



2019

*China - U.S. Symposium on Building the  
Financial System of the 21<sup>st</sup> Century*



## **US-China Relations: Implications for Cross-Border Financial Services**

- Is the glass half full or half empty?
- Diverging perspectives
- Issues in China-US financial services
- Trade war effects on US and China
- Where do we go from here?

## Is the glass half full or half empty?

- Half full!
  - China and US both benefit from relationship, so mutually beneficial solution is likely
  - Deep integration of supply chains will raise cost of conflict China has incentives for continued financial liberalization
  - China is committed to path of capital liberalization regardless
    - Promises to improve capital allocation and saving options for residents
    - Can also offer opportunities for US firms
    - Constructive partnerships between foreign FIs and Chinese regulators can support financial liberalization and efficiency
- Half empty!
  - Not realistic to have progress on financial services while IP rights and goods conflicts persist
  - Domestic politics pushes against agreement in both countries
    - Are we nearing point of no return?
  - Diverging systems limit agreement space
  - Decoupling is a real danger

## Diverging Perspectives

- China perspective
  - China is developing country w/different system; shouldn't pressure it to change
    - China wants to learn from US, not be US
  - US is not seeking win-win
- US perspective
  - Did US misunderstand China?
    - Expected engagement and trade would lead to convergence with WTO entry
    - Trump administration believes that imbalances result from unfairness; solution is "reciprocity"
  - Lack of trust in Chinese institutions, intentions
  - Does the administration actually have a long game? Is it strategic or just about domestic politics?
- European perspective
  - Maximum pressure won't work
  - Solution is more integration, not decoupling
  - In the meantime, take opportunity to engage China (BRI, FDI)

## Issues in China-US Financial Services

- Goal: Deeper, more liquid, more efficient financial markets
  - Better opportunities for savers
  - Better capital allocation
  - Better opportunities for competitive FIs
- Chinese concerns about US financial markets
  - Market access
    - Licensing concerns for banks, securities, insurance
    - “Invisible barriers” to 2<sup>nd</sup> tier banks (concerns over AML, KYC capabilities)
    - CFIUS, IPR restrictions discourage Chinese corporate investments
    - Are these issues procedural or discrimination?
  - Regulatory standards
    - Customer data
    - Long arm of federal jurisdiction (extraterritoriality)

## **Issues in China-US Financial Services, cont.**

- US concerns about Chinese financial markets
  - Entry barriers and market access
    - Sectoral (payments, investment banking, asset management)
    - Equity caps
    - Arbitrary and cumbersome licensing
      - Is this discrimination or inefficiency?
  - Financial liberalization seems to be slowing
    - New markets developing slowly (e.g., pensions, life insurance)
    - Capital controls
    - New financial instruments (e.g., commodity options)

## Trade War Effects on US and China

- What are the stakes?
  - Decoupling would be very painful for US, China, and world
  - From trade war to tech war?
    - IPR is central to both US demands and Chinese aspirations
    - Potential disruptions to global supply chains
    - Prospect of “dual ecospheres”
  - China-US agreement on new rules for IP, cybersecurity, data could be basis for new global trade rules
  - What impact on financial services integration?
- Current effects of trade war
  - Huge effective tax increase on Americans
  - Uncertainty is affecting investment, business planning (with knock-on effects on Chinese FIs)
  - Slowing of Chinese financial liberalization

## Where Do We Go From Here?

- Cool down the rhetoric!
  - Tweet more respectfully
  - Business should take lead in advancing dialogue
  - Avoid the language of “war”
- Negotiation style
  - Renew focus on win-win
  - Respect differences between systems
- What would an agreement look like?
  - Comprehensive or sequential?
  - Should perhaps separate trade, IP, and financial services tracks
  - What will be the tradeoffs among declared US and Chinese goals?
    - US: deficits, IPR protection, SOE competition, market access
    - China: socialist market system, tech development goals, sequenced liberalization

# UPCOMING EVENTS

2019

**Japan - U.S. Symposium**  
*October 4 – 6, Odawara, Japan*

---

To receive an invitation to other PIFS Symposia,  
or to recommend your colleagues for participation, please contact:

**Whitney Vasey**

[wvasey@pifsinternational.org](mailto:wvasey@pifsinternational.org) | 857-242-6072

[www.pifsinternational.org](http://www.pifsinternational.org)