] By comparison, the United States' last BITs with Rwanda and Uruguay limited foreign investment in 15 sectors.[14]

Policy Trends in China's Economy

Government Introduces New Measures to Prop up Falling Stock Markets

The Chinese government unrolled a series of palliative measures as growth continues to slow and Chinese stock markets continue to fall after more than a year of gains.* Since its peak on June 12, China's main exchange, the Shanghai Composite, was down 24 percent (see Figure 1), while Shenzhen, the smaller, tech-dominated exchange, was down 30 percent.[15] Investors have lost about $2.7 trillion since the two exchanges started their slide, testing the government's credibility.[16]

Figure 1: Shanghai Composite Index



Source: Bloomberg. *http://www.bloomberg.com/quote/SHCOMP:IND*.

According to research firm Gavekal Dragonomics, the financial sector contributed 1.4 percentage points to China's gross domestic product (GDP) in the first quarter of 2015—in other words, without the surging stock market, the economy would not have reached Beijing's goal of 7 percent GDP growth.[17] This explains the series of measures announced by Beijing to stimulate growth and prop up the stock market. These measures include:

- On June 24, the State Council released a draft proposal to relax the maximum loan-to-deposit ratio, currently at 75 percent. If it becomes law, the new proposal could be another step in the liberalization of China's domestic financial system. However, it is not clear if this change will achieve its immediate goal—an expansion of credit—given weak demand from borrowers.[18]

- On June 27, the People's Bank of China (PBOC) stepped in to stop a sell-off in Chinese stock markets, cutting benchmark interest and deposit rates by 25 basis points each (to 4.85 percent and 2 percent, respectively) and the reserve requirement ratio (RRR) for some banks by 50 basis points. In a statement, PBOC said the measures were aimed at reducing borrowing costs and "stabilizing growth," but did not provide implementation details.[19] This is the fourth time the PBOC has cut lending and deposit interest rates

* For more on the bull run in China's stock markets before the most recent fall, see the USCC June 2015 Trade Bulletin. *http://origin.www.uscc.gov/sites/default/files/trade_bulletins/June%202015%20bulletin.pdf*.

since November 2014; it is also the first time since October 2008 the central bank cut both interest rates and the RRR.[20]

- On June 29, the Ministry of Human Resources and Social Security and the Ministry of Finance published draft regulations allowing pension funds managed by local governments to invest in stocks, funds, private equities, and other stock-related products. The proportion of investment in stocks will be capped at 30 percent of the pension fund's net value.[21] The funds have combined assets worth more than $322 billion (RMB 2 trillion), of which up to $97 billion could flow into the stock market.[22]
- On July 1, the China Securities Regulatory Commission (CSRC) allowed investors to use homes and other real assets as collateral to borrow money to purchase stocks.[23]
- On July 4, 21 brokerages set up a fund worth about $19 billion (RMB 120 billion) to buy shares.[24]
- On July 5, the CSRC said the PBOC will "uphold market stability" by providing funds to a state agency, the China Securities Finance, which lends money to brokerage firms.[25]
- The Ministry of Finance is considering lowering stamp duty on share purchases to stimulate higher investment. The amount of stamp duties collected by Beijing reached $5 billion (RMB 31.2 billion) in May 2015, 11 times the amount last year.[26]

While this market rout is a major source of domestic concern, the isolation of Chinese stock markets means global markets are relatively unaffected. Nevertheless, the rise, volatility, and collapse of Chinese stocks points to two important conclusions. First, it sends a signal that Chinese economic slowdown and instability are becoming entrenched, with consequences that will spill over China's borders. Second, the increasingly desperate actions by the Chinese government bring into question President Xi's pledge that the market will play a "decisive" role in all aspects of the economy.[*] If the past few weeks are any indication, the government will continue prioritizing growth over free capital markets or imposing market discipline.

Beijing Expands Control with Sweeping New Security Law

China's Standing Committee passed a comprehensive national security law July 1 that expands the government's authoritarian rule over a far greater range of "core interests."[27] These include political ideology, sovereignty, religion, culture, education, the military, foreign investment, the environment, deep sea resources, the polar regions, and airspace above China, including outer space.[28] The addition to the government's "core interests"—to include control of the press, social media, foreign nongovernmental organizations (NGOs), and political activism—would help Beijing maintain its authority amid slowing economic growth.[†]

The legislation is part of a two-year effort by President and Party General Secretary Xi to control dissent and to repel "harmful cultural influences" that Beijing blames for provoking a pro-democracy movement in Hong Kong and encouraging ethnic separatists on the Mainland.

Several parallel bills are under consideration by the top Communist Party leadership, including antiterrorism legislation and the government licensing of foreign NGOs. One proposed law would tighten restrictions on foreign investment in China. Another controversial proposal seeks to ensure that China's banking system is "secure and controllable." The latest national security law also extends the "secure and controllable" mandate to the entire Chinese Internet. U.S. business interests have concluded the "secure and controllable" rule would require any company operating in China to turn over to the government its computer code and encryption keys, as well as to provide a backdoor entry into commercial computer networks.[29]

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[*] For more on President Xi's economic reform priorities and pledges (the Third Plenum reforms), see Nargiza Salidjanova and Iacob Koch-Weser, "Third Plenum Economic Reform Proposals: A Scorecard," *U.S.-China Economic and Security Review Commission*, November 19, 2013. *http://origin.www.uscc.gov/sites/default/files/Research/Backgrounder_Third%20Plenum%20Economic%20Reform%20Proposals--A%20Scorecard%20%282%29.pdf*.

[†] China's "core interests" originally meant its claims on Taiwan and were later expanded to include Tibet and Xinjiang. The message to foreigners was clear: China would allow no interference in what it considered an issue of national sovereignty and noninterference in purely domestic matters.

Zheng Shuna, a National People's Congress official, explained at the unveiling of the new national security law in Beijing that "Internet space within the territories of the People's Republic of China is subject to the country's sovereignty." He added that "the country must defend its sovereignty, security, and development interests. It must also maintain political and social stability.… Any government will stand firm and will not leave any room for disputes, compromises, and interference when it comes to protecting core interests. China is no exception."[30] The new law designates the Chinese Communist Party to head "a centralized, efficient and authoritative national security leadership system."[31]

As is often the case with China's most far-reaching policies, the national security law is worded initially in terms of goals to be achieved rather than statutes to be followed to the letter. For example, the law calls on officials to "strengthen guidance on news, propaganda, and public opinion about national security" and to educate school children in national security priorities.[32]

U.S. and European business interests and human rights advocates found common ground in denouncing the new Chinese security law, which contained promises to "strengthen public opinion guidance" on national security matters and to exercise "firm ideological guidance."[33] "Foreign companies, Internet users, and service providers and financial institutions are just some of those who will now operate under far greater legal uncertainties, and will face the ever-present risk of running afoul of vaguely phrased provisions on national security," said Nicholas Bequelin, Amnesty International's regional director for East Asia.[34] The law would "negatively impact the ability of companies to do business in China, as well as U.S.-China commercial and people-to-people exchanges," said James Zimmerman, chairman of the American Chamber of Commerce in China.[35]

Sector Focus: Market Access for Some Foreign E-Commerce Firms amid Telecom Liberalization

A new series of Chinese government rules has resulted in the gradual opening of China's historically restrictive value-added telecommunications services (VATS)* sector to foreign investors subject to certain existing rules, a move designed to catalyze China's transition to a consumer-driven economy. The foreign equity cap in one VATS subsector—online data and transaction processing for e-commerce businesses†—has been fully lifted. Effective immediately, foreign-invested telecommunications enterprises (FITEs) now have access to China's staggering e-commerce market; total sales reached $2.1 trillion in 2014, according to China's E-Commerce Research Center.[36] As a result of the Ministry of Industry and Information Technology's (MIIT) June 2015 policy announcement, wholly foreign-owned enterprises (WFOEs) operating in the sector can establish and own 100 percent of an e-commerce enterprise across China. But under existing rules, WFOEs in this sector must still conform to some onerous telecommunications licensing and business scope provisions, potentially limiting the benefits of liberalization.[37]

Overall, while China's VATS sector is gradually opening up to foreign participation compared with earlier practice, the regulatory requirements for foreign firms limit the positive effects of liberalization. The new regulations are expected to benefit new wholly foreign-owned e-commerce businesses the most, as they will have the opportunity to establish anywhere in China. However, given that less than 30 foreign-invested enterprises (FIEs) in VATS sectors were granted VATS permits by the MIIT before the policy went into effect—when foreign investors were still required to form a joint venture to participate—it is not clear whether it will be even more difficult for FIEs to

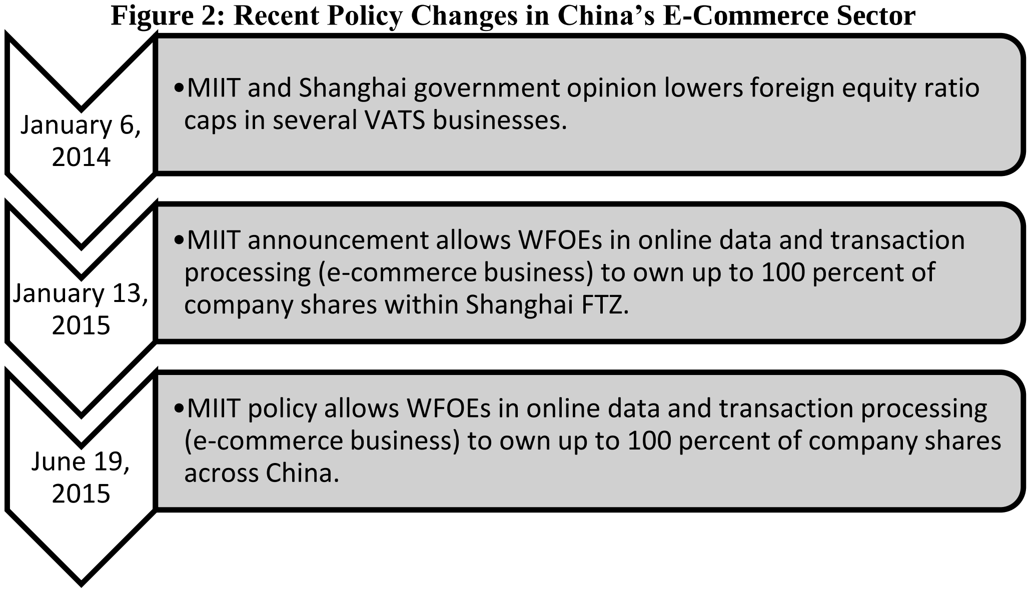
* VATS businesses use basic telecom networks to provide services, and can include system application management, IT support management, financial settlement, software development, and data processing. Freshfields Bruckhaus Deringer, "E-commerce in China—How Can You Get a Piece of the Action?" May 2012, 2. *http://www.freshfields.com/uploadedFiles/SiteWide/Knowledge/33482(1).pdf*.

† Also known as "operating e-commerce." E-commerce services can include electronic data for interchange services, network or electronic equipment data processing services, and transaction processing services. Some examples of transaction services processing services include banking services, share trading services, ticketing sales services, commodity auctioning services and payment services. Hogan Lovells, "Full Foreign Ownership of E-Commerce Businesses Permitted in the Shanghai FTZ: But Is It a Breakthrough?" January 2015, 1. *http://www.hoganlovells.com/files/Publication/15459b75-cacd-4498-ba83-42f57c590b03/Presentation/PublicationAttachment/a82c6f27-08b8-4cd7-9041-3f3e58ab9353/SHALIB01-1099568-v1-Newsletter_-_Full_Foreign_Ownership_of_E-commerce_Businesses_P.pdf*.

obtain the necessary licenses in practice.[38] Domestic e-commerce firms and Chinese logistics companies may benefit the most from these policy changes, as China's State Council continues to promote cross-border e-commerce liberalization through efforts including streamlined customs and quality supervision evaluation. One major challenge for participants in the sector will be implementation: if implementation cannot keep pace with regulatory reform, foreign firms will continue to face market access barriers, and legal ambiguity will persist.[39]

MIIT's June announcement was preceded by a slew of new measures aimed at testing foreign ownership of VATS businesses in the Shanghai FTZ (see Figure 2). All but two of China's seven other tightly regulated VATS business sectors—which until last year had been subject to Sino-foreign joint venture requirements—are now open to full foreign ownership within the boundaries of the Shanghai FTZ. Shortly after China's State Council issued guidelines in January 2014 expressing the intention to open up VATS to foreign investment, the MIIT announced in a 2014 opinion that foreign equity ratio caps in certain VATS businesses in the FTZ would be lifted (see Table 2). One year after the pilot program was introduced, the cap on foreign equity in online data and transaction processing for e-commerce businesses was fully removed within the Shanghai FTZ. As a result of these policy changes, foreign investors are now allowed to establish 100-percent-owned WFOEs in the Shanghai FTZ to operate the following businesses: (1) app store services; (2) store-and-forward services;[*] (3) call center services; (4) Internet access services;[†] (5) domestic multi-party communication services; and (6) e-commerce businesses under the category of online data processing and transaction processing services—which as of June 2015 are open to 100 percent foreign ownership outside the FTZ.[40] While foreign-owned VATS businesses (excluding e-commerce companies) must be established within the boundaries of the Shanghai FTZ, their services—with the exception of Internet access services—can be provided to customers throughout China.

Figure 2: Recent Policy Changes in China's E-Commerce Sector



Source: King & Wood Mallesons, *Dial into China: Insights for Investing in China Telecommunications*, June 2015, 4–5.

[*] In e-commerce, store-and-forward refers to an offline transaction processing technique primarily implemented in telecommunication networks where, due to a temporary loss of connectivity, transaction information is stored at the payment terminal until it can be processed upon restoration of connectivity.

[†] Internet access services are only allowed to be provided to customers in the Shanghai FTZ.

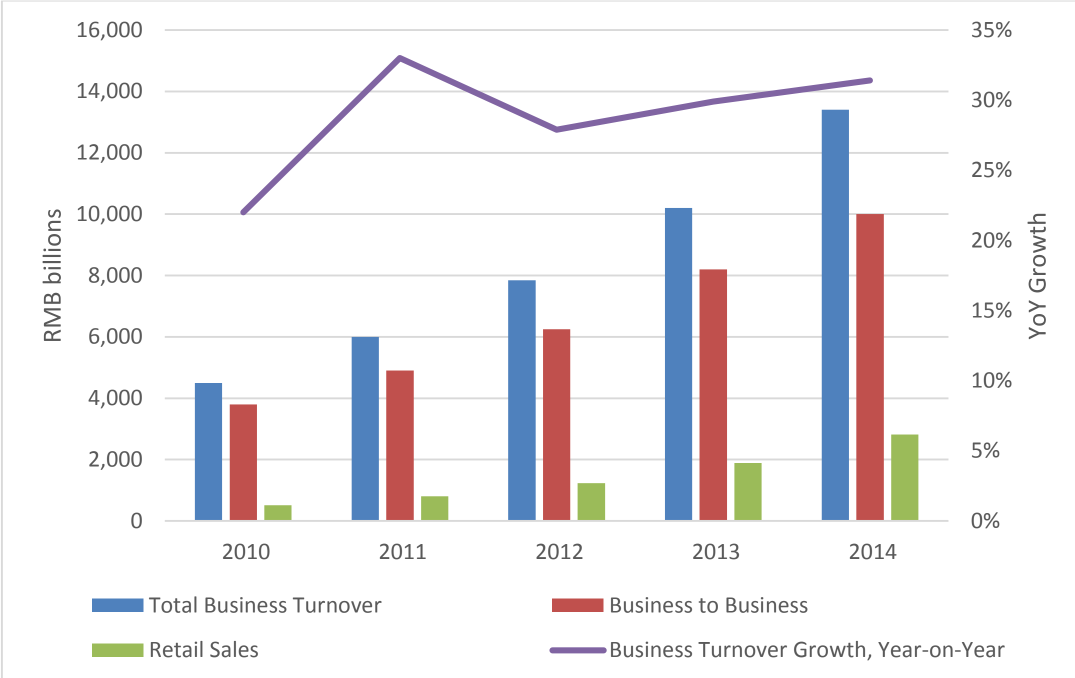
Table 2: Liberalization of Foreign Equity Caps in VATS Businesses in Shanghai FTZ

VATS Business Type	Previous Foreign Equity Ratio	Foreign Equity Ratio under 2014 Opinion	Foreign Equity Ratio under 2015 Policy
Online data and transaction processing services (i.e., operating e-commerce business)	50%	55%	100% (nationwide)
Domestic internet virtual private network (VPN) services	50%	50%	50%
Application store services	50%	100%	100%
Store-and-forward services	50%	100%	100%
Call center services	50%	100%	100%
Internet access services (providing internet connection services to online users)	50%	100%	100%
Domestic multiparty communication services	0%	100%	100%
Information services other than app store services	50%	50%	50%

Source: King & Wood Mallesons, *Dial into China: Insights for Investing in China Telecommunications*, June 2015, 6; Wang Rui and Ge Yibo, "China's (Shanghai) Free Trade Zone Paves Way for Foreign Investment in China's Value-Added Telecommunication Service Market," *King & Wood Mallesons* (via Mondaq), May 2015. *http://www.mondaq.com/x/312278/international+trade+investment/Chinas+Shanghai+Free+Trade+Zone+Paves+Way+for+Foreign+Investment+in+Chinas+Valueadded+Telecommunication+Service+Market*.

China's e-commerce market has developed rapidly: with approximately 361 million online shoppers and a 94.5 percent mobile penetration rate in 2014, China now has the strongest online consumer base in the world (see Figure 3).[41] Reliance on online shopping in China is only growing; by 2020, 750 million Chinese are expected to use the Internet for consumption.[42]

Figure 3: China's Growing E-Commerce Market



Source: China e-Business Research Center, via CEIC database.

Since the establishment of the Shanghai FTZ in 2013, foreign enterprises have increasingly attempted to expand e-commerce business there to take advantage of recent policy changes and sharp growth in Chinese online consumption. Key developments are highlighted below:

- In November 2013, New Heights Holding Ltd., a technical support company, was established in the FTZ and licensed to provide online data processing and transaction processing services to Chinese online transaction platform Yihaodian (YHD), which is controlled by Wal-Mart.[43] In 2012, Wal-Mart acquired New Heights, which at the time owned YHD, in order to obtain the VATS permit necessary to operate in the business-to-consumer e-commerce sector.[44]
- In late 2013, the Chinese government launched an e-commerce platform known as KJT.com, on which several dozen enterprises based in countries across the world including Japan, South Korea, Australia, and the United States sell imported products cleared by Customs to Chinese online consumers—as of August 2014, the platform hosted nearly 10,000 products from more than 35 foreign companies.[45] The Chinese government maintains additional cross-border e-commerce portals in other FTZs and new e-commerce test zones.[46]
- On August 20, 2014, Amazon's China operation announced its cooperation with the Shanghai FTZ to carry out cross-border e-commerce business there by setting up a warehousing and logistics platform and facilitating cross-border e-payments.[47]
- In October 2014, U.S. retailer Costco launched a store on Alibaba-owned business-to-consumer e-commerce platform Tmall selling nuts, fish oil, and dried fruits. This model highlights the importance of the bonded shipping model, which allows imported products to be stored within FTZ warehouses in bulk at a lower tax rate to be delivered by domestic express companies. The bonded shipping arrangement cuts down on shipping time for consumers and reduces the number of cases handled by Chinese customs.[48]

In April 2015, the State Council announced foreign firms—including MasterCard and Visa—will be allowed to set up clearing companies in China to facilitate domestic bank card transactions, which may further expand cross-border e-commerce services.[49] This development follows a 2012 World Trade Organization ruling that Beijing discriminated against nondomestic electronic payment processors through operation of state-owned UnionPay, which monopolized the market.[50]

Despite these exploratory investments, domestic e-commerce giants like Alibaba and JD.com continue to dominate the market—Alibaba's eBay-like consumer-to-consumer service Taobao controls more than 95 percent of China's customer-to-customer market, while its Tmall business, similar to Amazon, constituted around 51 percent of China's business-to-consumer sales in 2012.[51]

Outside the scope of the rules, FITEs appear to be limited in their ability to freely conduct business, due to a number of lingering application requirements.[52] For one, newly established WFOEs in VATS businesses in the Shanghai FTZ are subject to localization requirements: while companies can provide services nationwide, all service facilities, including the company's server, must be located in the Shanghai FTZ.[53] Moreover, VATS companies established in the Shanghai FTZ providing cross-province services are still subject to registered capital requirements of $160,000 (RMB 1 million) for same-region services and $1.6 million (RMB 10 million) for cross-region services.[54]

Licensing procedures for foreign e-commerce businesses also complicate operation in this sector. To set up an e-commerce company in China, an applicant must obtain from MIIT either an Internet content provider (ICP) license, an online data and transaction processing services license, or both, depending on the business scope of the company, as a precondition for obtaining a business license.[55,*] Specifically, although purely providing a platform for users to list and trade their products and services for a fee would not require an ICP license, a website that is "for profit," as are those that employ advertising and search ranking services, would require an ICP license.[56] Under measures predating the e-commerce liberalization rules, foreign investors in e-commerce companies holding ICP licenses will not be able to own more than 50 percent of the company, calling into question the extent of liberalization.[57] Moreover, because e-commerce is relevant across various Chinese ministries—including MIIT, the Ministry of Commerce, the State Council, and local ministries—regulatory guidance on licensing procedures is still ambiguous.

Some analysts worry the Chinese government's allowance of foreign ownership of e-commerce companies is superficial and even indicates an intention to limit foreign participation in direct sales to Chinese consumers. Steve Dickinson, an attorney at China-focused firm Harris Moure, points to another recent State Council opinion[†] on cross-border e-commerce, which he argues will minimize opportunity for U.S. companies to sell to Chinese consumers. Under the model advocated by the State Council, Dickinson argues, there will be no role for sales into China through most online sales websites of individual U.S. companies, in contrast with the typical U.S. e-commerce model; rather, Chinese companies will purchase and warehouse consumer goods overseas, ship those products to one of China's cross-border e-commerce distribution centers, and sell directly to Chinese consumers from an e-commerce retailer located in the distribution centers.[58] If China implements this system, the role of foreign businesses may be relegated to processing data and transactions between Chinese businesses and consumers, with no direct U.S. company sales to Chinese customers.[59]

Liberalization of e-commerce also holds implications for foreign companies that use the legally ambiguous variable interest entity (VIE) investment structure[‡]—through which firms adopt a complex corporate structure to simultaneously access foreign capital and enjoy market access—to participate in this historically restricted sector. Before the new rules came into effect, the VIE structure was repeatedly used to circumvent the 50 percent foreign equity cap in place in VATS businesses: under this arrangement, a domestic, Chinese-owned company with the required VATS license would enter into a contract with a foreign party to allow the license to be used for the foreign party's benefit.[60] The new e-commerce rules appear to allow foreign multinationals a way to sidestep China's proposed elimination of the VIE structure in its draft foreign investment law (FIL), published for comment in January this year.[61] Under the draft FIL, VIEs would be classified as foreign firms and face the burden of proving Chinese control to continue unfettered operation. Multinational VIEs under foreign control, however, would likely

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[*] China's State Council and MIIT jointly issued opinions on June 20, 2015, recommending e-commerce licensing procedures be simplified. Hogan Lovells, "E-Commerce Liberalization in China: State Council and MIIT Push Forward," *Lexology*, June 30, 2015. *http://www.lexology.com/library/detail.aspx?g=2cdec2e3-3234-4568-bd70-4268e85428db*.

[†] The Chinese text of the State Council's *Guiding Opinion for the Promotion of Healthy and Rapid Development of Cross-Border E-Commerce* can be found at *http://www.gov.cn/zhengce/content/2015-06/20/content_9955.htm*.

[‡] For more information on the VIE structure, see U.S.-China Economic and Security Review Commission, *Monthly Analysis of U.S.-China Trade,* February 5, 2015, 13–14. *http://origin.www.uscc.gov/sites/default/files/Research/February%202015%20bulletin%20FINAL%20-%202%205%2015%20FINAL.pdf*.

face the same market access barriers that foreign investors typically face in other restricted sectors. Under the new e-commerce rules, foreign multinationals using the VIE structure to access the previously restricted e-commerce market now have a legal imperative to restructure as WFOEs to gain full market access.[62]

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[3] Ian Talley, "China Agrees to Limit Currency Interventions, Jacob Lew Says," *Wall Street Journal*, June 24, 2015. *http://www.wsj.com/articles/china-agrees-to-limit-currency-moves-u-s-treasury-secretary-says-1435184347*.

[4] Jacob J. Lew, "Remarks by Treasury Secretary Jacob J. Lew at the Economic Track Opening Session of U.S.-China Strategic and Economic Dialogue" (U.S.-China Strategic and Economic Dialogue, Washington, DC, June 23, 2015).

[5] U.S. Department of the Treasury, *2015 U.S.-China Strategic and Economic Dialogue U.S. Factbook – Economic Track*, June 25, 2015. *http://www.treasury.gov/press-center/press-releases/Pages/jl0094.aspx*.

[6] U.S. Department of the Treasury, *2015 U.S.-China Strategic and Economic Dialogue U.S. Factbook – Economic Track*, June 25, 2015. *http://www.treasury.gov/press-center/press-releases/Pages/jl0094.aspx*.

[7] Bank for International Settlements data. *http://stats.bis.org/bis-stats-tool/org.bis.stats.ui.StatsApplication/StatsApplication.html*; Goldman Sachs Asset Management, "FAQ: China's Bond Markets – First Half of 2015," March 10, 2015. *http://www.goldmansachs.com/gsam/glm/insights/market-insights/china-bond-market/china-bond-market.pdf*.

[8] U.S. Department of State Office of the Spokesperson, *U.S.-China Strategy & Economic Dialogue Outcomes of the Strategic Track*, June 24, 2015. *http://www.state.gov/r/pa/prs/ps/2015/06/244205.htm*.

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