
The Perspective of China-US Economic Cooperation: Why Is China's Rise An Opportunity?

XU Hongcai, PhD, Professor, and Director of Information Department of

China Center for International Economic Exchanges

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Ladies and gentlemen,

Good Morning!

I am XU Hongcai, a senior researcher of China's Center for International Economic Exchanges, a think tank working closely with Chinese government.

First of all, welcome you to Beijing! It's my pleasure for being here today and sharing my research with you regarding the outlook of economic cooperation between China and the United States. Comparing with the long history of Harvard University, Renmin University is relatively younger, but has also been one of the best universities in China for decades. In the early 1990's, I studied here for my Master degree, so, it is great to come back my old school and give a presentation in front of my alumni and new friends. I wonder whether all of you know that Renmin University means People's University, implying the purpose of

establishing this university is to serve our people. In this regard, we have common mission of increasing the people's prosperity and happiness through the efforts of whole society. I hope the friends from Harvard will have time to know this wonderful university better.

You guys are best of the best, and will perhaps become leaders in your field in the future. Thus, it is also important for both of us to have this opportunity talking with each other, since this two nations, the US and China, will lead the world in the coming years. Knowing each other better is vital for us because better communication leads to better mutual understanding. I believe you will know China better when you have a chance to exchange views with Chinese researchers and students like here today. I will be more than happy to discuss any related economic topics or views after my speech.

Now, let's start with my view of the current status of the China-US economic cooperation. China is the largest emerging economy in the world, and the US is the largest developed country in the world, and thus, the comprehensive cooperation between the two nations will contribute significantly to the peace and development of human being. However, the reality seems to be somewhat disappointing because there is so much misunderstanding and strategic mistrust between the two countries. Some people claimed that China's rise forms a threat to the rest of world, especially to the US. In my opinion, that is absolutely a distortion! Both China and the US should materialize lots of strategic benefits for our people through strengthening cooperation.

In 2010, China surpassed Japan and became the world's second largest economy. In 2013, China's international trade reached \$4.16 trillion and ranked No.1 in the world. After China's entry into the WTO, China's GDP has realized an average annual growth rate of 9 percent over the past 35 years. China's economic growth has contributed to the global economy substantially, including the US economy.

In 2013, China-US foreign trade reached \$521 billion. But, the size of bilateral direct investment remained small compared to their bilateral trade. From 2000 to 2012, China has received \$968.5 billion foreign direct investment (FDI) in total. However, the US FDI in China only accounted for 4.6% of the total. In 2013, China's oversea direct investment (ODI) increased by 25% to \$531.9 billion, but its direct investment to the US was only \$4.1 billion, accounting for 3.8% of all China's ODI. Thus, we should make more efforts to increase mutual direct investment in the near future.

Now, I would like to talk about the opportunities for bilateral economic cooperation brought by China's rise. Based on the research report of Peterson Institute for International Economics, both countries would benefit substantially from a free trade agreement (FTA) between China and the US. If a FTA be reached, the export for each country would increase by \$400-500 billion annually and national income would increase by 2 percent in China and 1 percent in the US. In addition, the productivity would improve by 1.2 percent in the US and 0.8 percent in China. The agreement would help each country to rebalance its economy,

that is to say, China will boost consumption and service industry growth while the US will boost investment and export. It would thus constitute a “grand bargain” that contributes to substantial reduction in the two countries’ global current account imbalance and the bilateral imbalance between them, creating a significant number of new jobs in the US.

Currently, the US is facing with a good opportunity to receive more investment from China. In the next decade, China will accelerate its new type urbanization, and promote further industrialization and technology upgrade. China's deepening reform will foster a new growth impetus for its economy and provide more opportunities for the world as well. The market-oriented reform plans were published in the Third Plenary Session of the 18th CPC Central Committee in November 2013. This ambitious reform package will be implemented in the next 3-6 years. Meanwhile, China’s sustainable economic growth will support expansion of its domestic consumption market. We forecast that the total import will amount to near \$10 trillion, and China will invest directly \$500 billion in oversea markets in the next 5 years. By 2020, China’s global direct investment will exceed \$1 trillion and a considerable part of it will certainly flow into developed countries led by the US. China’s increasing tourists and their international spending will also boost consumer goods sectors in other countries. This has proved that China’s development represents the opportunities for the US and other nations.

China also provides good opportunities for the US to boost its export to China market. We are in the process of structural transformation and

upgrade of economic growth model. This would provide huge trade and investment opportunities for the US companies equipped with advanced technology in TMT, alternative energy, environmental protection and modern service industry. It will boost these companies' growth while aid to accelerating China's economic transformation. A better cooperation in direct investment areas between two countries is our common interests. Also, it will be very helpful to build new global economic governance in dealing with new challenges and problems.

Infrastructure construction is another area we can cooperate better. The US government intends to upgrade its national infrastructure system which requires a total investment of \$3.6 trillion by 2020. The infrastructure needs to be upgraded including airports, bridges, ports, railways and highways. Chinese constructors have extensive experience in constructing transportation and utility project in international market. Therefore, the US infrastructure market also provides attractive opportunities to Chinese construction companies in the future.

China and the US have greater potentiality to conduct the cooperation in the areas of science and technology, which mainly contain fundamental science and technology, health, energy and environment protection, patent, and education. The potential areas for energy cooperation between two countries mainly include alternative energy, such as nuclear energy, clean coal, shale gas, solar energy, wind energy, biomass energy, geothermal energy and hydrogen energy. We can cooperate in energy conservation and power grid infrastructure construction areas as well. The potential

areas for cooperation in environment protection include pollution treatment, such as the treatment and control of air, water, and heavy metal pollution, comprehensive utilization of resources, climate change treatment and control.

In general, the US possesses technological advantage, while China has the cost advantage. Labor cost in the US is too high to compete with China in labor-intensive and the low-end manufacturing industries. The US re-industrialization brings opportunities to China's manufacturing industry. The two sides have different resource endowment, so they can be complementary for each other. Both countries are committed to adjusting economic structure, which will create huge opportunities to deepen bilateral economic cooperation.

At present, China and the US still have not come to an agreement in FTA and Bilateral Investment Treaty (BIT). In the fifth round of China-US Strategic and Economic Dialogue held in July 2013, China and the US agreed to carry out substantive BIT negotiation based on the established national treatment principle and the negative list. Still, they are facing many difficulties and challenges.

On the one hand, Chinese enterprises encountered complicated investigation process and to some extent, suffered from discrimination against Chinese State-Owned Enterprises. Other obstacles include visa application, market access and the recognition of education experience and qualification.

On the other hand, the US companies' concerns of entering China's markets are issues related to investment environment such as administrative permission, examination and approval, market access to service industry, government procurement, independent innovation policy, intellectual property right protection, and low policy transparency.

Having considered all the challenges faced by the US and China, I have initiated ten policy suggestions in promoting China-US economic cooperation. Let me illustrate them one by one.

Firstly, establishing strategic mutual trust and creating good bilateral cooperation atmosphere.

The second one is that both sides should speed up the negotiation of a FTA and BIT. Especially, the two should make jointly efforts to mix the Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) in the Asian-Pacific region.

Thirdly, properly resolving issues caused by the US' excessive "security review" and creating good external conditions for Chinese enterprises to invest in the US.

Fourthly, establishing a multilevel mechanism of regular dialogue to address issues regarding the investment in both countries.

Fifthly, China should adopt international practice by implementing the administration model of pre-establishment national treatment plus the negative list in governing foreign investment.

Sixthly, strengthening the cooperation in cyber security and improving the quality of financial service and information service.

Seventhly, establishing the infrastructure investment fund.

Eighthly, improving the transparency of foreign investment policy.

Ninthly, simplifying visa application for each other's citizens.

Lastly, setting up institution at local government level and organize events to promote bilateral investment.

As it can be seen, my 10 suggestions are just a framework. I hope these will be useful for you to think deeply about China-US economic cooperation.

By the way, today is father's day. I often remind my son not to forget his duty in promoting the friendship between China and the US. He is a PhD student at the University of Delaware. At this special moment, I also sincerely hope all of you, including the students of Harvard University and my alumni, could have more awareness of your responsibility and make bigger contributions to China-US economic cooperation.

Now I would like to listen to you. Let's see if you have any questions.

Thank you for your attention!