U.S.-CHINA ECONOMIC RELATIONSHIP: THE FINANCIAL SECTOR
Mutual benefits of financial cooperation

• China’s strong economic growth
  – Business opportunities for U.S. firms
  – U.S. FDI focuses increasingly on Chinese domestic demand

• U.S. participation in China’s financial markets
  – Large and growing opportunity for U.S. FIs
    • Market entry for asset management, securities firms
    • Improving market quality and access – futures, etc.
  – Benefits to China of foreign participation
    • New investment vehicles for Chinese savers
    • Foreign FIs improve market transparency, liquidity, functionality

• Chinese firm listings in U.S.
  – Opportunities for U.S. investors
  – Funding, branding, higher disclosure standards for Chinese firms
U.S.-China financial cooperation in era of tension

• U.S.-China political tensions and mistrust on the rise
  – Increasing linkage of security and economic policies
  – Politics of cooperation has gotten harder
    • Still high levels of popular trust in China of Americans (not of U.S. govt)
    • Popular mistrust of China is growing in US across political spectrum
  – Security competition and wolf warrior diplomacy aggravate situation

• Despite tensions, many mutual interests remain!
  – China business is booming for U.S. firms and investors
    • FDI, portfolio investment, trade all on the rise
    • Welcoming environment, high profitability for foreign MNCs
  – Global challenges, including climate change
    • U.S. and China have biggest role in reducing emissions
    • U.S. and China are leaders in development of green tech
Diverging directions in cross-border finance

• Chinese commitment to integration and liberalization is unabated
  – Has continued according to plan, despite COVID and political tensions
    • Reflects deep needs for Chinese savers to find returns, for Chinese economy to make best use of national savings
    • Can contribute to economic rebalancing
  – U.S. firms and FIs enjoy same benefits in Chinese markets as other foreigners
  – Continues to look to global best practices and expertise to address challenges
    • Improving transparency, price discovery; addressing challenges of troubled assets
  – Key elements of Chinese cross-border financial liberalization
    • Licensing of wholly-owned subsidiaries (asset managers, securities firms)
    • Stock and Bond Connects expanding, deepening integration with domestic financial markets
    • Expansion of foreign access – futures and derivatives, mutual funds, QFII increases
  – Some important concerns persist – e.g., regulation of data

• U.S. actions affecting Chinese firms
  – Potential delisting of Chinese firms
  – Executive orders targeting firms with military ties
  – Supply chain reviews and reshoring
Promoting U.S.-China financial cooperation

- How to promote financial cooperation in time of political tensions?
  - "Package deal" – does progress in financial cooperation require overall political resolution?
  - Can win-win issues like finance be separated from more conflictual areas?
- Potential of stepwise cooperation as confidence-building exercise
  - Picking the low-hanging fruit as steppingstone to resolving more divisive issues
    - Find areas of common interest – e.g., finance, environment
    - But could populist distrust of financial sector in U.S. complicate cooperation?
  - Finance is clearly an area of mutual benefit
    - China already liberalizing for its own benefit, offering great opportunities for U.S. FIs
    - Should be able to resolve auditing issue for U.S. listing of Chinese firms as technical issue
    - Consequences of delisting could be severe – must avoid inaction!
- Must renew US-China intergovernmental dialogue
  - Financial and economic dialogue at working level
  - Top-level dialogue must be reestablished
UPCOMING EVENTS

Japan-US Symposium
November 8-9
7:00-10:00pm EST
Via Zoom

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