Importance of Financial Sector Reform in China

Given the unique and critical role an effective and efficient financial sector plays in any economy, reform of China's financial sector is a prerequisite to China achieving its own economic goals, and to successfully addressing the outstanding issues that define the U.S.-China bilateral relationship – such as further currency reform and meaningfully reducing the trade imbalance.

China's Domestic Economic Goals:

- **Shift from a manufacturing-for-export model to a services-based model:** Facilitating the desired transition to a more services-based economy will require that competitively priced capital and credit be channeled to the most promising emerging service businesses, and that the array of financial products and services emerging businesses require – loans, letters of credit, accounts management services, asset management, and insurance products – be made available.

- **Activate the Chinese consumer:** increasing domestic demand by activating the Chinese consumer requires the availability of financial products and services – personal loans, credit cards, mortgages, pensions, insurance, and retirement savings – that will encourage and facilitate consumption. Chinese consumers currently save about 40 percent of their income – "precautionary savings" – because they don't have access to the kinds of risk-mitigating products and services that we take for granted – medical, health, home, and life insurance, as well as retirement savings products. Also, of China's 1.3 billion people, 480 million use cell-phones, but only an estimated 1 million currently have a credit card.

Bi-lateral Issues with the United States:

- **Market-determined exchange rate:** a major reason advanced by Chinese authorities to resist further flexibility in the exchange rate is the lack of expertise on the part of China's banks, securities firms, and other businesses to develop and trade derivatives and other structured instruments used to hedge the risk associated with great currency volatility. The ability of U.S. financial services firms to strengthen such expertise in China would clearly diminish those concerns.

- **Reduction of trade deficit:** Successful adjustment of China's economy toward the production of services, and the activation of the Chinese consumer by reducing precautionary savings – goals that, as stated above, require a more developed, effective, and diverse financial sector – are critical to successfully addressing international trade imbalances.

The fastest way for China to acquire the financial system they need – import it by permitting greater access for foreign financial firms who will provide the world-class expertise, techniques, methodologies, and best practices.