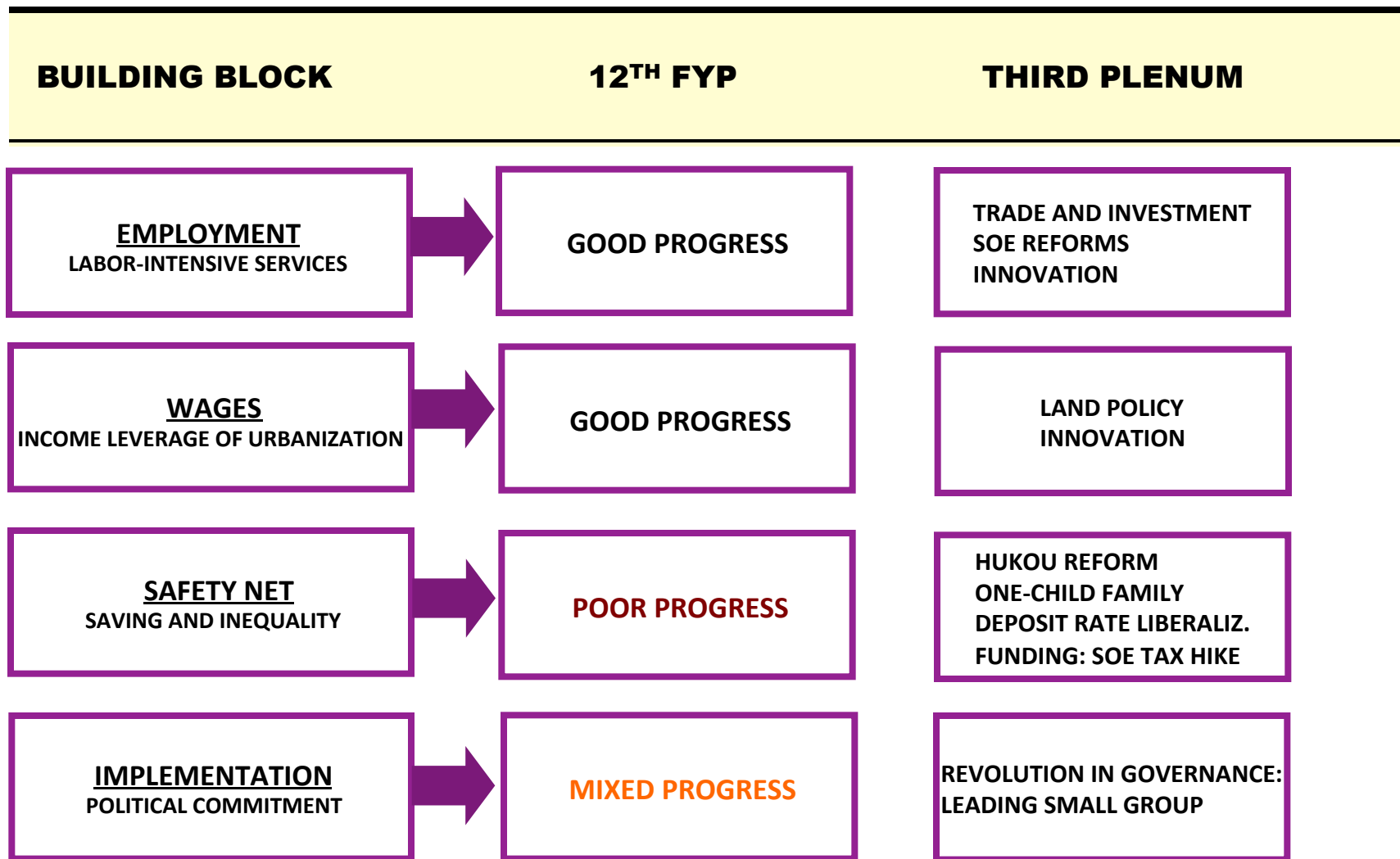


**Charts to accompany testimony of
Stephen S. Roach**

**Before the U.S.-China Economic & Security Review Commission
April 22, 2015
Washington, D.C.**

Figure 1

China's Strategy: Pro-Consumption Rebalancing



Implementation: Revolution in Governance



Third Plenum 1978 (11th Party Congress)



Third Plenum 2013 (18th Party Congress)

Framework: Revival of Party Secretariat

- Coordinating mechanism for leading groups
- More important than Politburo SC
- Chaired by Hu Yaobang

Focus: Ideological healing post-Mao and CR

“...emancipate our minds, seek the true path from facts...” – Deng Xiaoping

- Oblique and vague communiqué at Work Conference prior to Third Plenum
- Deng’s detailed reform agenda not presented until January 1980.

Framework: Leading Small Group for Comprehensively Deepening Reforms

- Chaired by Xi Jinping
- Reshaping leadership incentives

Focus: Wide ranging, from economics and Party to culture and social issues

Multiple implementation levels:

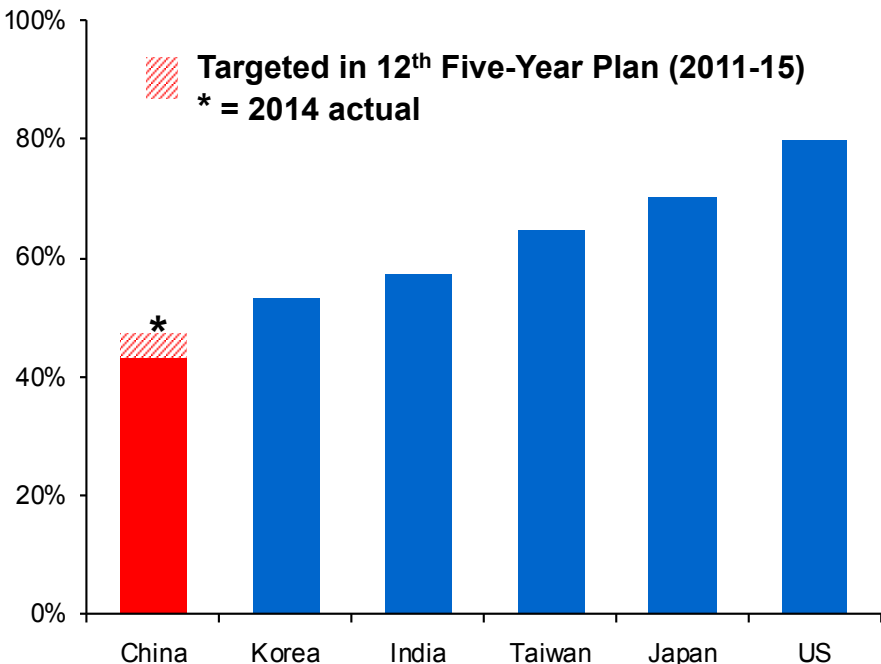
- Central, provincial, and local
- 800+ “deep reform” groups now at work

Shifts implementation mechanism from State Council back to CCP

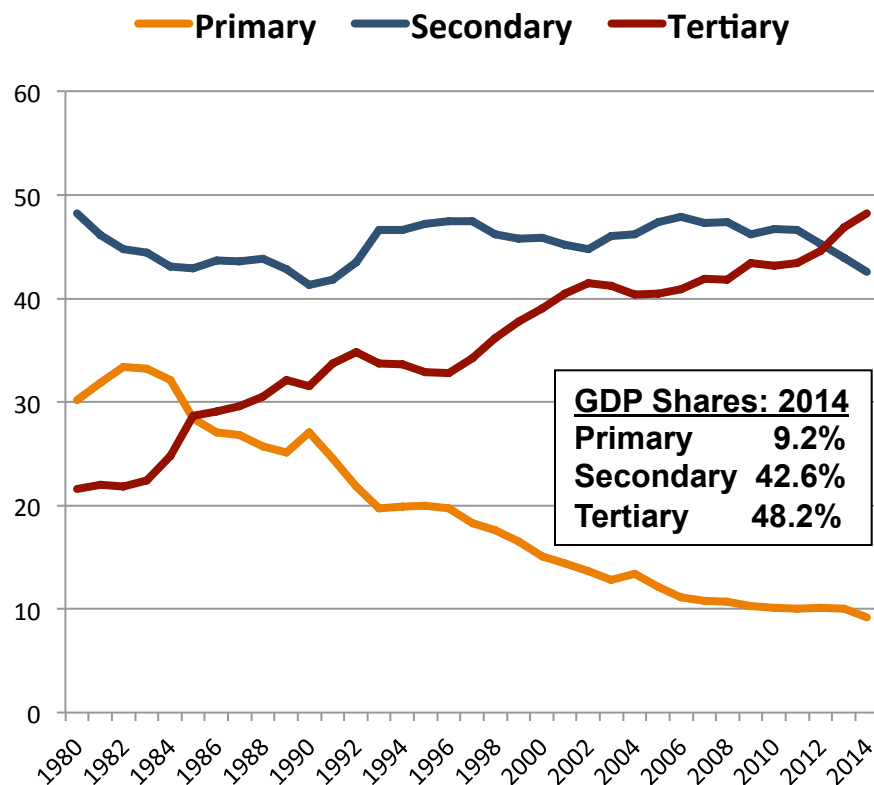
Figure 3

First Steps on the Road to Rebalancing

Services Share of GDP



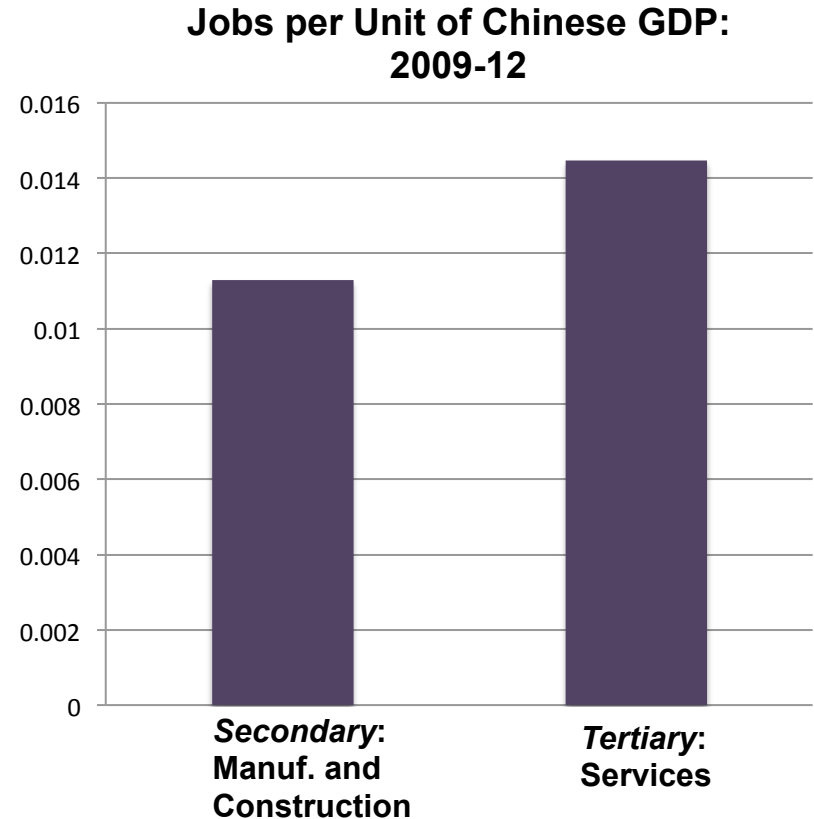
Shifting Mix of Chinese GDP



Source: OECD and China National Bureau of Statistics (2014)

Services and Employment Leverage

- Labor intensive
- Resource lite
- Cleaner and greener GDP
- Urbanization synergies
- Boost real income
- Temper inequality



Note: Labor intensity is ratio of employment per RMB1000 GDP

Source: National Bureau of Statistics (China)

Figure 5

Low Hanging Fruit in Chinese Services

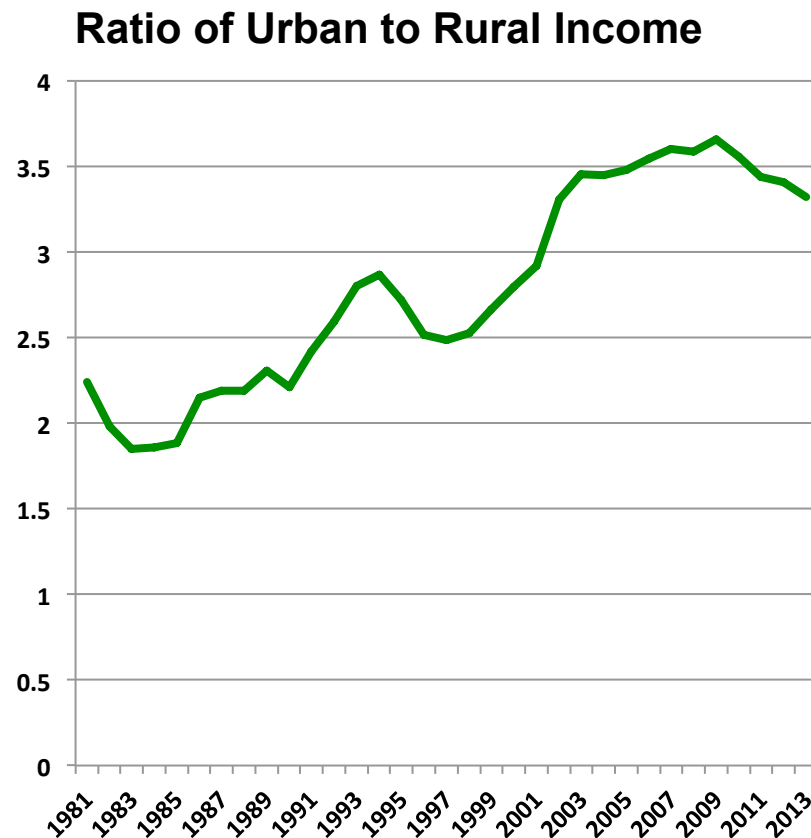
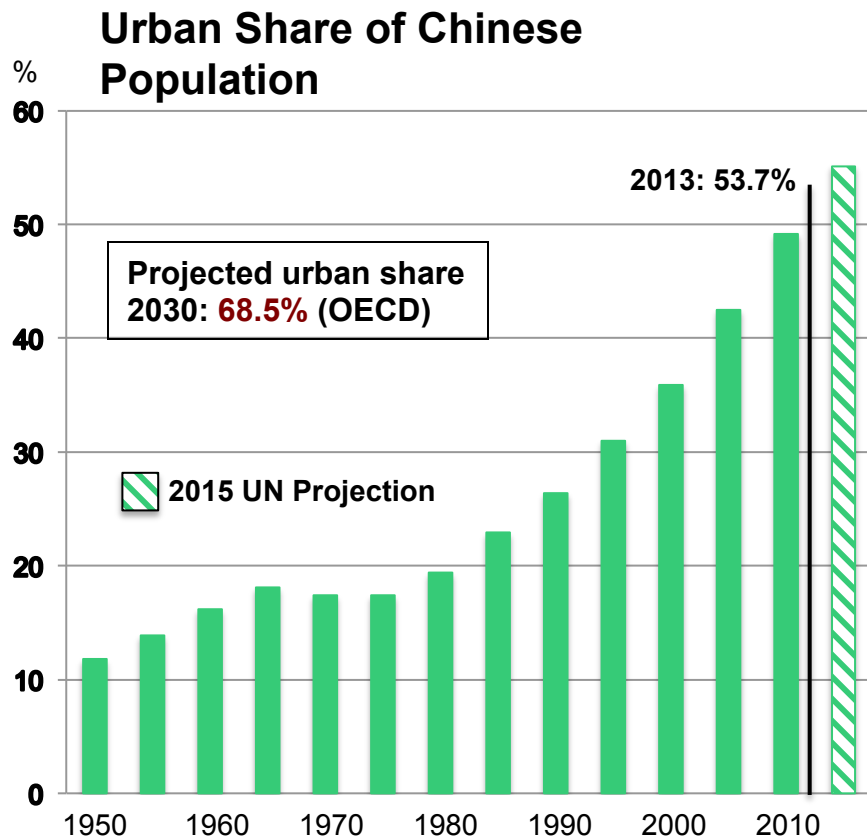
	China: Urban Units	United States
Total Employment (Millions)	152.4	139.4
Primary	6.4%	2.0%
Secondary	41.2%	13.7%
Tertiary	52.4%	84.3%
Government	10.1%	15.7%
Private Services	42.3%	70.4%
Wholesale & Retail Trade	4.6	15.3
Transportation	4.4	3.3
Utilities	2.3	0.4
Information Services	1.5	1.9
Financial Services (including Real Estate)	5.3	5.7
Education	10.8	2.4
Healthcare	4.7	13.0
Professional & Business Services	4.1	13.9
Leisure and Hospitality	2.6	10.5
Other Private Services	2.0	4.0

Note: For China, employment structure is for 2012; urban units do not include those in private enterprises and self-employed individuals. For the United States, data are for September 2014. Source: National Bureau of Statistics of China and US Bureau of Labor Statistics.

Figure 6

Urbanization and Income Leverage

“The issues of urbanization and development of service industries are closely related.”
-- Li Keqiang September 2012

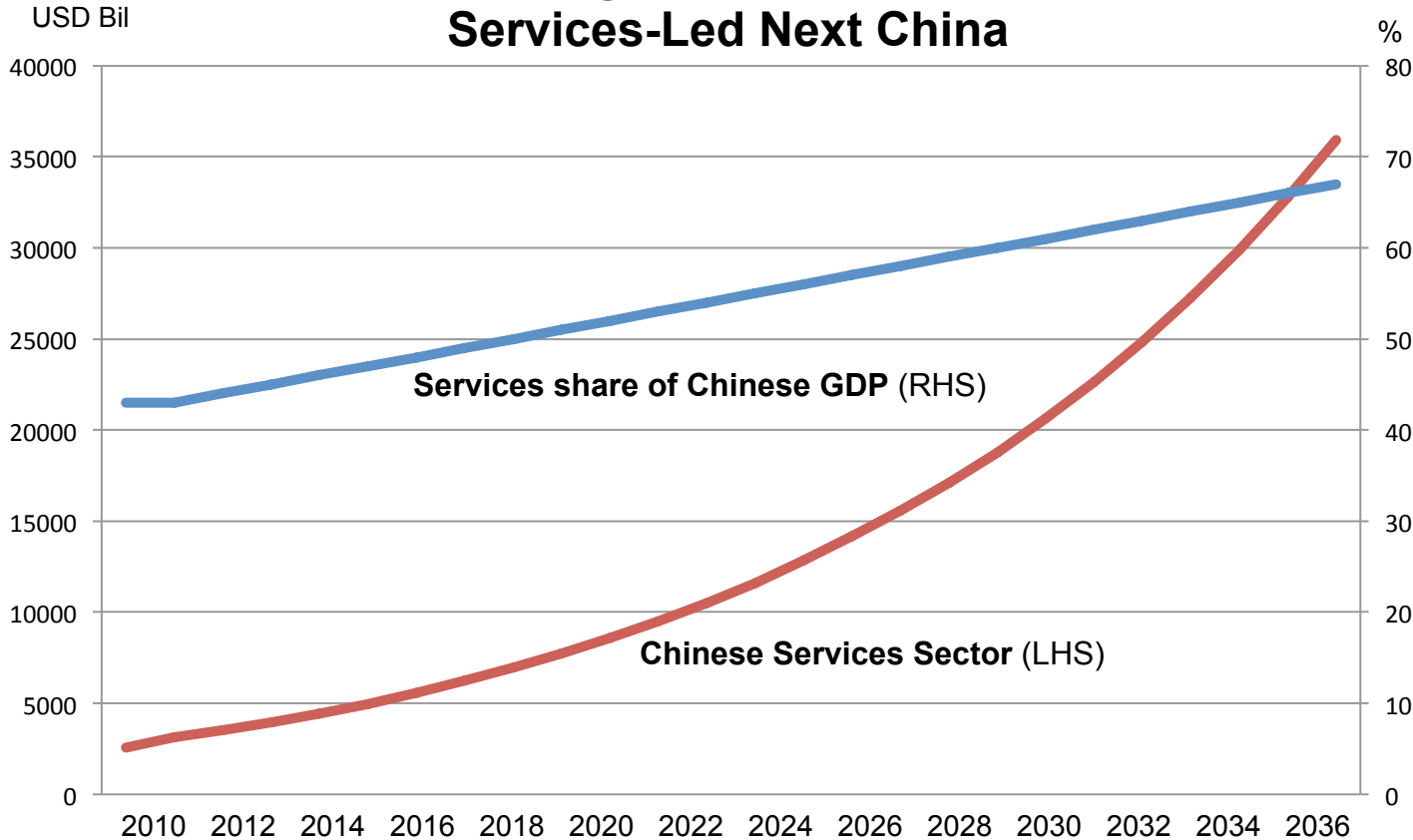


Source: United Nations: *The 2009 Revision*, Population Database; CEIC and OECD

Figure 7

The Coming Bonanza in Chinese Services

Peering Into the Future: Services-Led Next China



Scaling the Surge in Chinese Services

2011	\$3138 tn
2015	4973
2020	8570
2025	15900
2030	22637
2035	35943

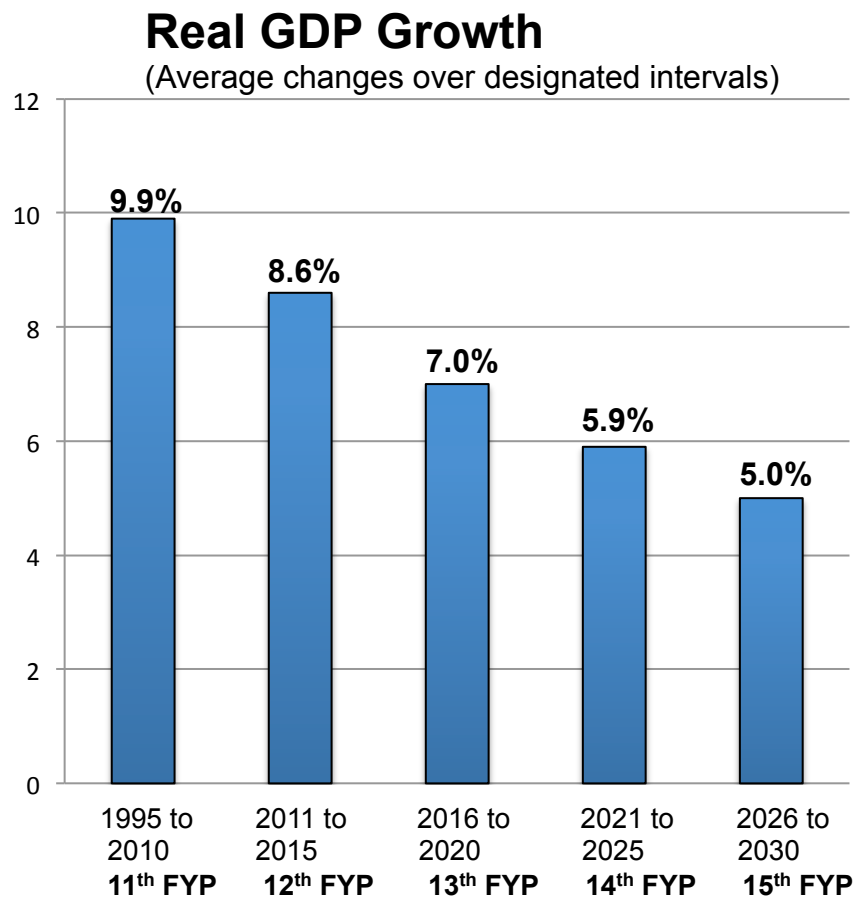
Growth:
2011 to 2025: \$12 tn
2011 to 2035: 33 tn

Source: S. Roach, *Unbalanced*; extrapolations based on World Bank/ DRC, *China 2030*

Figure 8

The New Normal of the Next China

- **Consumer-led**
- **Services-led**
- **Labor-intensive**
- **Resource-lite**
- **Inclusive and harmonious**
- **Reduced potential growth**



Source: DRC/ World Bank, *China 2030*

US-China: From Codependence to Interdependence?

Codependence: The unhealthy relationship

- Expect partner to serve your needs
- Loss of a sense of self
- Leads to frictions, imbalances
- Denial and the destructive blame game
- Unsustainable – the break-up
- Fixation on relationship *risks*

Interdependence: The healthy relationship

- Partners responsibly satisfy their own needs
- Maintain self identities
- Appreciate mutual benefits of partnership
- Constructive interactions
- Sustainable – reinforcing growth journeys
- Appreciation of relationship *opportunities*

