

What Has China Accomplished – and What Work Remains?

The U.S.-China trade relationship is complex, with many significant issues and disagreements that remain unresolved. It's important to acknowledge such problems and work toward their swift resolution. And, indeed, the Treasury and Commerce departments, along with the U.S. Trade Representative's office, continuously work with their Chinese counterparts through the Strategic Economic Dialogue, the Financial Sector Working Group, the Joint Commission on Commerce and Trade, and other bilateral discussions to expand access to China's markets, secure national treatment for U.S. manufacturers and services providers, and protect intellectual property rights.

Such challenges, however, must be considered within the context of just what China undertook in joining the World Trade Organization (WTO) in 2001 and what it has achieved in a very short period of time. Following 15 years of negotiations, China agreed to extensive, far-reaching, often very complex commitments at all levels of government. Fulfilling these commitments has required nothing short of a wholesale institutional transformation of China's economy and financial system, and the relationship between government and major industries – a transformation that is painful, stressful, expensive, and that has no comparison in American history.

It should also be acknowledged that in addition to working to meet its WTO commitments, China has also taken important steps to liberalize its financial sector and improve financial regulation. For example:

- the financial sector has been transformed from a single-bank system to a more diversified system with a central bank at the helm;

- meaningful steps have been taken to eliminate state-directed policy lending, and amendments to the Law on Commercial Banks and the Law on the Peoples Bank of China have laid the foundations for commercially viable lending;
- the China Banking Regulatory Commission (CBRC) was established in April of 2003 to oversee all banks in China, investigate illegal banking operations, and punish violations of law; and,
- interbank, equity, and foreign exchange markets have been established and important progress made toward implementing monetary policy through market mechanisms rather than by government fiat.

Despite these significant achievements, China's financial sector still faces serious challenges:

- non-commercial lending to state-owned enterprises continues, although on a diminishing scale;
- the stock of nonperforming loans on banks' balance sheets remains high;
- banks are undercapitalized and lending practices, risk management techniques, new product development, internal controls, and corporate governance practices remain inadequate;
- prudential supervision and regulation of the financial sector is opaque, applied inconsistently, and lags behind international best practices; and,
- China's equity and bond markets remain small and underdeveloped.

With these problems in mind, the financial services industry is of the view that efforts to build on the progress achieved to date should focus on:

- the critical importance of open commercial banking, securities, insurance, pension, and asset management markets to promoting the consumption-led economic growth that China's leaders seek;
- the clear benefits to China of increased market access for foreign financial services firms – namely the introduction of world-class expertise, technology, and best practices – and the importance of removing remaining obstacles to greater access;
- non-discriminatory treatment with regard to licensing, corporate form, and permitted products and services;
- non-discriminatory treatment with regard to regulation and supervision;
- regulatory and procedural transparency;
- attracting sophisticated institutional investors to China's capital markets through the expansion of the Qualified Foreign Institutional Investor (QFII) and Qualified Domestic Institutional Investor (QDII) programs; and,
- priority issues from the Transitional Review Mechanism that remain unresolved.

China's membership in the WTO beginning in December of 2001 was the culmination of more than 25 years of political and economic engagement by the United States. Such cooperation has broadened and deepened the relationship between our two nations, to the benefit of both. Since 2001, trade between the United States and China has nearly tripled, exports to China have grown at five times the pace of U.S. exports to the rest of the world, and China has risen from our 9th largest export market to our 4th largest.

But our work to help China integrate into the global economy is not finished. Indeed, in a very real sense, only the easy part is over. As China's transition period as a new member of the WTO comes to an end, U.S. policy should move beyond the monitoring of China's compliance with a discrete set of obligations to one seeking more proactive cooperation in an increasingly dynamic relationship. The aim of our efforts should be to ensure that China participates fully and constructively as a mature and responsible stakeholder in the WTO multilateral trading system and the global economy. For the United States, this means a bilateral relationship that is more balanced, equitable, and durable.

¹ China's WTO accession included the Transitional Review Mechanism (TRM) as a means for ongoing review of China's compliance with its obligations, and to provide those elements of the Chinese government supportive of further economic reform with information and evidence to urge full compliance with China's WTO commitments.