ENGAGE CHINA COALITION: 100-Day Talks and U.S.-China Comprehensive Economic Dialogue

July 13, 2017

The Honorable Steven T. Mnuchin
Secretary of the U.S. Treasury
1500 Pennsylvania Ave., NW
Washington, DC 20220

The Honorable Wilbur L. Ross, Jr.
Secretary of the U.S. Commerce Department
1401 Constitution Ave., NW
Washington, DC 20230

Dear Secretaries Mnuchin and Ross:

On behalf of the Engage China coalition, we commend the Trump Administration for establishing proactive engagement with China to improve upon the growing bilateral economic relationship. With the 100-day talks concluding, and with the U.S.-China Comprehensive Economic Dialogue (CED) also on the horizon, we encourage you to prioritize the reduction of barriers to U.S. financial services exports to China. Specifically, we believe that addressing the long-standing ownership caps that U.S. financial services firms face should be a top priority for the two sides. Expanding market access for the U.S. financial services sector in China would have a positive multiplier effect on economic activity across the real economy.

As Secretary Mnuchin has rightly recognized, China is "a very big market and there will be more opportunities for both exports as well as investments." The U.S. financial services industry is keen to pursue such job-creating opportunities. However, American financial services providers still face significant market access barriers and level playing field issues in China. For example, while China's banking sector overall has almost tripled in size since 2007, the market share of foreign banks has declined.

A similar picture exists in China's securities markets: foreign investors currently hold only two percent of the onshore bond market and just three percent of the market capitalization of equity shares. We therefore urge that the elimination of ownership restrictions – equity caps, which stand at 49 percent – should be prioritized in advancing the U.S./China relationship. At the same time, costs have increased for foreign entities. Chinese structural and regulatory provisions underlying these distortions do more than restrict competition from U.S. financial institutions; they also run counter to China's own economic objectives.

The insurance and pension industries face similar challenges, where China continues to maintain a 50 percent equity cap on life insurers since its 2001 accession into the World Trade Organization (WTO) and has not permitted U.S. firms to enter the enterprise annuities sector. Chinese insurance firms are actively expanding into foreign markets, including the U.S., where they face no such equity caps; by contrast, China maintains investment barriers in a market that is home to the world's largest insurer and where 95 percent of market share belongs to domestic providers.

We encourage the Administration to continue to work towards a better balanced economic relationship by addressing level playing field issues during the CED, as well as tackling issues that will build more confidence in the investment climate and strengthen market access in China. A prime target for liberalization at this time would be the removal of the equity caps and other restrictions on foreign ownership of most Chinese financial services companies—which has been addressed in past Strategic & Economic Dialogues without yielding material improvements to U.S. access. Additionally, encouraging greater market access to U.S. insurers and reinsurers will lead to increased financial stability and facilitate diversification of local risks to the global economy.

We also encourage the Administration to prioritize:

- Further expanding investment channels (QFII, RQFII and QDII);
- Improving licensing, regulatory and procedural transparency;
- Ensuring regulatory coherence and coordination with major jurisdictions;
- Reinforcing the need for risk-based Information Computer Technology regulation impacting the financial services sector (particularly as the Cybersecurity Law is implemented); and
- Expanding market access channels for foreign financial services providers.

Engage China strongly supports the continued CED process and hopes to help you and your counterparts in China in securing its success. We also support maintaining complementary forums such as the U.S. China Insurance Dialogue.

Finally, as these talks advance, we support continued negotiations of the U.S.-China Bilateral Investment Treaty (BIT), which will help secure China's commitments conveyed during previous bilateral talks. In addition, the BIT provides important investor protections that will address many existing concerns of the financial services industry.

Thank you for your leadership on these important issues. We welcome opportunities to further support the Administration's dialogue with China on trade and investment issues.

Respectfully,

Kenneth E. Bentsen, Jr.
Chair, Engage China Coalition

The Engage China Coalition:
American Bankers Association
American Council of Life Insurers
American Insurance Association
Bankers Association for Finance and Trade
The Council of Insurance Agents and Brokers
The Financial Services Forum
The Financial Services Roundtable
The Futures Industry Association
Insured Retirement Institute
Investment Company Institute
Property Casualty Insurers Association of America
The Securities Industry and Financial Markets Association

cc:
Ambassador Robert Lighthizer, U.S. Trade Representative
Everett Eissenstat, Deputy Assistant to the President for International Economic Affairs
Mathew Haarsager, Special Assistant to the President for Global Economics and Finance
Christopher Adams, Senior Coordinator for the Comprehensive Economic Dialogue, Department of the Treasury