



China

The Case for Engagement

China's Economic Emergence is an Historic Opportunity for America...



The world's 7th largest economy in 1999, China recently surpassed Japan to become the world's 2nd largest economy.

China's economy has grown at an average annual rate of better than 9% for more than two decades.

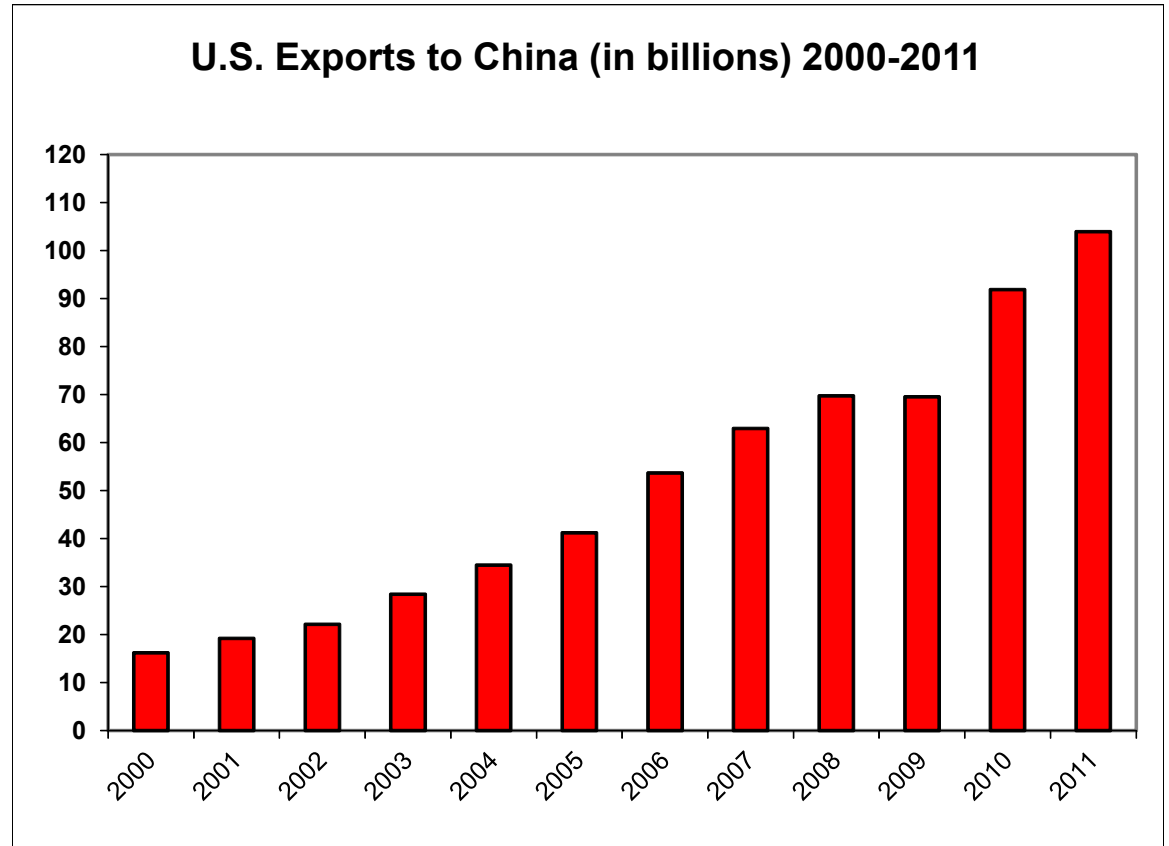
Fair and competitive access to China's fast-growing middle class and business sector represents an enormous commercial opportunity for American manufacturers (large and small), services providers, and farmers.

Market Access is Key to U.S. Job Creation and Economic Growth

China is a critical market for U.S. exports...

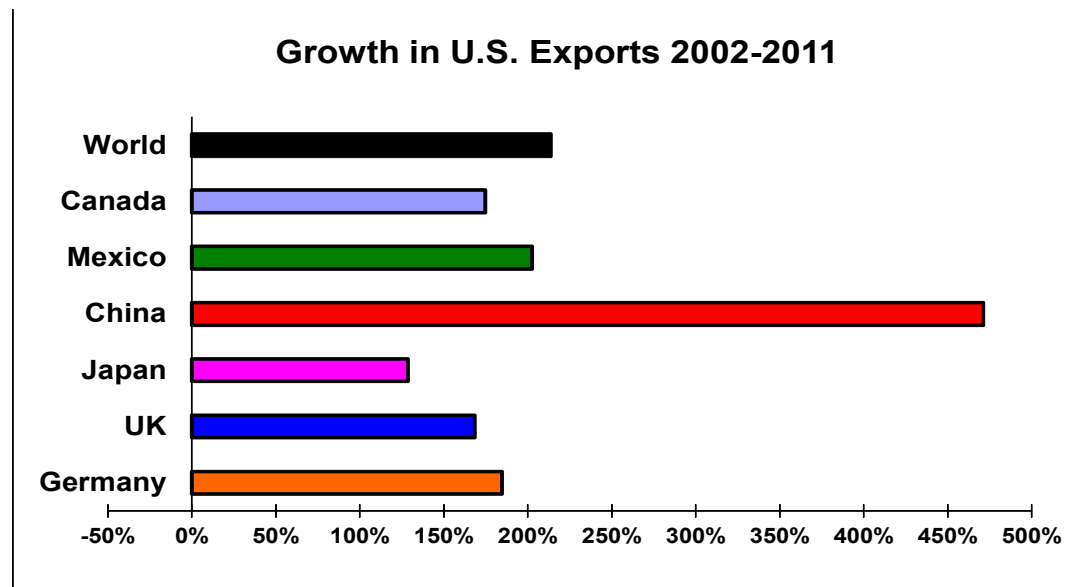
China is now America's **third largest** export market – and the largest market for U.S. products outside of North America.

From 2000 to 2011, U.S. exports to China *increased more than sixfold* from \$16 billion to \$103.9 billion, up 13% over 2010 levels.



China is by far the fastest growing major market for U.S. exports...

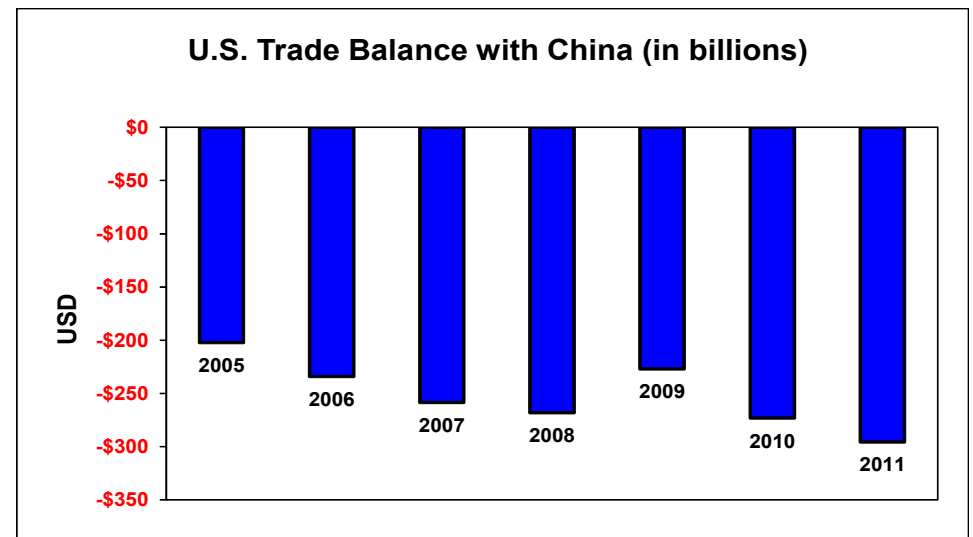
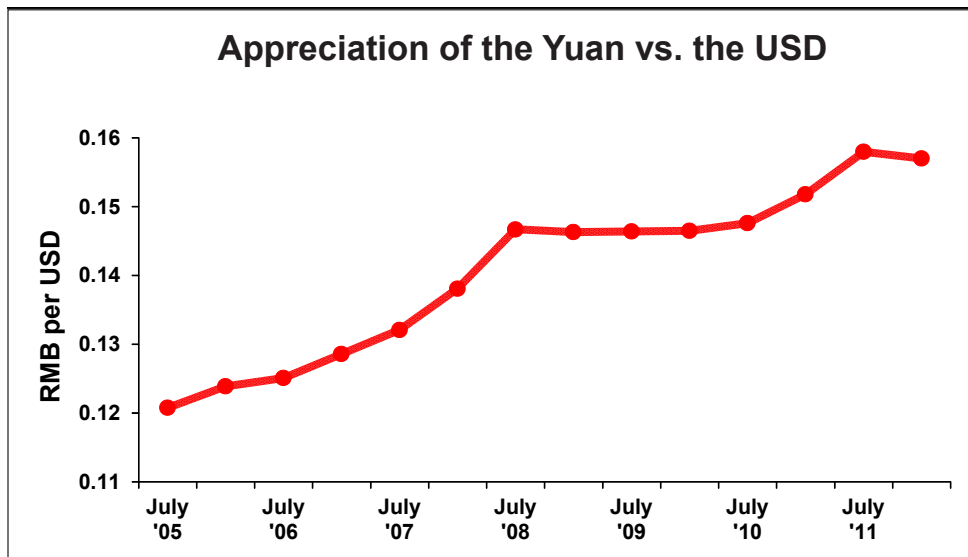
Between 2002 and 2011, U.S. exports to China grew at **seven times** the rate of U.S. exports to the rest of the world. To achieve the goal of doubling U.S. exports over the next five years, China must be an integral part of that plan.



It's not all about the currency...

While China should continue to liberalize its currency, greater access to the Chinese market holds greater promise for long-term economic growth and job creation in the United States.

Since July 2005, the Yuan has appreciated more than **22%**. Despite this appreciation, the U.S. trade deficit with China has continued to widen.

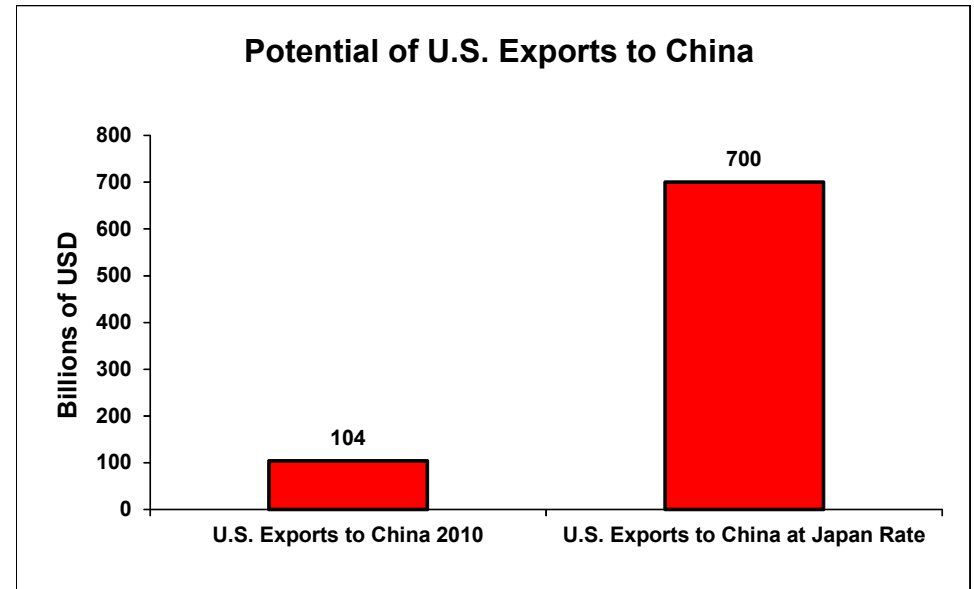


Why market access matters...

THE \$700 BILLION DOLLAR QUESTION

If China's citizens were to eventually consume American-made goods and services *at the same rate* the Japanese did in 2011, the United States would export about **\$700 billion** to China.

That's **more than seven times** what America exported to China last year, an amount equivalent to nearly 5% of America's GDP, and nearly twice what it imported from China last year – turning a \$300 billion trade deficit into a **\$300 billion surplus**.



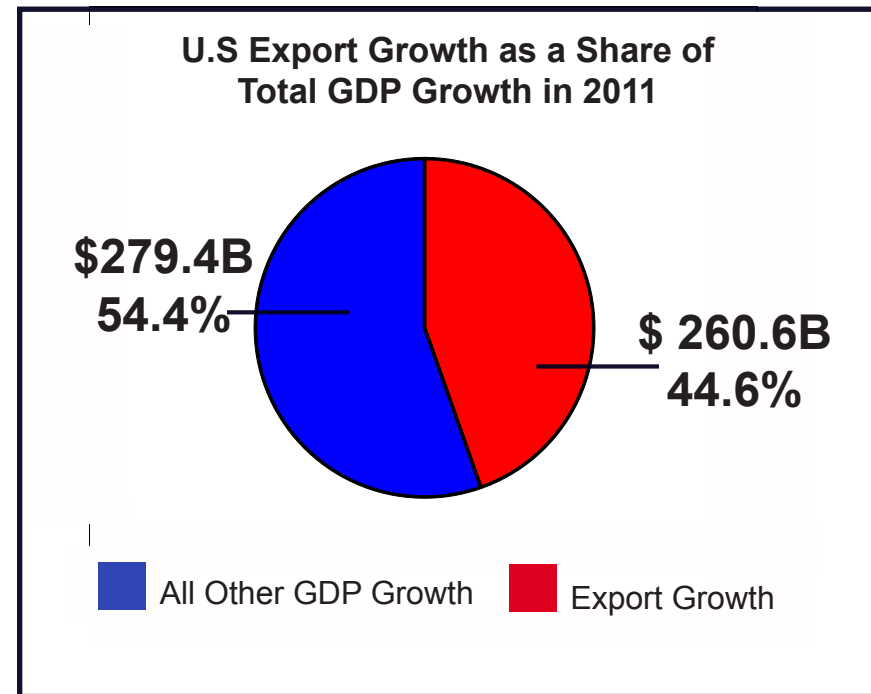
Exports Are Critical to U.S. Economic Growth and Job Creation

In 2010 and 2011, growth in exports accounted for nearly half of U.S. economic growth.

In 2011, exports reached a record \$2.1 trillion and supported nearly 10 million American jobs.

It has been estimated that, for every additional \$1 billion in exports, approximately 5,000 new American jobs are created.

Total U.S. exports to China surpassed \$100 billion for the first time in 2011, with 30 states now counting China as one of their top three export markets. Additionally, 25 states exported more than \$1 billion to China in 2010.



America's Export Opportunity Depends on Financial Reform in China

The world's second largest and fastest growing economy is currently supported by one of the world's most under-developed financial systems.

Simply stated, China's **under-developed** financial sector represents **a clear and present danger** to its continued growth and development – and, therefore, to the historic exporting opportunity for U.S. manufacturers (large and small), services providers, and farmers.



Fastest Way for China to Get the Financial System it Needs – Import it

U.S. financial institutions bring world-class expertise and best practices with regard to products and services, credit analysis, risk management, internal controls, and corporate governance.

By helping to provide the financial products and services that China's citizens and businesses need to save, invest, insure against risk, and consume at higher levels, U.S. financial institutions can help China develop an economy that is **less dependent on exports**, and **more services-based**, and **consumption-driven**.

In so doing, U.S. financial institutions can help open an **enormous commercial market** for U.S. producers, accelerating economic growth and creating millions of American jobs.



Signs that financial sector reform in China is on its way

"Re-engineering of [China's] growth model is being advocated at the highest levels of government – and this is highly desirable... Domestic consumption now needs to assume an even larger role in driving growth... Against this backdrop, I see no reason for the renminbi not to reach the status of an international reserve currency and occupy a position on par with China's economic size"

- *Christine Lagarde, Director, International Monetary Fund. Interview with The Wall Street Journal, March 18, 2012*



IMF Director
Christine Lagarde
(Photo: IMF)

"Market risk is concentrated in the banking system. Developing equity financing... can reduce the burden on the government, and open new investment channels to funds and wealthy citizens."

- *Guo Shuqing, Chairman, China Securities Regulatory Commission. Remarks to reporters, March 5, 2012*

"We need market-oriented interest rates. Banks have high profits, and we don't need to worry about protecting them. They are like dinosaurs... I think there is tremendous support... within government for this."

- *Li Daokui, Tsinghua University Professor, former advisor to the People's Bank of China. Remarks at China Development Forum March 17, 2012*

Signs that financial sector reform in China is on its way

"Currently conditions for market-oriented interest rate liberalization are basically ripe. The People's Bank of China with actively push forward [with such reforms]."

- Zhou Xiaochuan, People's Bank of China.
China Finance magazine, March 21, 2012

"In the financial sector, [reform] would require commercializing the banking system, gradually allowing interest rates to be set by market forces, deepening the capital market, and developing the legal and supervisory infrastructure to ensure financial stability and build the credible foundations for the internationalization of China's financial sector."

- "China 2030," *The World Bank February 27, 2012*

"We will improve both initial public offerings...and ensure better protection of returns on investors' money and their rights and interests."

- Chinese Premier Wen Jiabao, speaking before the National People's Congress, March 5, 2012



Chinese Premier Wen Jiabao (Photo: AP)



CONCLUSION...

Given the importance of our trade relationship with China to economic growth and job creation in the United States, policymakers should devote the same, or even greater, focus to expanding market access and continued financial modernization in China, as they have to other aspects of the bilateral relationship.