



U.S.-CHINA TRACK II DIALOGUE ON THE DIGITAL ECONOMY

CONSENSUS AGREEMENT

OCTOBER 2024
WASHINGTON, D.C.

The **National Committee on U.S.-China Relations** and the **China-U.S. Green Fund** convened the seventh iteration of the Track II Dialogue on the Digital Economy on October 7-8, 2024, in Washington, D.C. The dialogue brought together American and Chinese former officials and experts from academia, think tanks, and industry for off-the-record, in-depth, and frank discussions on digital economy issues of concern to both countries. (See the list of delegates from both countries below.)

The two sides reviewed the current state of the global digital economy, including the interaction of the digital economy and foreign policies of the United States and China, and discussed semiconductors, electric and autonomous vehicles, cross-border data transmission and governance, and artificial intelligence. The participants developed key recommendations, as described in this Consensus Agreement.

DEVELOPMENTS SINCE DECEMBER 2023

Both sides agreed that, since the last round of the dialogue in December 2023, there has been increasing separation of the Chinese and American information and communications technology (ICT) technospheres, driven by a combination of national security and economic concerns on the part of each government.

From the perspective of the Chinese side, the U.S. government has continued to block the export to China of high-performance semiconductors and the machinery for manufacturing advanced node logic and memory semiconductors. It has provided funding to build semiconductor fabrication plants in the United States to American, Taiwanese and South Korean companies, and has put in place a process that would result in banning the Chinese social media platform TikTok from the United States unless the Chinese parent firm divests its ownership. The U.S. Department of Commerce's Entity list, sanctioning Chinese companies, is still expanding. The United States also continues to restrict Chinese acquisition of American ICT companies and has sanctioned numerous Chinese companies that it assesses are part of China's military civil fusion initiative. In 2024, the U.S. government issued an executive order prohibiting the transfer of sensitive personal data to "countries of concern" such as China, including genomic data and personal health information. Particularly in the field of artificial intelligence, the U.S. government has introduced several policies restricting the export of advanced AI semiconductors and model weights to the Chinese market, as

well as limiting talent exchanges and technological cooperation between the two countries. U.S. efforts also aim to control the global supply of advanced GPUs to prevent Chinese companies and researchers from access to restricted hardware. In addition, American foreign direct investment and business expansion into China has diminished rapidly.

From the perspective of the U.S. side, the Chinese government has declared that China welcomes American investment, imports, and operations of American companies. However, due to security concerns, restrictions on American companies remain in place, such as, for example, not allowing majority stakes in Chinese software, telecoms, or cloud computing companies, and not easing foreign exchange quotas and QFII restrictions on domestic insurance companies. China has continued to limit the use of American hardware and software and to promote the use of domestic alternatives in both the public sector, under SASAC Directive 79. While China has eased some cross-border data transfer requirements, the approval process is unclear and certain data localization rules remain in place. Content censorship requirements for American social media platforms constitute a de-facto ban on their operations in China; data localization requirements also add compliance costs, duplicative investment, and complexity to the operations of all American companies in China, reducing the attractiveness of Chinese market investment. In addition, over the past year, Beijing has put in place a new licensing regime around the export of gallium, germanium, graphite, antimony, and lithium compounds, key inputs to sectors such as semiconductors and electric vehicles (EVs). Beijing has also taken steps to sanction large American tech companies, such as Micron Technology, in the China market, and has launched an investigation against Nvidia over a previously approved merger in 2020. Chinese ministries and state-controlled companies provide preferential market access and, in some cases, direct subsidies to Chinese companies in the ICT sector.

Despite these state driven measures, international semiconductor supply chains continue to run through both China and the United States, and Chinese imports of U.S. chips and chipmaking equipment are at record levels. However, the cycle of restrictions by both governments shows no signs of slowing and is likely to continue in the future.

Recommendation:

- Despite continued separation in some areas, both countries should continue to collaborate in areas that do not clearly touch directly on national security – e.g. climate change, agriculture, and healthcare – in order to promote cooperation for the common good, and to reach agreement on safety and privacy issues.

DIGITAL ECONOMY AND THE FOREIGN POLICY OF EACH COUNTRY

Chinese and U.S. companies compete to sell their own ICT hardware and software globally and both governments seek to influence the sales of products from the other country into third countries. The competition is particularly strong in wealthy Middle East countries, which are developing their own ICT sectors, and which purchase hardware and software from both U.S. and Chinese companies. One example is the UAE state-owned technology conglomerate G42 which uses technology and

services from companies in each country. In the less wealthy countries of the Global South, Chinese companies are more successful than American companies, usually because of strong ties with local governments, competitive prices, strong technical support, and because in many cases there is an efficiency and cost advantage to purchasing the full technology stack. The U.S. government is attempting to strengthen support for U.S. companies to be more competitive in these markets.

Recommendations:

- Maintain interoperable design and interface standards between U.S. and Chinese ICT hardware and software so that third countries can purchase ICT components from both countries simultaneously.
- Increase the transparency of bidding documents and procurement contracts in third countries so financial terms and technical requirements are known to governments, regulators and the public of the countries themselves, and to industry competitors.
- Promote the easing of data localization requirements in third countries so that they can benefit from less expensive offerings that take advantage of global networks.
- Assist third countries with less developed ICT sectors to develop a qualified workforce, both government and private, through mentorship and training programs.
- Share knowledge about assistance to third countries in order to work collaboratively in these regions.
- For the United States, consider endorsing the United Nations Global Digital Compact as an expression of aspirational goals for the global ICT network—despite its lack of specificity and potential misinterpretation.

SEMICONDUCTORS

Although it has proven challenging for each country to disrupt international semiconductor supply chains to its own advantage, companies across the global semiconductor industry are forced to respond to the disruptive actions of both governments. Currently, the United States and its allies lead in the manufacture and use of the highest performance chips, while China over the next 5-7 years will become a much more significant player for the manufacture and sale of mature node chips or those produced above 20nm for logic. The development of key downstream sectors in China and globally, such as EVs, robotics, and Internet of Things (IoT) devices, will have a major influence over the pace and development of capacity to source mature node semiconductors within China, while the bulk of advanced node production will likely remain centered in Asian countries and regions outside of mainland China, with the U.S. domestic share growing as well. Meanwhile, overall digital economy trade continues to grow in the world and between China and the United States.

Recommendations:

- As recommended in previous Consensus Agreements, both countries should clarify, in both regulation and practice, the definition of “national security” restrictions and sanctions.
- In Track I negotiations, seriously consider “zero option” agreements to eliminate either country implanting malware in the critical digital infrastructure of the other country. It is to

the advantage of neither China nor the United States to conduct serious disruptions of critical infrastructure networks in the other country during crisis or conflict. The experience of nuclear negotiations has shown that “zero option” agreements such as those on intermediate-range nuclear forces (INF), are inherently easier to verify than limited agreements. Gaining agreement in this arena is important, and disruption operations against critical infrastructure would primarily impact the civilian sector.

- Link domestic industrial policy and subsidies in both countries to market conditions to avoid specific sectors from developing greater capacity than demand requires, thereby potentially distorting markets.
- In Track I negotiations, consider relaxing export controls and usage restrictions on advanced semiconductors and computing for civil use through controlled access and end-use checks.

ELECTRIC AND INTELLIGENT CONNECTED VEHICLES

The United States and its allies have retained dominance in internal combustion engine (ICE) automobile manufacturing, while China has become the leader in the development and sales of EVs. Both countries encourage EV adoption to reduce greenhouse gas emissions and have set ambitious goals for phasing out ICE vehicles. It is unclear whether consumers in both countries will fully support these goals, though in China sales of EVs are rapidly outstripping those of ICE vehicles. There are two sets of concerns driving both the United States and China in setting policies for EVs and intelligent connected vehicles (ICVs), including those with self-driving capabilities: economic competition, including the importance of maintaining a domestic automobile manufacturing industry, and new national security concerns arising from the amount of personal, image, and geolocation related data generated by EVs and ICVs and their interconnectivity with critical infrastructure systems. China has gone significantly farther in tackling this issue and has allowed Tesla ICVs to use Chinese roads with so far limited restrictions.

Recommendations:

- For economic and manufacturing security, adjust the competitive and cooperative relationships in their automobile industries along the lines of those employed during the auto disputes of the 1980s between the United States and Japan. In addition, for the United States, consider launching investigations into Chinese government subsidies and other policy support mechanisms to the Chinese automotive industry, in accordance with WTO principles, in order to determine appropriate measures on imports of Chinese origin EVs.
- For national security concerns with EV and ICV-generated data, focus Track I discussions on the specific threats and dangers, and develop standardized measures, in conjunction with industry, that both countries can take to mitigate them.
- To benefit the United States and China as well as meet climate change goals for reducing global carbon emissions, as a priority item that could be part of a broader set of trade arrangements, launch Track I discussions about ways to allow sales of EVs in both countries from firms manufacturing EVs/ICVs within the other country’s borders.

- Encourage companies from both countries to collaborate in third countries, such as by setting up joint ventures to manufacture or sell EVs, or by jointly investing in building charging facilities, to promote green transportation.
- Enhance battery recycling and other sustainability processes within the automobile industries of both countries.

ARTIFICIAL INTELLIGENCE

The United States and China are in the early stages of development of broadly capable AI systems. Tens of billions of dollars are being invested in each country, both for algorithm and large model development and training, and for AI data centers to support increasingly intensive and expensive computational requirements of applications using AI models for both inference and training. Projections for electrical power requirements are enormous – at least a 40% increase over current capacity; such growth would challenge carbon emission targets for both countries and impact climate change related goals. U.S. and Chinese cloud services companies are rapidly building a large number of sizeable AI data centers, both domestically and internationally, some directly connected to nuclear power plants. Enterprise uptake of AI applications is gaining traction in both countries, but regulatory systems have not kept pace with the development of the technology, and there is an opportunity for China and the United States to cooperate in global efforts to develop a regulatory and governance framework around advanced AI models, with 2025 being a particularly important year in terms of the emergence of more advanced models and agentic AI, and international efforts to develop a baseline regulatory framework gaining some steam.

Recommendations:

- Both sides should support and fully participate in the OECD and Bletchley Park Process efforts to develop the global governance of artificial intelligence. AI should be designed, developed, deployed, and used in a safe, people-oriented, trustworthy, and responsible manner. Both sides recognize that transparent regulatory rules can help reduce AI risks.
- Consider mechanisms for Chinese government and company participation in future OECD AI processes in some capacity.
- For China, consider establishing an “AI Safety Institute,” and the United States should support China’s AI Institute joining the international network established via the Bletchley Park Process; both governments should encourage the participation of Chinese companies in voluntary commitments related to AI safety and ethics.
- Both countries should develop and publish transparent, open and clear standards, permitting requirements and performing public, transparent regulatory reviews and enforcement processes for allowing the local operation of technology companies from other regions.
- Both governments should support the development of model interoperability across borders via the AI Safety Institute (AIS) Network and encourage their leading AI companies to work with the Network to do research and test models.
- Continue the current U.S.-China Track I AI discussions on national security issues and expand the set of topics to include other areas of potential agreement on specific subjects such as

best practices in annotation of AI training data, watermarking text and images generated by AI models and applications, and the other topics included in these recommendations.

- Address the growing power consumption that will be required to support AI training and inference to find ways to expand national capacity within the carbon reduction goals of both countries, aiming at striking an optimal balance between the development of artificial intelligence and environmental protection.
- Promote cooperative scientific research between China and the United States that can leverage AI in areas not sensitive for national security, such as on climate change and healthcare, by, for example, sharing best practices on energy efficiency in AI models and development, and exchanging data and models for predictive climate, weather monitoring, and disease treatment.

CONCLUSION

China-U.S. competition in the digital economy continues to cause major disruptions to complex global supply chains, leading to significant cost inefficiencies and duplication of effort that reduce the potential benefits of the most dynamic technologies in the world to citizens from both countries. Not all of these restrictions can be traced to legitimate national security concerns, but many are caused by vague and exaggerated fears of ICT in both countries and a lack of trust in the intentions of the other country. This overemphasis on national security, which has overtaken attempts to engage in Track I discussions on a range of technology issues, is counterproductive, and is leading towards more decoupling in the technology sector, to the detriment of progress in technology cooperation that would be mutually beneficial and bring advantages to global technology supply chains. In general, digital economy experts in both countries can reach areas of agreement for which government officials under short-term political pressure are unable to develop workable approaches.

It is important for the United States and China to continue to hold Track I discussions on digital economy issues that are based on deep industry expertise and the best technical knowledge available. This can be accomplished by including technical experts on government delegations, and through government leaders striving to find areas of cooperation that benefit both countries.

CHINESE DELEGATION

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