Testimony before the U.S.-China Economic and Security Review Commission

Hearing on China's Internal and External Challenges

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China is currently undergoing a difficult period of economic transition, marked by strong concerns about the country's growth model and the resiliency of its financial system. The domestic economy is still in the process of rebalancing, leverage ratios are high among corporations and local governments, and the financial sector is failing to allocate credit efficiently. At the same time, economic tensions with the United States are proving to be a significant drag on domestic sentiment. Addressing this array of challenges, will require difficult structural reforms that will take time to implement. However, these problems are not intractable and China's economic policymakers and financial regulators are generally well-informed and capable. If China succeeds in pushing though the necessary reforms, it will lay the groundwork for a period of more sustainable economic growth and development.

Progress of Economic Rebalancing

External Rebalancing: After the global financial crisis, China underwent a sharp external rebalancing. As shown in Figure 1, China's current account surplus as a percentage of gross domestic product (GDP) declined from in excess of 10% of GPD in the mid-2000s to -0.04% by the end of the third quarter of 2018. Though China runs large bilateral surpluses with certain countries, notably the U.S., overall, China's trade with the rest of the world has become significantly more balanced. Correspondingly, China's accumulation of foreign exchange reserves has slowed dramatically and continues to decline relative to the country's GDP.

Internal Rebalancing: China's internal rebalancing has been less dramatic. In the wake of the global financial crisis, China unleashed a large investment-driven stimulus. In the process, China was able to preserve a robust rate of economic growth during a period of collapsing global demand. Much of this stimulus occurred via the banking system, leading to a rapid expansion of the formal banking system and a burgeoning shadow banking system – a blanket term to describe financial activities that fall outside the well-regulated areas of the financial system.

Chinese policymakers have recognized the unsustainable nature of the country's growth model for many years now. Former premier Wen Jiabao frequently remarked that the country's growth was "unbalanced, uncoordinated, and unsustainable."[2] Nonetheless, China's investment has remained elevated for a variety of reasons ranging from a high savings rate, relatively lax credit conditions, structural biases towards the

[1] The views discussed in this testimony are those of the author and are not those of Seafarer Capital Partners. The views expressed represent an assessment of market conditions at a specific point in time, are opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. Such information does not constitute a recommendation to buy or sell specific securities or investment vehicles. Seafarer Capital Partners does not accept any liability for losses either direct or consequential caused by the use of this information.
[2] International Monetary Fund, "IMF Survey: China's Difficult Rebalancing Act," 12 September 2007. https://www.imf.org/en/News/Articles/2015/09/28/04/53/socar0912a

industrial sector, and a nationwide infrastructure campaign that is amongst the most dramatic in human history.

Recent economic data show that China's efforts to promote internal rebalancing are starting to gain some traction. On the demand side of the economy, rebalancing is indicated by the growing importance of consumption as a share of GDP, as shown in Figure 2. Consumption is now a significantly larger portion of GDP than investment, and net exports have detracted from economic growth in most years. On the supply side of GDP, the service sector has similarly eclipsed the industrial sector as the main driver of growth, as shown in Figure 3. These trends seem likely to continue, but they are progressing at a pace that means internal rebalancing will be more gradual than what has occurred on the external front. The desire of Chinese policymakers to move away from the previous unsustainable economic model is evident, but it is hampered by a financial system that structurally prefers to make loans to large (often industrial) state-owned enterprises (SOEs) and an emphasis by both the central and local governments on developing infrastructure to boost growth.

Supply-Side Structural Reforms: In recent years, China's key economic policies have derived from a framework called Supply Side Structural Reform. 2015 was a pivotal year for the Chinese economy in which many economic problems came to a head. Risks in the financial system and property market appeared to be reaching a breaking point, the stock market collapsed and required a massive intervention by the government, and currency devaluation triggered large capital outflows. In this context, Supply Side Structural Reform emerged as a response to the immediate and pressing risks within the economy as well as a plan to revitalize economic growth.

Supply Side structural reform is often described as having five main overarching policy goals. These goals are:

- Cutting excess industrial capacity
- Reducing excess housing inventory
- Cutting excess leverage
- Reducing the cost of doing business
- Strengthening weak points in the economy

Cutting excess capacity has focused on a variety of industries, including steel, coal, cement, aluminum, copper, glass and others. Policies have aimed at reducing excess investment, improving capacity utilization, shutting down underused plants and factories, and decommissioning "zombie enterprises."[3] These efforts have progressed relatively slowly as they touch upon many thorny domestic political issues, such as employment, recognition of bad debts, and local government finances. The enforcement of these policies may have also fallen disproportionately on private enterprises, as opposed to well-connected state-owned firms.

Reducing excess inventory is targeted towards eliminating high levels of housing stock within the property market. A major thrust of the policy has been to address problems in lower-tier Chinese cities where problems have been most acute. Across the entire national property market, policymakers have sought to reduce over-investment in housing, curb rapid price increases, and force deleveraging among real estate developers.

Cutting excess leverage is aimed at managing risks in the financial system. The policy aims to reduce corporate leverage, particularly amongst highly-indebted SOEs and zombie enterprises. Deleveraging is to

[3] Zombie enterprise is a term used to refer to companies with recurring losses and limited prospects for returning to profitability. Zombie enterprises are able to continue operating through access to borrowing from banks and financial support from local governments.

be achieved through a series of new policies, including debt-for-equity swaps, debt restructuring, mergers and acquisitions, expanding equity financing channels, and tighter credits conditions across the economy.

Reducing corporate costs refers to a series of tax reforms, tax cuts, procedural simplifications, and financing cost reductions aimed at improving China's business environment. These policies are especially beneficial for small and medium enterprises and the private sector.

The final component of the supply-side structural reforms is strengthening "weak points." This refers to a desire to boost China's innovative capacities and develop indigenous sources for core technologies. These efforts are supported through initiatives like the Made in China 2025 plan.

Impact of the Trade War

As of present, the effect of the trade war has been exaggerated and the actual economic impact on China's economy has been limited. As seen in Figure 4, China's exports grew robustly throughout 2018, although the trade numbers did display some weakness. While the growth of trade may be driven in part by accelerated orders (to avoid anticipated U.S. tariffs), it also reflects China's increasingly diverse trade relationships. The U.S. is undoubtedly still a large market for China, but it only accounts for around 20% of China's exports. Underpinned by initiatives like the Belt and Road, Chinese exports to emerging and frontier markets are expanding rapidly. If the next round of U.S. tariffs are put into effect, it is possible that the direct effect of the trade war on China will become more pronounced.

The trade war has had a large impact on China's equity markets. These markets reacted sharply to the twists and turns of trade negotiations as well as a series of dramatic escalations in tensions between China and the U.S. The events included the imposition of U.S. sanctions on the ZTE Corporation in April; the breakdown of trade talks in May; the imposition of new tariffs in July, August, and September; the Bloomberg Supermicro hack story in October; and the arrest of Huawei executive Meng Wanzhou in December. More so than the direct impact of tariffs, Chinese investors appeared to be rattled by the prospect of a long-term shift towards a more contentious relationship with the U.S. By the end of the year, China earned the ignominious award of the world's worst performing major stock market.

The Structure of China's Internal and External Debt

Structure of Debt: China has a high leverage ratio for an emerging economy and overall debt levels have grown quickly since the global financial crisis. As shown in Figure 5, China's overall credit-to-GDP ratio is 253% as of June 30, 2018. This compares to an average of 183% for emerging markets, 267% for advanced economies, and 249% for the United States.[4]

China's debt stands out for several reasons: it's much closer to levels in advanced economies than the typical emerging market; the debt has grown rapidly over the past 10 years (80% relative to GDP over the past 10 years); and it is clustered amongst corporate borrowers (around 60% of the total).

Corporate debt is the largest debt category for China at $20.3 trillion. China is an outlier in terms of corporate debt, posting numbers that are amongst the highest for any major country relative to the size of its economy. In contrast, household and government debt are more modest, accounting for $6.6 trillion and $6.2 trillion, respectively. China's government debt levels rank in the lower-tier for emerging markets; for household debt, China is in the mid-tier after several years of rapid borrowing by consumers.

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[4] Bank for International Settlements, "Credit to the Non-Financial Sector," 16 December 2018. https://www.bis.org/statistics/totcredit.htm

Local Government Debt: The rapid growth of local government debt in China is a potential threat to the country's financial stability. At the root of the debt problem is a severe fiscal imbalance that is driven by domestic politics. Local governments are responsible for the majority of total government expenditures but receive less than half of revenues. While the central government transfers some of the funds it collects back to the local governments, it is not enough to cover the ever-growing fiscal demands placed on these local authorities. Rebalancing the distribution of revenues is deeply political as it means a loss of power and control for the central government relative to the local governments.

Given the persistently large fiscal gap facing local governments, they have continuously sought ways to borrow, even if it contravenes central government rules. The most notable example of this is the proliferation of local government financing vehicles (LGFVs). These entities constitute a special purpose vehicle set up by local governments and are often capitalized with land. After the global financial crisis, LGFVs borrowed tremendously on behalf of local governments and financed a wide variety of investments on their behalf.[5]

Fiscal reform has been a consistent priority for the central government in recent years, and a modest amount of progress has been made. In response to the explosion in borrowing by LGFVs, the government took action to limit their access to credit and at the same time provide new legitimate avenues for borrowing to local governments. In 2014, the central government began a pilot program to allow local governments to directly issue debt. The following year, a swap program was created that allowed local governments to issue bonds and use the proceeds to retire bank debt. As of the end of 2017, over $1.6 trillion in bank loans had been swapped into bonds. The number of local governments allowed to participate in bond issuances has expanded in recent years, leading to the creation of a large municipal bond market in China.

Explicit local government bonds are around $2.7 trillion and LGFVs have around $1.4 trillion in bonds.[6] This compares to around $2.3 trillion in central government debt. There are still significant amounts of off-balance sheet debt, often hidden through the guise of public-private partnerships and LGFVs with implicit guarantees from local governments. China's underlying fiscal problems have not been solved and will continue to be a source of financial risk and distortion.

External Debt: Claims about the size of China's external debt vary significantly. Some analysts put the figure at as much as $3 trillion U.S. equivalent, nearly as much as China's entire foreign exchange reserves. If these figures are correct, China is highly reliant on foreign borrowing and a devaluation of the renminbi could have disastrous consequences. However, to understand the true extent of the risks, it is necessary to look at both the total amount of debt and the composition of borrowers.

According to the official statistics from the State Administration of Foreign Exchange, China has around $1.91 trillion external debt as of September 30, 2018. Importantly, external debt measures all claims on Chinese borrowers from abroad, even those in renminbi. Around 35% of this external debt is denominated in renminbi, leaving around $1.24 trillion in foreign currency debt, most of which is denominated in U.S. dollars. Figure 6 shows the share of China's gross external debt in all currencies owed by banks, corporates and NBFIs, the central bank, the government, and intercompany lending.

External Bank Debt: Chinese banks account for nearly half of China's external debt, around $900 billion. However, there are several mitigating factors which reduce the riskiness of this debt. First, more than half

[5] Logan Wright and Daniel Rosen, "Credit and Credibility: Risk's to China's Economic Resilience," Center for Strategic and international Studies. October 2018. https://csis-prod.s3.amazonaws.com/s3fs-public/publication/181003_CreditandCredibility_final.PDF
[6] State Administration of Foreign Exchange. The Time-Series Data of China's Gross External Debt by Sector. Accessed 15 January 2018. http://www.safe.gov.cn/en/2018/0329/1412.html

of the external debt of Chinese banks is in the form of currency and deposits. Deposits are generally a stable and low-cost form of financing. Second, the amount of external debt held by Chinese banks needs to be balanced against their external assets. Over the past few years, Chinese banks have emerged as large overseas lenders. This boom in overseas lending is driven by the Belt and Road initiative and by Chinese firms expanding abroad. As of September 2018, Chinese banks have a net positive external debts equivalent to $50 billion. The risks from the external debt owed by Chinese banks are lessened by the fact that, as a whole, they are larger lenders than borrowers.

External Government Debt: Another $229 billion and $40 billion of China's external debt is linked to the government and the central bank, respectively. Most of the increase in the government's external debt has come via greater purchases of renminbi-denominated government debt by foreign investors via the Bond Connect and other channels. The Ministry of Finance (MoF) has also issued some U.S. dollar debt in Hong Kong in order to improve the yield curve for offshore borrowing by Chinese corporates. The government's external debt is low risk because it is mostly denominated in renminbi and represents a small portion of its total balance sheet – around 10%. The People's Bank of China (PBOC) has external debt in the form of outstanding foreign currency, special drawing rights (SDR), and a few other small items. These amounts are dwarfed by the central bank's more than $3 trillion in foreign exchange reserves.

External Corporate Debt: Chinese corporates and non-bank financial institutions (NBFIs) have over $500 billion in external debt. This is a large amount, but it is tempered by the fact that 59% of the debt is in the form of trade credit, which tends to be relatively low risk because it is linked to the sale of goods. Only 13% of the total is accounted for by the riskiest type of borrowing, short-term loans and bonds. Some of this short-term borrowing may be to support working capital needs and therefore is not particularly worrying. While there may be clusters of risks among certain borrowers, Chinese companies and NBFIs are generally not reliant upon foreign financing. The $521 billion in external borrowing is equal to less than 3% of the total credit extended to non-financial corporations. External borrowing is not an important source of finance for most Chinese companies.

Cross-Border Intercompany Lending: The final category, intercompany lending, accounts for around $230 billion of China's external debt. Intercompany lending is classified as a type of foreign direct investment and consists of debt liabilities to subsidiaries and affiliated companies. An example of this type of activity would be a Chinese company issuing debt securities via offshore entities and then transferring the proceeds to their onshore parents via intra-company loans. Assessing the risks of this type of lending is difficult because the information regarding the terms and conditions of the debt is often not made public. The risks may be lower in some cases because the debt is owed within a corporate group and therefore more likely to be restructured if necessary. The more significant risk may be held by the offshore subsidiaries who are directly exposed to foreign investors.

While much of China's foreign debt is less risky than it initially appears, the aggregate amounts are still quite large. The Bank for International Settlements tracks foreign currency debt by non-bank borrowers across a variety of emerging markets. In this series, China has the largest amount of foreign currency debt by a wide margin. A sense of proportion, however, is critical for this type of analysis. The Chinese economy is nearly as large as the rest of the economies in the chart combined. When shown as a percentage of GDP, as in Figure 7, borrowing by Chinese companies is revealed to be significantly below the levels seen in other emerging markets.

The Probability of a Crisis and Economic Resiliency

Probability of a Crisis: The likelihood of a significant debt crisis in China is small, but it cannot be fully discounted. The vast majority of the country's debt is domestically held and in renminbi. China therefore

does not face the typical scenario of an emerging market debt crisis – a sudden devaluation that leads a default on foreign currency borrowing.

Financial risks in China center on high levels of corporate debt, both on and off-balance sheet. Many Chinese companies, particularly SOEs, are highly indebted. These companies have large ongoing debt servicing requirements and are dependent on liquidity within the banking system to rollover their debt loads on a frequent basis. Both of these corporate debt categories could come under stress during a protracted economic downturn.

Localized Defaults Scenario: The most likely scenario for a debt crisis in China would be a spate of corporate defaults in one of China's less prosperous regions. This would, in turn, put pressure on the balance sheets of that region's smaller banks. Faced with rising non-performing loans, these banks might then pull back on further lending and trigger a financing crunch, leading to additional defaults. If left unchecked, this type of negative feedback loop could grow to the point where it inflicts significant economic damage.

While possible, this scenario is dependent on an ineffective response from policymakers to the problem. Thus far, both the central government and local governments have been quick to provide support when pockets of financial stress have emerged. Some regions of China are facing severe economic pressure but have not yet produced the kind of spiraling debt crisis envisioned above.

Real Estate Downturn Scenario: Another unlikely, but potentially more severe scenario would involve a large downturn in the housing market. The property market plays a central role in the Chinese economy, serving as a major source of funding for local governments, an important source of collateral for borrowing by companies and sole proprietorships, and the largest store of household wealth. A generalized real estate downturn could put pressure on all these areas at the same time, leading to diminished local government spending, a deterioration in loan quality, and a decline in consumer spending.

The overall direction of government policy towards the housing market over the past several years has been a series of measures designed to curtail excessive investment, reduce demand and limit price appreciation. Given this context, the government has many tools available to boost activity in the housing market, making a generalized real estate downturn unlikely under current conditions.

Economic Resiliency: The Chinese economy is currently undergoing a test of its economic resiliency as policymakers attempt to balance the goals of deleveraging and rebalancing against the risks of a weakening economy. Despite a significant correction in the stock market and a general economic slowdown, Chinese policymakers have avoided a return to the old pattern of debt-fueled stimulus and aggressive intervention in the markets. Stimulus efforts have been modest and targeted, and credit growth continues to moderate. It is clear that China's focus on reducing financial risks and restraining the property sector are not being abandoned in order to boost short-term growth.

The deleveraging and financial crackdown campaign that began in 2015 has been successful, almost too much so. In the process of stomping down financial risks, the entire financial system has become unduly risk averse. Many of the shadow banking channels, which served as a lifeline to private businesses, have been reduced or eliminated. At the same time, banks have directed lending flows back towards SOEs because they are perceived as less risky even if they are less productive than private enterprises.

The lack of credit flow to the private sector is having knock-on effects on consumption and investment and is one of the major drags on the Chinese economy.[7] The official response to the private sector financing

[7] Nicholas Lardy, "The State Strikes Back: Then End of Economic Reform in China?," The Peterson Institute for International Economics, January 2019.

crunch has thus far been carefully calibrated as there is desire to avoid returning to the old days of rapid credit growth and accumulating of financial risks. Nonetheless, policymakers have begun implementing a multitude of new targeted measures designed to direct more credit to the private sector.

Over the past several months, the PBOC has been active in formulating new policies to support the private sector. The central bank cut the required reserve ratio four times in 2018 and a portion of the funds released were earmarked for small and medium-enterprise (SME) financing. The PBOC has also announced two separate tranches of 150 billion renminbi ($22.4 billion) in relending and rediscount quotas to support SME lending. Other policies from the central bank include a tax exemption for interest income on loans to certain small borrowers and a new re-lending facility designed to provide discounted financing to financial institutions that lend to private enterprises.

Regulators have given banks window guidance to not increase interest rates on SME loans and to lend more to private enterprises. China's chief banking regulator, Guo Shuqing, even went so far as to suggest quotas for lending to the private sector: one-third of loans to large banks, two-thirds of loans to medium-sized banks, and reaching 50% of all corporate loans over the next three years. Implementation of such a proposal is likely to occur more via moral suasion than through explicit lending targets.

Steps have also been taken to address financing problems in the capital markets. Policymakers have called for simplifying the registration system for bond issuances, and the central bank has put together a guarantee fund to support debt sales by private companies. The restrictions on private share placements are being eased in order to revitalize this source of funding.

China's top leadership is trying through both words and actions to change the perception that the private sector plays second fiddle to SOEs. Both President Xi Jinping and China's top economic minister Liu He have declared "unwavering support" for the private sector. In early November 2018, Xi convened a meeting with private entrepreneurs to discuss issues impacting private firms. During that meeting, Xi acknowledged that the private sector is responsible for most of China's GDP, employment, and technological innovation. He announced several support measures for private firms including lowering taxes, increasing access to finance, leveling the playing field between private firms and SOEs, and protecting property rights. The State Council called upon government ministries and SOEs to promptly pay money owed to private firms. As the economy has slowed, many SOEs have extracted extended payment terms from their private suppliers, increasing the financial stress upon these firms.

The fallout from the deleveraging campaign exposes a fundamental challenge to China's economic resiliency: can China address economic risks without stamping out the private enterprises that have been responsible for so much of the country's growth? The "whole of government" response to the private sector financing crunch is heartening in that it shows a high level of responsiveness to emerging problems. At the same time, there is little evidence yet that the impact of these new initiatives is being felt by many private businesses. Banks have been reluctant to fully embrace these policies because they face the dilemma of being required to reduce risks and yet also make loans to riskier private enterprises at low interest rates. In order to truly level the playing field between private firms and SOEs, difficult reforms are needed. This includes ending the implicit guarantee of government support enjoyed by many SOEs that lowers their credit risk relative to private firms. Only under these conditions can credit begin to flow back to the more productive parts of the economy.

Risks for the United States and Recommendations

U.S. Exposure to China's Financial Risks: The United States has limited but growing direct exposure to China's financial system. Many analysts have catalogued the various financial linkages between the two countries via foreign direct investment, capital market investment, and cross-border banking. These studies

reveal that U.S. financial exposure to China is modest, particularly given the size of the Chinese economy.[8] As such, the potential for direct transmission of financial risks from China to the U.S. is relatively limited.

While direct exposure to China's capital markets is still low, this may change in the near future. Recent policy reforms have led to an upsurge in cross-border portfolio investment. The Shanghai-Hong Kong Stock Connect program was established in 2014 and allows northbound and southbound purchases of the majority of the market cap listed on the Hong Kong and Shanghai Stock Exchanges. A follow-up program, the Shenzhen-Hong Kong Stock Connect, was launched in 2016 and provides foreign investors with access to many of the high-growth technology firms listed in Shenzhen. The aggregate quota for the stock connect programs has been scrapped and capital flows have increased steadily.

There have been corresponding reforms in the bond market that permit greater access for foreign investors. In 2015, foreign central banks and sovereign wealth funds were given direct access to the interbank market, the main venue for bond trading in China. This access was expanded in 2016 to include institutional investors, foreign banks, insurance companies, and securities companies. Altogether, more than 1,000 foreign institutional investors have now invested in the Chinese interbank market. A further opening of the bond market occurred in 2017 with the creation of the Bond Connect program. Similar to the stock connect programs, the bond connect allows cross-border access for investors in Hong Kong and China. China's Qualified Foreign Institutional Investor (QFII) program, which allows access to both the bond and stock markets, has also been recently reformed and expanded.

These capital market reforms have led to greater inclusion of Chinese securities within the major global stock and bond indices. As a result, the many global investors that track these indices will find themselves required to increase their exposure to China. This can already be seen in the significant growth of foreign holdings in Chinese bonds and equities over the past several years, as seen in Figure 8. Given these trends, it is not unreasonable to imagine that China will emerge a significant asset class for foreign investors over time. As such, the potential for the transmission of financial risks will increase significantly.

Recommendations: This is a period of heightened economic tensions between China and the U.S. On a variety of fronts, many American businesses and investors feel that China's economy has become less open and that China's state-directed policies undermine free market norms. These concerns also come at a time when China's commitment to reform and rebalancing are being tested by a weaker economy.

China's economy policymakers and financial regulators are generally very aware of the risks and distortions present across the economy. The deleveraging campaign of the past several years has been effective in reducing financial risks, but it has come at the cost of a less market-driven financial sector. Chinese regulators have significant capacity to resolve pockets of financial stress throughout the system but addressing the problems of moral hazard and implicit government guarantees is more difficult and touches directly upon sensitive political issues. It is also important to remember that in all instances of policymaking in China, implementation is frequently frustrated by local authorities and interest groups pursuing their own agendas.

Countries make economic policies primarily according to their domestic interests and China is no different. However, pressure from the U.S. can be helpful if it is perceived to align with the existing policies and initiatives of Chinese policymakers. It would be very useful for American policymakers to take stock of

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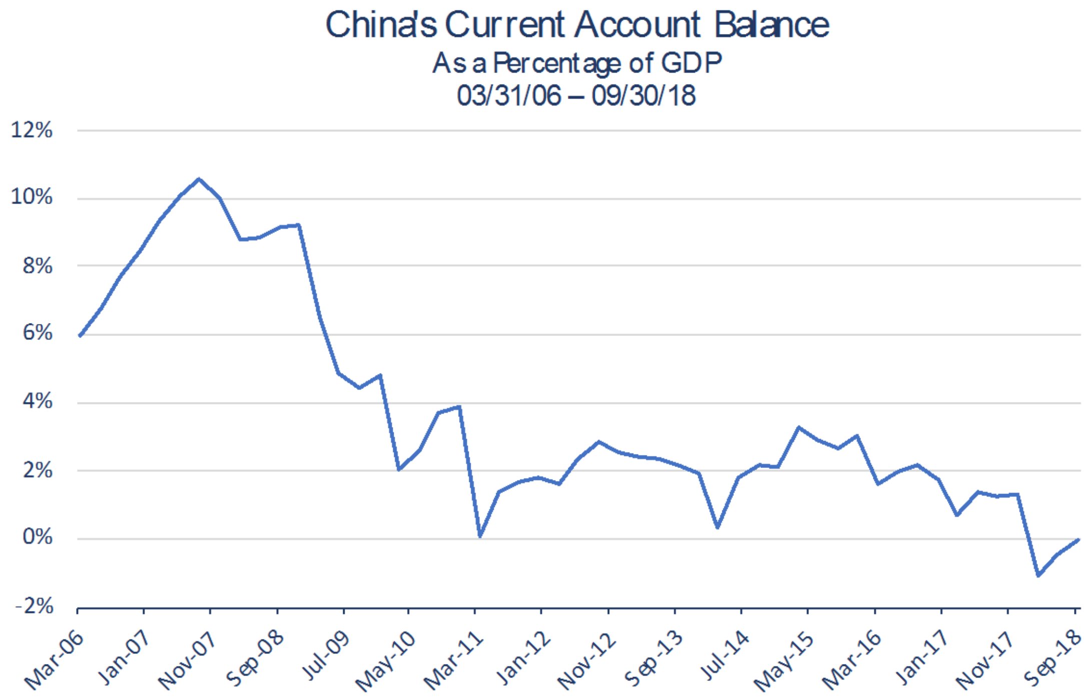
[8] See Cindy Li, "How Does China's Slowdown Impact the United States?," The Federal Reserve Bank of San Francisco, 9 May 2016. https://www.frbsf.org/banking/asia-program/pacific-exchange-blog/how-does-china-slowdown-impact-the-united-states/ and Michelle Ker, "U.S. Financial Exposure to China," U.S.-China Economic and Security Review Commission," 9 May 2017.
https://www.uscc.gov/sites/default/files/Research/U.S.%20Financial%20Exposure%20to%20China.pdf

areas where U.S. demands intersect with existing Chinese reform initiatives. A working familiarity with initiatives like Supply Side Structural Reform would help establish a better framework for negotiation. Fortunately, many of the policies that would be advantageous to U.S. interests overlap with the reforms China needs to successfully rebalance its economy. These reforms include:

- Addressing structural biases that hinder the development of both the private sector and foreign enterprises
- Increasing transparency around the implementation of economic rules and regulations
- Continuing to liberalize the service sector
- Further opening and liberalizing China's capital markets
- Establishing more a more balanced and sustainable fiscal system
- Opening more areas of the economy to foreign investment
- Continuing to adjust the exchange rate regime in a more market-driven direction
- Building a more robust social safety net to encourage consumption
- Allowing loss making state-owned enterprises to be shut down or restructured in a market-driven process

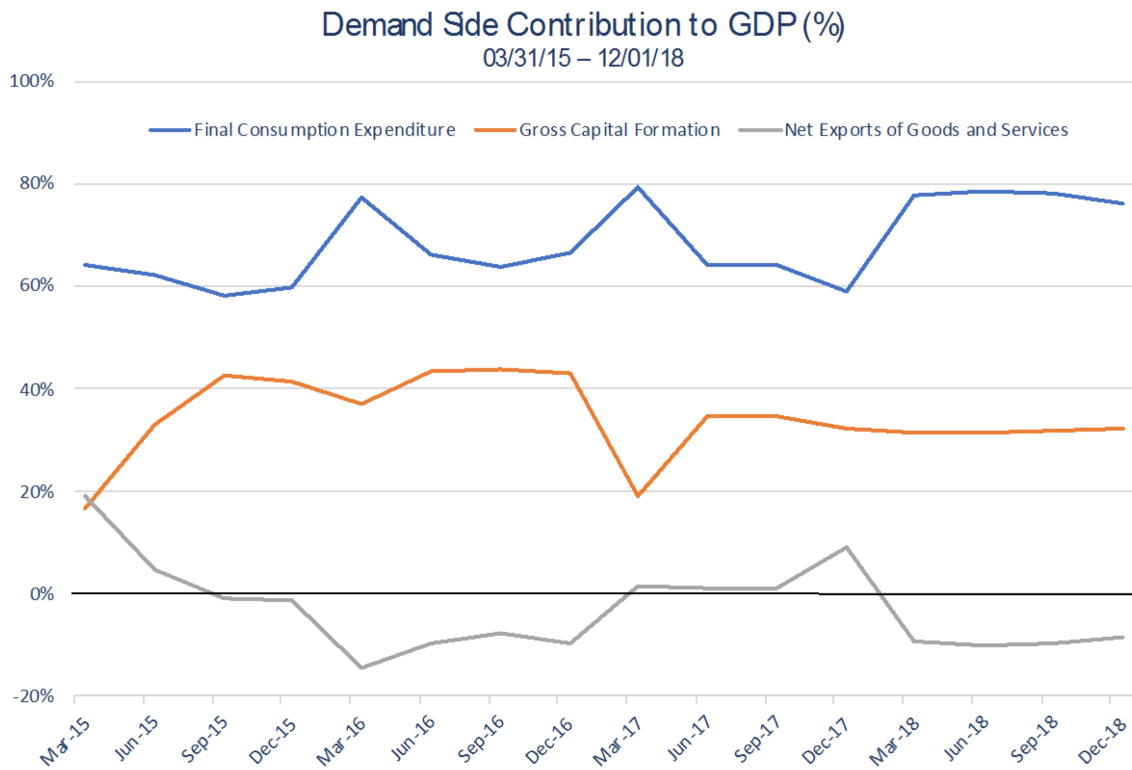
The policies outlined above will help ensure that the Chinese economy continues to make progress towards economic rebalancing. A rebalanced Chinese economy is one that will contribute more to global growth and will be less likely to transmit financial shocks across its borders. At the same time, these reforms will also create more opportunities for American businesses and investors to participate in and benefit from China's economic growth. A rebalanced and more sustainable Chinese economy is strongly in the economic interests of both China and the U.S.

Figure 1:



Source: Wind Information

Figure 2:



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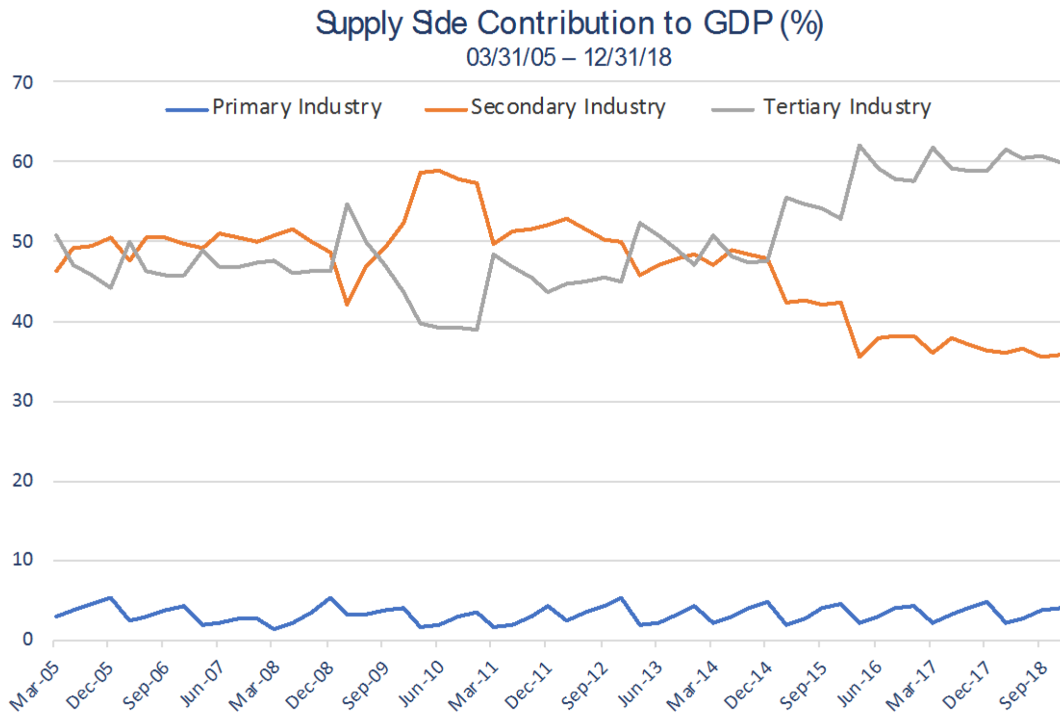

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Figure 4:

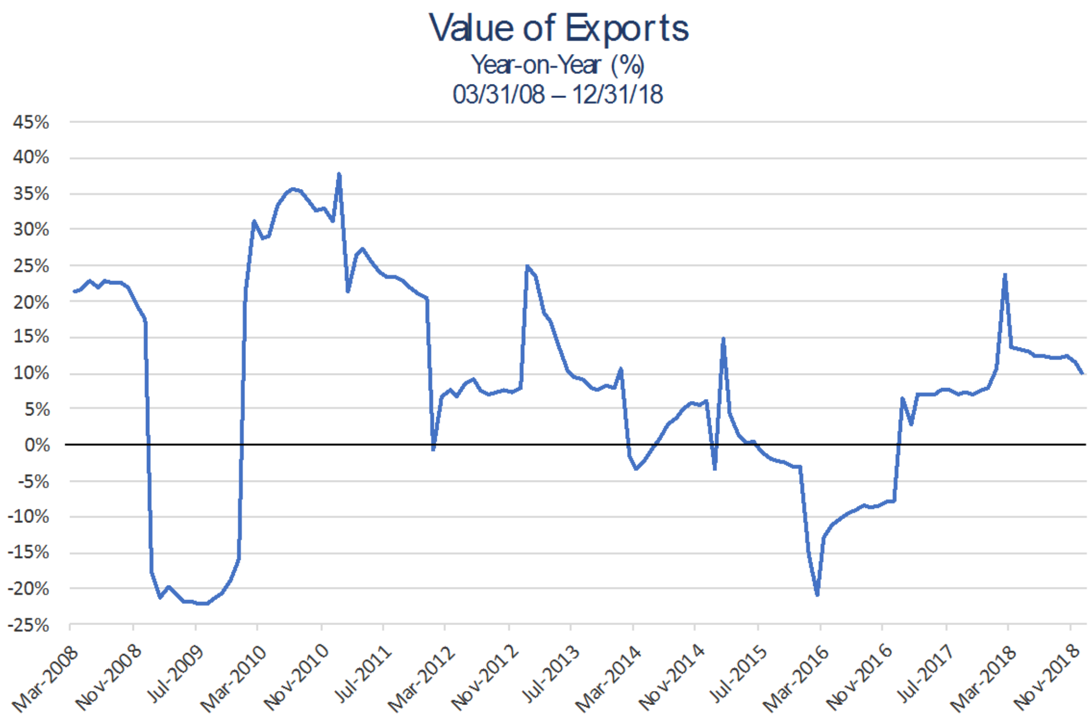

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Figure 5:

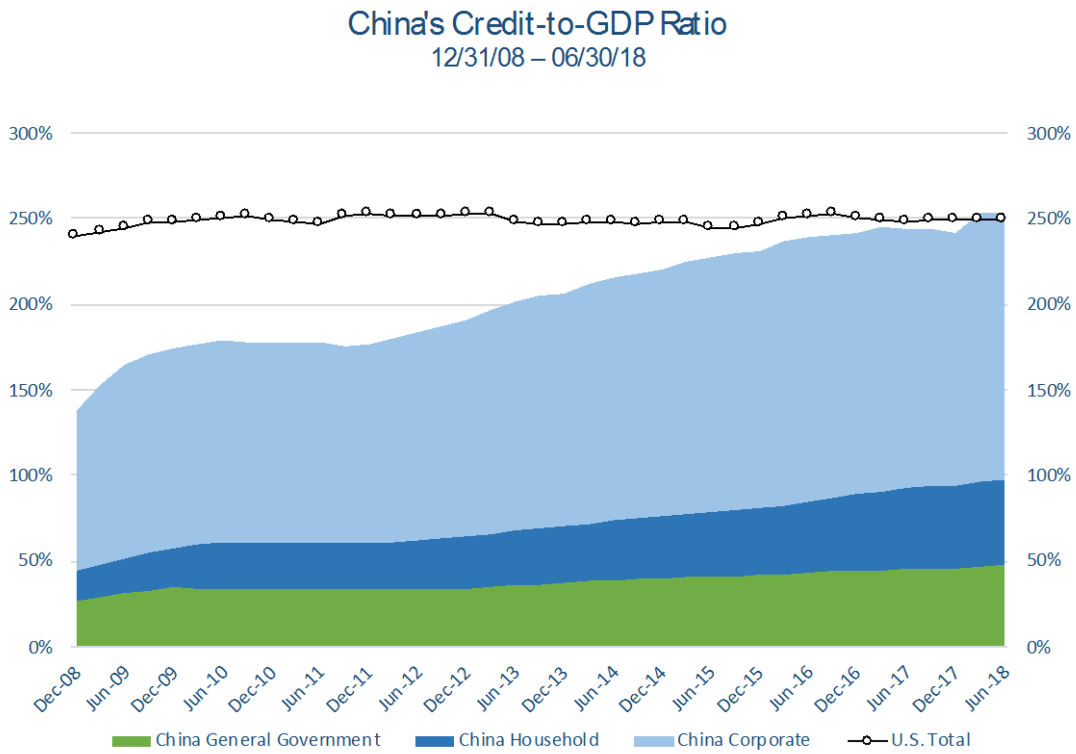

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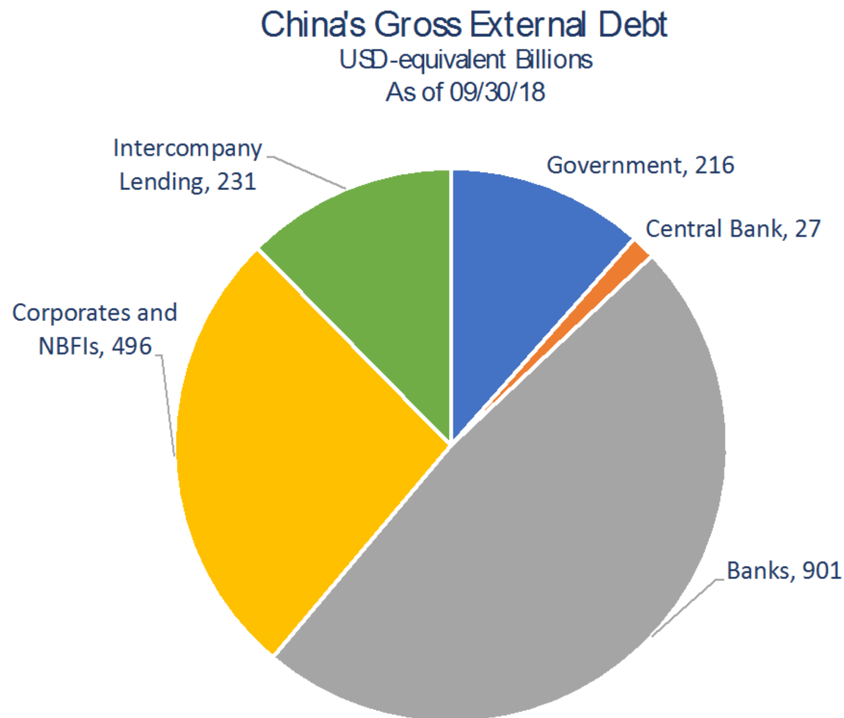
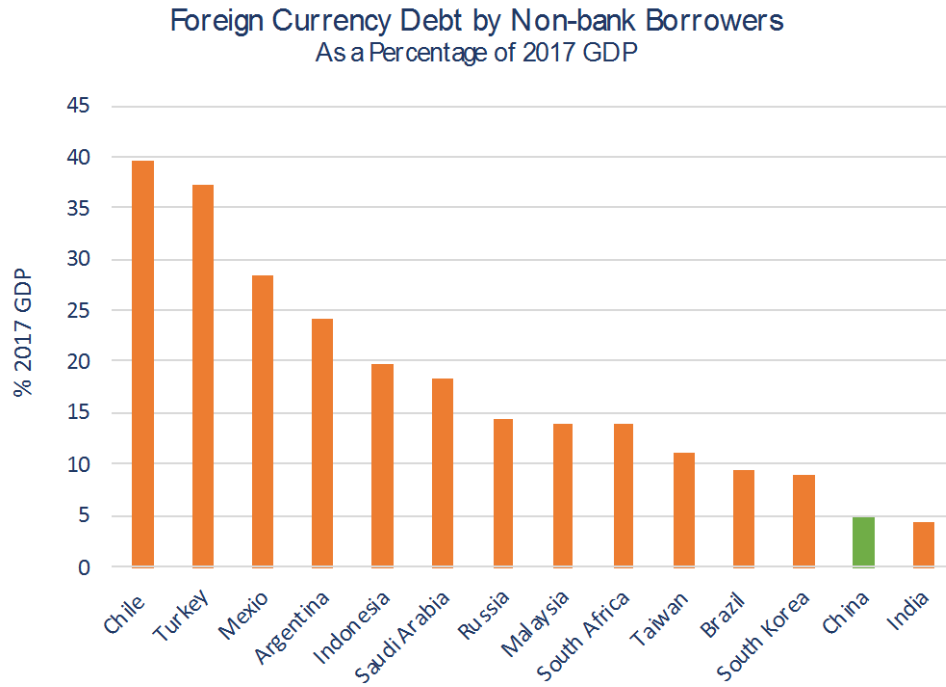
Figure 6:



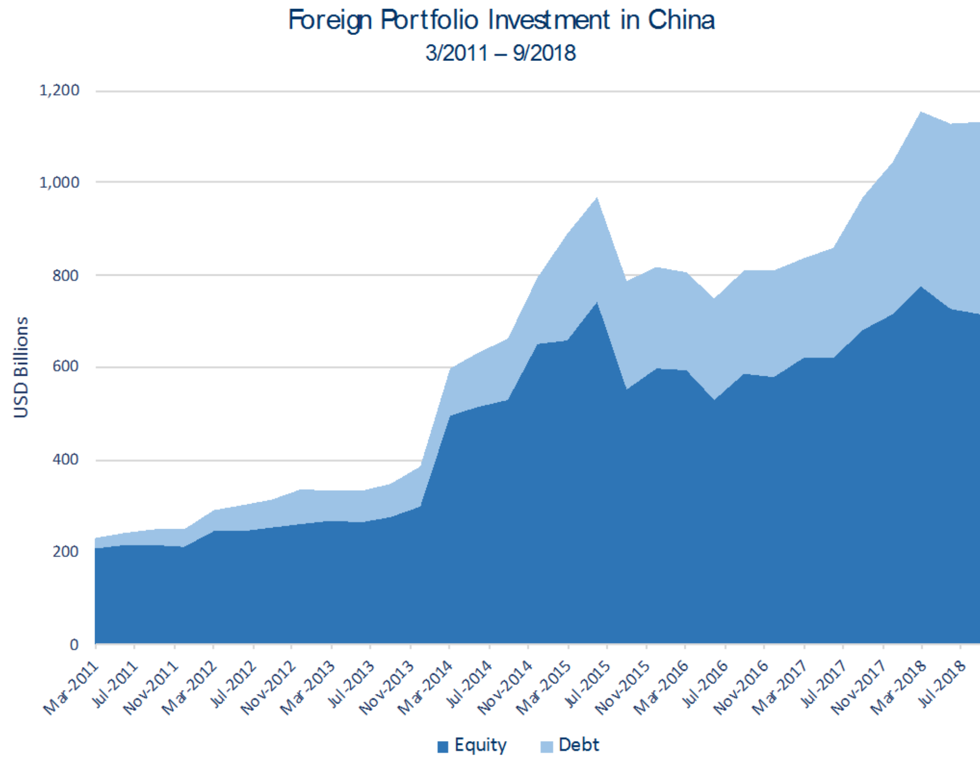
Source: State Administration of Foreign Exchange

Figure 7:



Source: Bank for International Settlements

Figure 8:



Source: Wind Information