

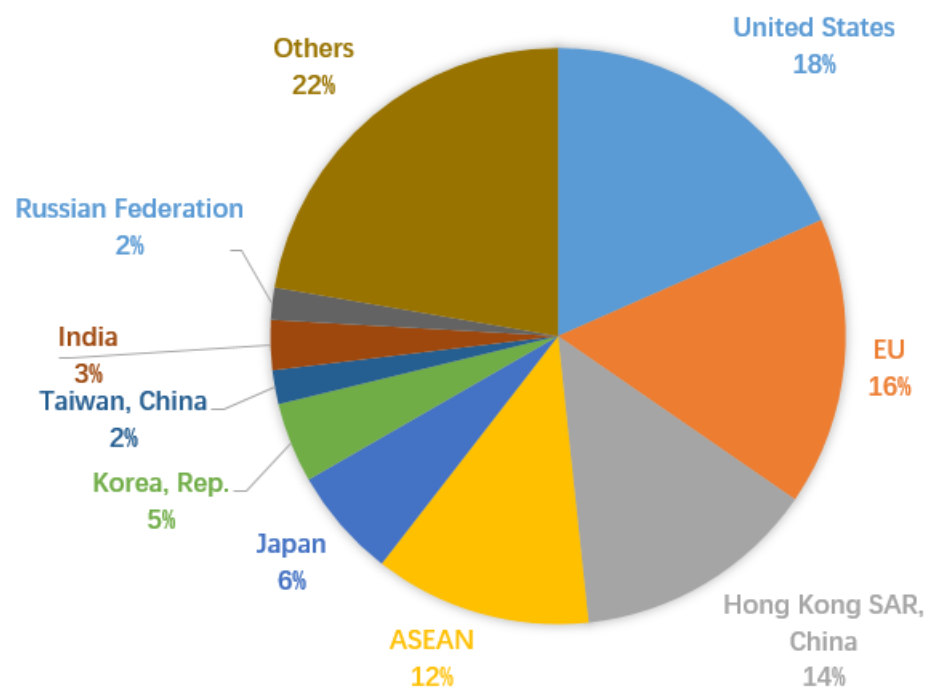
China-US Economic Relation

Jiming Ha

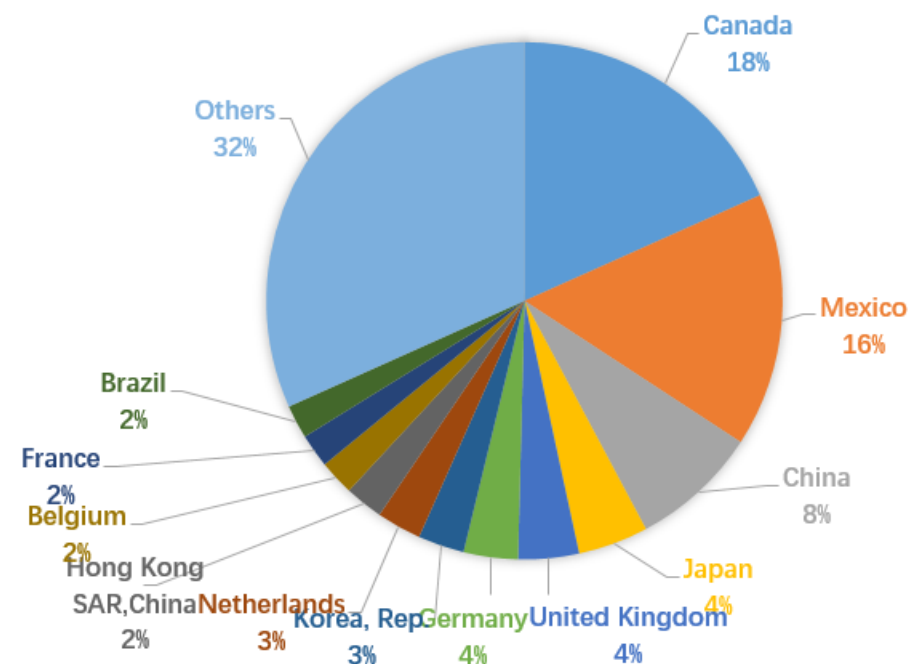
Trade

Important Trade Partners

1. Major exporting countries and regions of China in 2016



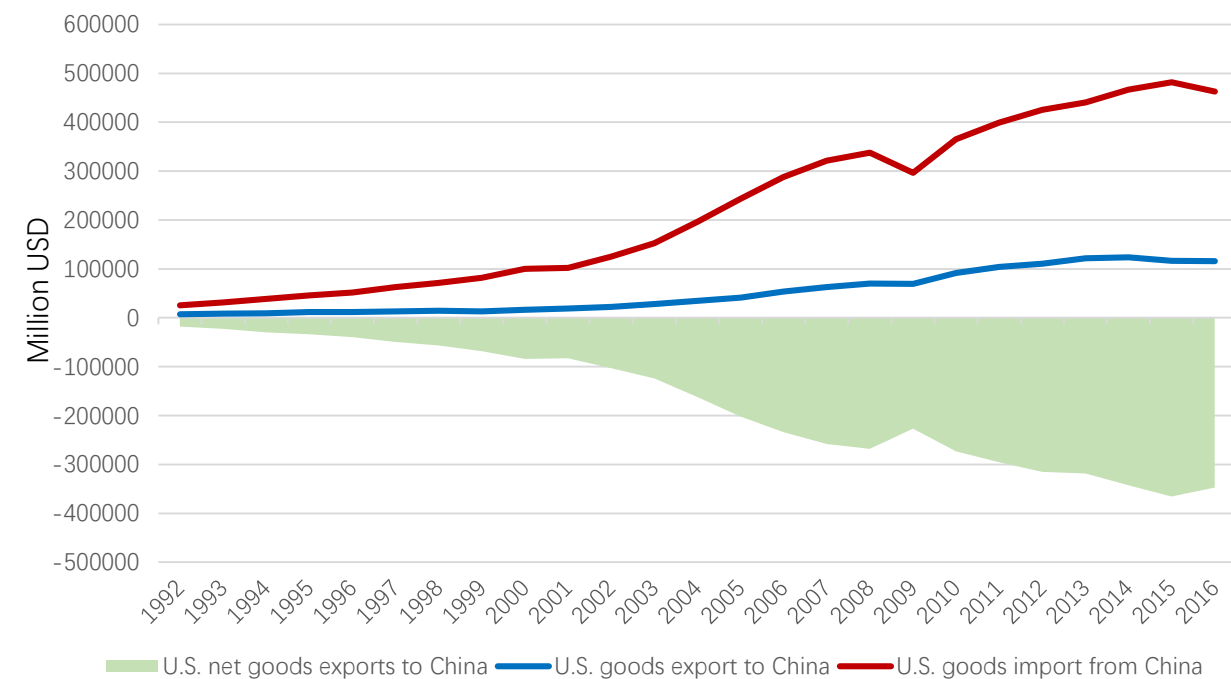
2. Major exporting countries and regions of United States in 2016



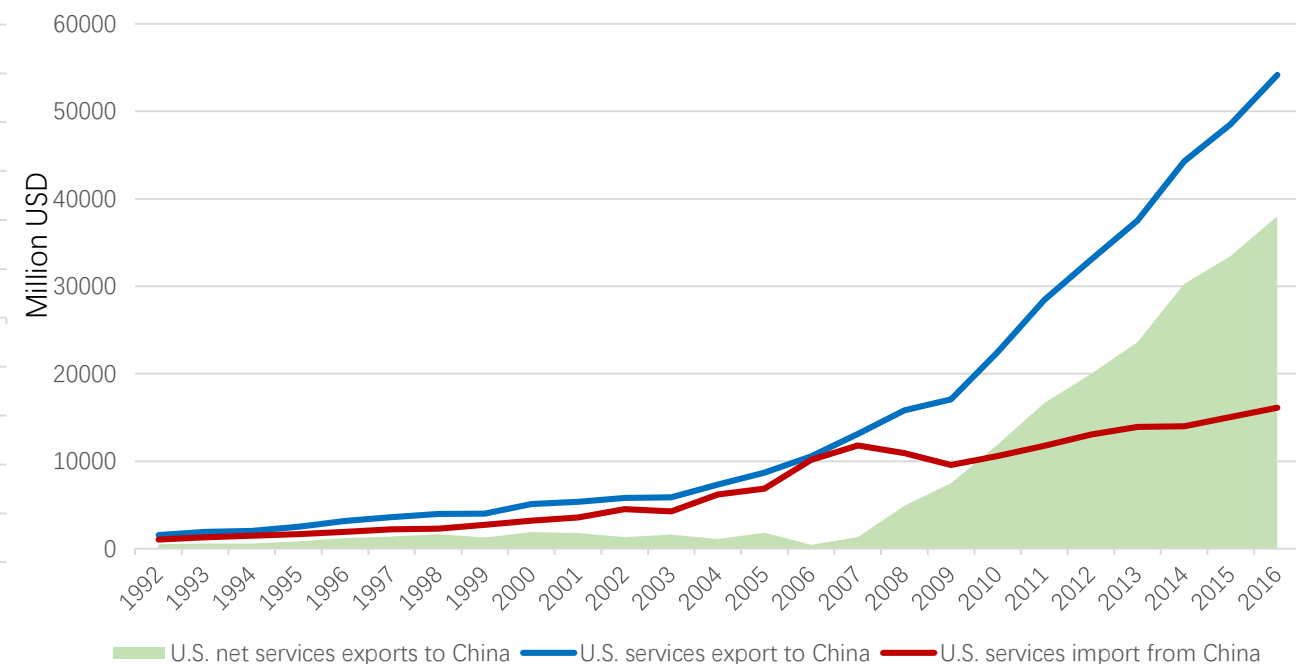
- The US is China's largest trade partner.
- China is the third largest trade partners of the US (next to Canada and Mexico).

China Has Surplus in Goods and the US Enjoys Surplus in Services

1. Goods Trade between China and the United States



2. Service Trade between China and the United States

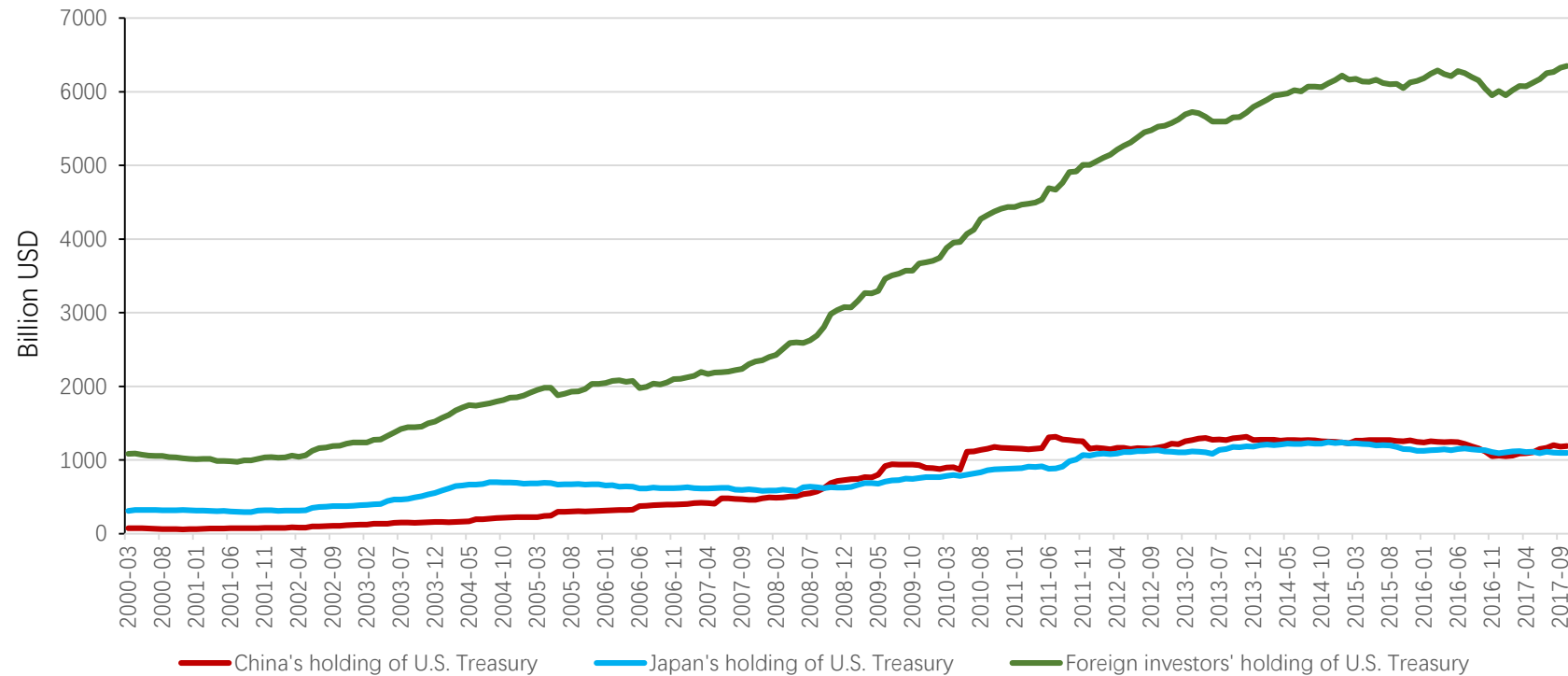


- While China has a sizable trade surplus in goods, the US has a significant and rapidly growing surplus in services.

Direct Investment and Capital Flows

China Is the Largest Credit Country for the US Government

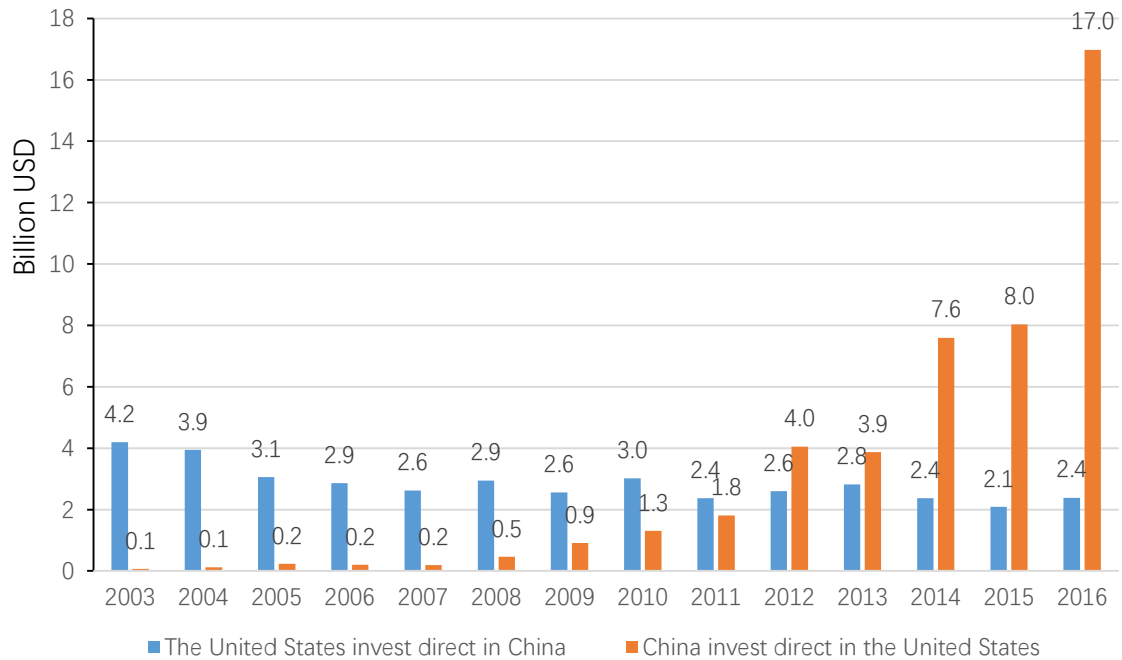
1. Foreign investors' holding of U.S. Treasury



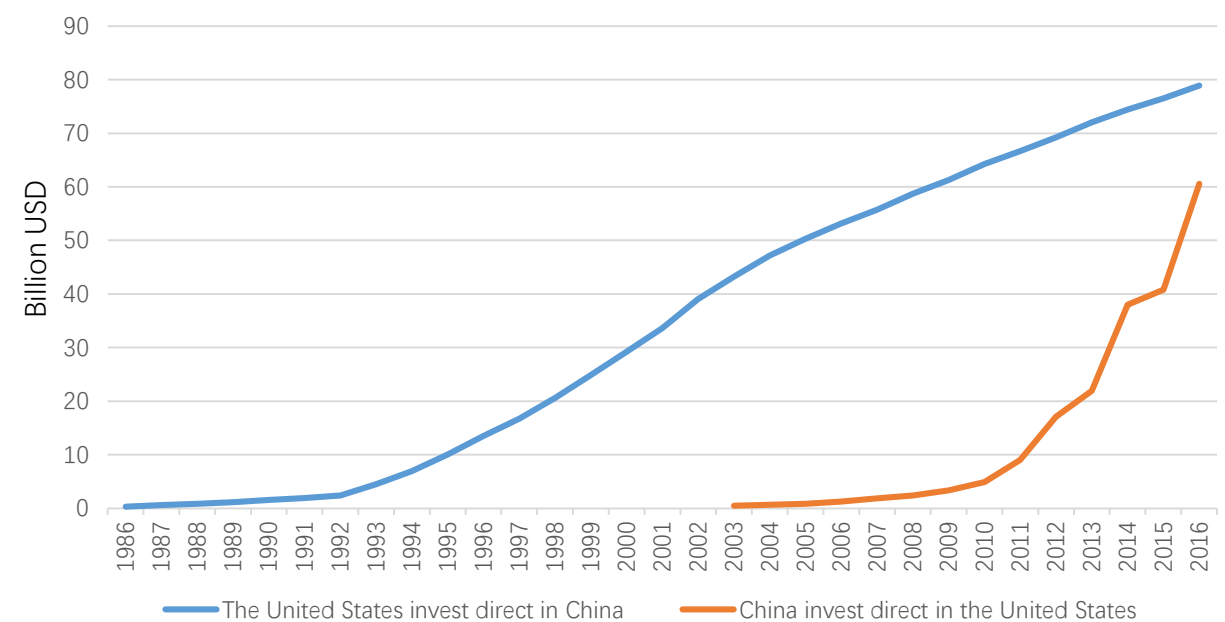
- As of October 2017, foreign investors held 6.35 trillion USD of the treasury bills, of which China held 1.19 trillion USD, accounting for 18.7%.

China's Investment in the US Outpaced US Investment in China

1. Flow of Direct Investment



2. Cumulated Direct Investment: 1986 to 2016



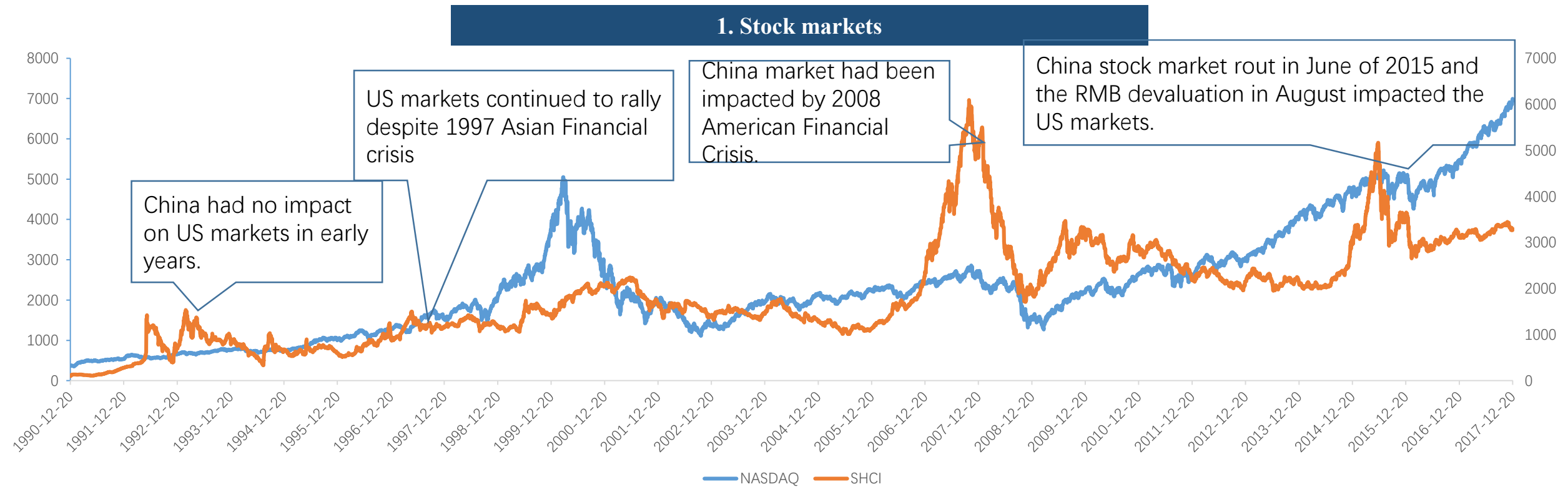
- As for bilateral direct investment, China outpaced the US in 2012 and continued to grow rapidly thereafter. China invested about USD 17 billion in the US in 2016, up by 111.5% yoy, while the US invested USD 2.4 billion in China, growing by 14.2%.
- On a cumulative basis, however, the US has had tremendous investment in China.

Great Opportunities for US Investment Following the Recent Opening-up of China's Financial Industries

2. Foreign shareholding limits in financial services to be relaxed

Industry	Current Rules	New policy
Banks and financial asset management	Single foreign shareholding is not be allowed to exceed 20% , and total foreign shareholding is not be allowed to exceed 25%.	Unrestricted
Securities	Foreign investors will not be allowed to own more equity as much as 40%.	Foreign investors will be allowed to own more equity as much as 51% in securities, fund management and futures companies. The cap will be removed after three years from the effective date of such detailed implementation rules or regulations. This means foreign managers may use a WFOE structure to implement their retail strategies in the PRC in the future.
Fund management	Foreign investors will not be allowed to own more equity as much as 40%.	
Futures	Controlled by the Chinese parties	
Insurance	Foreign investors will not be allowed to own more equity as much as 50% in life insurance corporation.	After three years from the effective date of such detailed implementation rules or regulations, foreign investors will be allowed to own up to 51% equity in life insurance companies, with the cap removed in five years.

Increased Correlations Between China and the US Financial Markets

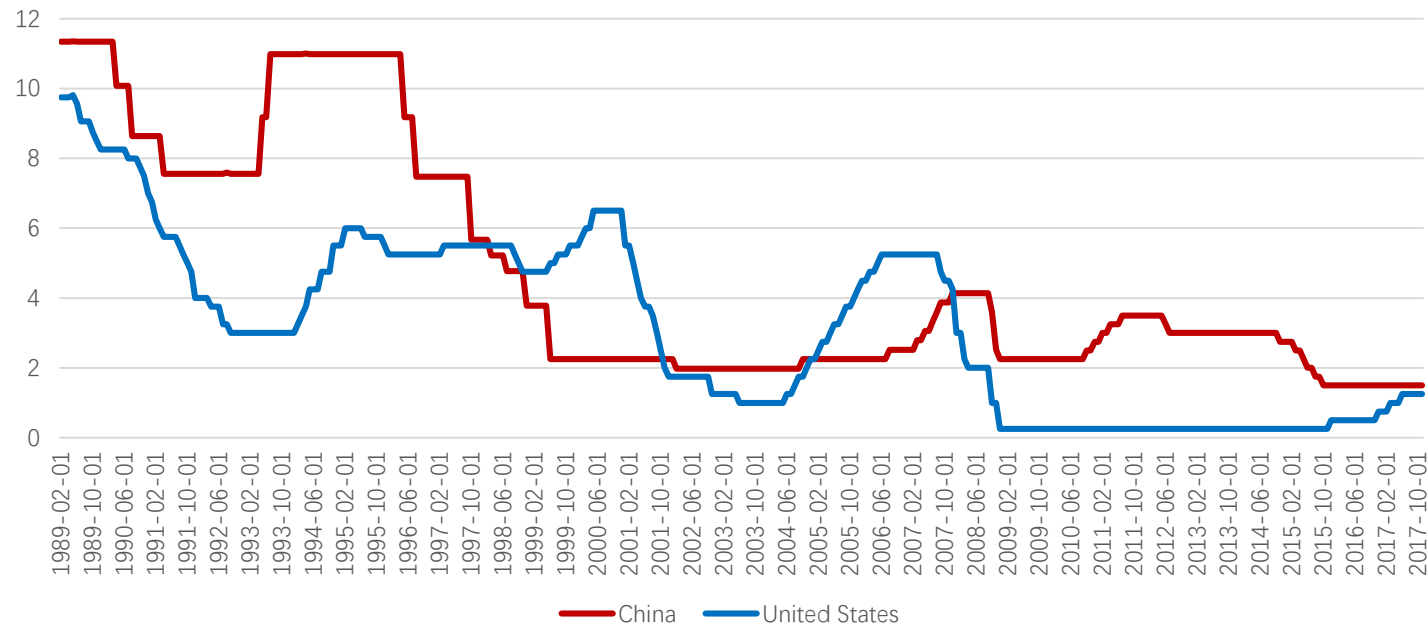


- In the early 1990s China's market volatilities has not impact on the US. The US financial markets continued to rally during the Asian financial crisis. Nevertheless, the US markets responded to the 2015 China stock market rout and the exchange rate devaluation.

Impact on China of US Policy Changes

Increasingly Synchronous Monetary Policy Stance

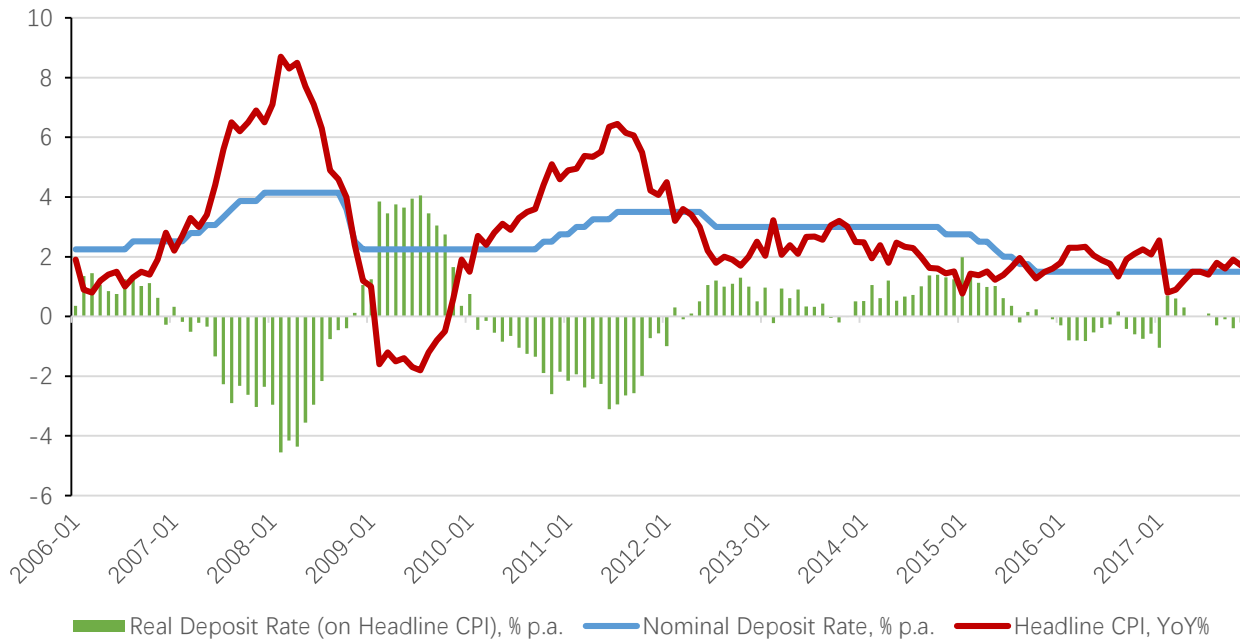
1. benchmark interest rate



- China's interest rate policy has been increasingly in sync with the US in the recent years.
- Expected US rate hikes and monetary normalization in the near term would be somewhat responded by China's policy changes.

China's Real Interest Rates Are Negative

1. China's Real Deposit Rate



2. China's Real Lending Rate



- As of November 2011, China's one-year real lending and deposit rates were -1.45% and -0.2%, respectively, leading to rapid expansion of debt and shadow banking activities.

Fiscal Policy—Implication for China of US Tax Cuts

1. Tax Rate

Country or Region	Total Tax and Contribution Rate	Time to comply	Number of payments	Post-filing Index Score
China	67.3%	207 hours	9	49.1
India	55.3%	214 hours	13	49.3
Germany	48.9%	218 hours	9	97.7
Russian Federation	47.5%	168 hours	7	73.1
Japan	47.4%	151 hours	14	71.7
United States	43.8%	175 hours	11	94
Taiwan, China	34.3%	224 hours	11	63.2
United Kingdom	30.7%	110 hours	8	71
Hong Kong SAR, China	22.9%	72 hours	3	98.9

- Tax accounts for 67.3% of profits in China, according to the World Bank, compared to 43.8% in the US (before the tax cuts).
- The newly enacted US tax reform is expected to boost US corporate competitiveness, attracting capital flows into the US, including from China.

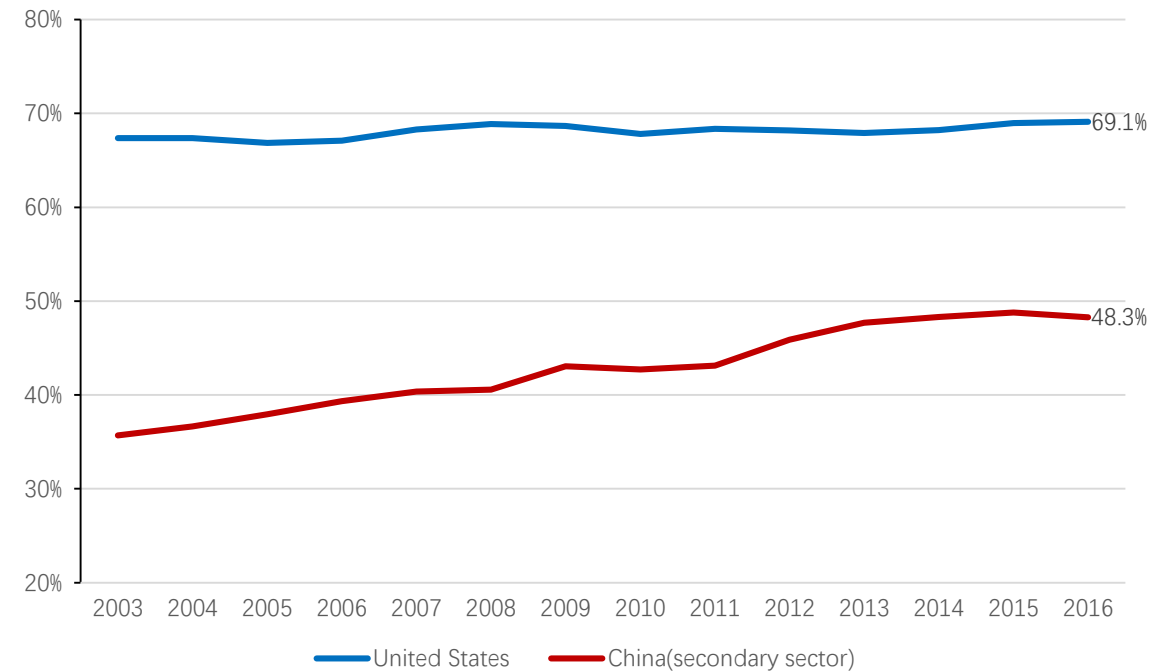
China and US Economic Complementarity and Competition

China's Labor Cost is Low despite Increases in Recent Years

1. Productivity Growth, yoy

	United States	China(secondary sector)
2004	4.7%	12.9%
2005	4.5%	11.5%
2006	3.7%	11.4%
2007	2.3%	13.6%
2008	1.8%	16.3%
2009	1.0%	4.1%
2010	4.5%	15.5%
2011	1.8%	14.8%
2012	2.5%	4.5%
2013	1.4%	7.4%
2014	2.2%	6.3%
2015	1.8%	3.4%
2016	1.1%	6.6%

2. Labor Share



- Even though the productivity growth of China is decreasing, it is still higher than the growth of the United States.
- In 2016, China's labor share is 48.3%, while the United States is 69.1% .

China's Leading Field

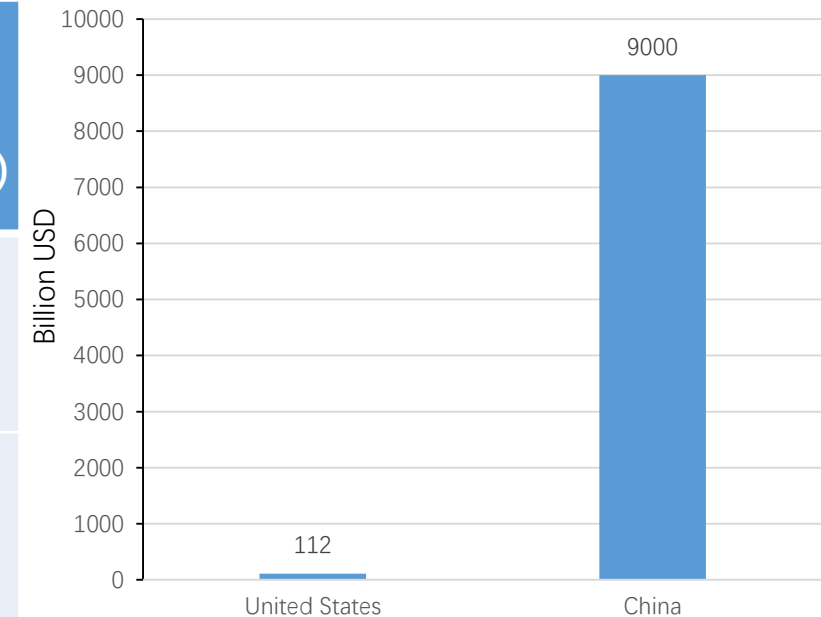
1. Scale of online retail

Country	Scale of online retail (billion USD)	Share of global market	Online retail/ Total social retail
China	750	40%	12.6%
United States	312.1	16.60%	8%
United Kingdom	150	8%	-
Japan	90	4.80%	7%

2. Railway

Country	Maximum speed (km/h)	Ordinary rail (km)	High-speed rail (km)
China	350	124000	22000
United States	260	226427	0

3. Scale of Mobile Payments



- In 2016, China's online shopping scale (excluding services) reached 750 billion U.S. dollars, accounting for 40% of the global market share.
- China has become a world leader in high-speed rail.
- Though the U.S. had \$112 billion of mobile payments in 2016, such payments in China totaled \$9 trillion.