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# Statement of Marc E. Lackritz
# President, Securities Industry Association

## Before the Committee on Banking and Financial Services
## United States House of Representatives

**May 11, 2000**

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Chairman Leach, Congressman LaFalce, and members of the Committee, I am Marc Lackritz, President of the Securities Industry Association[1]. I appreciate the opportunity to present SIA's views on Permanent Normal Trade Relations (PNTR) with China and China's entry into the World Trade Organization (WTO).

We greatly appreciate this Committee's support of initiatives to open foreign financial markets. The Administration, Congress, and this Committee have worked diligently to open foreign markets and to help the U.S. financial services sector continue our work in creating new opportunities for issuers and investors both here and abroad.

The securities industry supports PNTR with China for the following reasons: 1) opening the Chinese markets to both the goods and services sectors will bolster China's economic growth, thereby benefiting the U.S. economy through increased exports; 2) PNTR will create new business opportunities for U.S. financial services firms; and 3) the U.S. reaps the benefits from China's concessions to join and abide by the rules of the world trading system without giving up anything in return – a "win-win" situation.

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[1] The Securities Industry Association brings together the shared interests of more than 740 securities firms to accomplish common goals. SIA member-firms (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. The U.S. securities industry manages the accounts of approximately 50-million investors directly and tens of millions of investors indirectly through corporate, thrift, and pension plans. The industry generates in excess of $300 billion of revenues yearly in the U.S. economy and employs approximately 700,000 individuals.

### *The Financial Services Sector is a Catalyst for U.S. Economic Growth*

Low interest rates, low inflation, and high productivity growth have helped to produce the longest period of economic growth and prosperity in U.S. history. The U.S. financial services sector is a key component of U.S. economic growth and development, and has played a critical role in fueling the current expansion. The U.S. securities industry, for example, raised more capital for U.S. business during the past 10 years than the combined total raised in all previous years in U.S. history. In addition, there are 23.5 million more shareowners today than in 1990.[2]

Financial services firms contribute about eight percent of U.S. Gross Domestic Product (GDP) and employ about six-million people to support the products and services we supply. The voracious appetites of industrial and developing countries for America's innovative products and services helped the financial services sector turn in a record $16.5 billion of exports in 1998, with a trade surplus of $5.9 billion. The continued well being of the financial services industry is directly linked to our ability to sell our products in foreign markets.

### *U.S. Exports, Jobs Will Increase As China's Economy Grows*

In November 1999, U.S. and Chinese negotiators announced an historic trade agreement that paves the way for China's entry into the WTO. The agreement is an important first step toward opening the Chinese markets to both the goods and services sectors. China's concessions to join the WTO – including steep reductions in tariffs and

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[2] About half of all U.S. households own stock directly or indirectly, a 51-percent increase since 1989. ICI/SIA *Equity Ownership in America* study, 1999.

the elimination of many non-tariff barriers – are real. U.S. consumers, investors and businesses stand to benefit from expanded access to this emerging economic giant.

With more than 1.2-billion people, China is the largest market in the world. In just over a decade, China has become America's fourth-largest trading partner, with aggregate trade flows between the two countries topping more than $95 billion in 1999. China has also exhibited one of the world's fastest economic growth rates with real GDP growth approaching 11 percent per year from 1990-97. Such incredible growth rates imply that China's economy will double about once every seven years. The potential opportunities for U.S. exporters in China are enormous. For example, the Congressional Research Service expects China's WTO accession to generate U.S. export growth of as much as $13 billion annually by 2005. Currently, U.S. exports to China are estimated to support 200,000 jobs. As China becomes wealthier, it will demand a higher level of U.S. exports. PNTR will make the most of the opportunity for meaningful new business, additional jobs, and a positive impact on the U.S. services trade surplus with China.

***Expanding Business Opportunities for U.S. Financial Services Firms***

Many of our leading member companies see China as the largest single emerging market and believe the WTO accession agreement gives them the opportunity to strengthen their business operations there. Indeed, despite difficulties entering and operating in China in the past, numerous U.S. securities firms have established offices in China and have participated in China's international securities offerings. The commitments from China for the securities industry – which include provisions for minority ownership in local securities underwriting, asset management firms, and advisory companies – represent a first step upon which to pursue additional liberalization of China's capital markets. Importantly, the Chinese commitments for the securities sector also include the grandfathering of existing activities and investments, national treatment, and the elimination of China's "economic needs test." Additional improvements that can be achieved subsequently by the European Union and other WTO members will only make the overall accession deal with China better for the United States.

Financing China's infrastructure presents the U.S. financial services industry with an especially important opportunity. Over the next decade, analysts predict that China will invest over $1 trillion in transportation and communications infrastructure improvements and energy-related capital equipment. However, China's private and public sectors alone cannot mobilize the massive financial resources that are necessary for its growth. Much of the infrastructure development will be funded through foreign sources, and this opportunity has generated substantial interest by the U.S. securities industry. China's markets will benefit from the new technologies, capital, innovative products and services, and expertise of the U.S. securities industry. As China's financial markets develop, Chinese firms will be better able to raise low-cost capital and support job creation.

Importantly, not only will U.S. companies be exporting their new products and services to China, they will also bring with them their best business practices and principles. Through these best practices the Chinese people will be able to build on the economic and political reforms currently underway. America's bipartisan policy of maintaining trade ties with China has shown that positive change is the product of engagement, not isolation. PNTR gives us the opportunity in the coming years to continue to use our influence in China's markets to achieve domestic reforms.

The U.S. securities industry feels strongly that granting China PNTR status is in the best interests of both the U.S. and China. While the securities industry still faces obstacles to entering and conducting business in China's burgeoning market for financial services, the U.S.-China trade pact is clearly a breakthrough for American trade policy. China's entry into the WTO, coupled with U.S. extension of PNTR, creates a platform that will support further development of China's markets through a comprehensive and fully enforceable agreement. The U.S. benefits from these concessions without giving up anything in return – a "win-win" situation. Indeed, U.S. refusal to grant PNTR only serves to put the U.S. at a disadvantage globally with our major European and Asian competitors.

We look forward to working with the Administration and Congress to further expand the U.S. securities industry's access to China.

Thank you very much for the opportunity to testify, Mr. Chairman.