

Chinese-U.S. Business Relations: Where to Now? Partnership & Growth or Separation & Mistrust?

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In January of this year, Presidents Hu and Obama convened an unprecedented meeting of private sector CEOs from both China and the United States. Leaders such as Lenovo's Liu Chuanzhi, Haier's Zhang Ruimin, GE's Jeff Immelt, HSBC's John Thornton, Waxiang's Lu Guanqiu and others were in attendance. Joining these were 13 other CEOs representing a good cross section of business – although the U.S. participants unfortunately outnumbered the Chinese by 3 to 1.

For a few hours, industry invitees and government officials from both countries discussed topics including exports, investment and competition. While it is unclear how much substance the White House event contained – apart from officially announcing a relatively limited investment agreement – it nevertheless held very real importance. President Obama said of the session: “I think our goal here today was to make sure that we break out of the old stereotypes that somehow China is simply taking manufacturing jobs and taking advantage of low wages.... the relationship is much more complex than that, and it has much more potential than that.”¹

The visible combination of leaders from the public and private sectors illustrated the value that China and the United States attach to the future of their bilateral business relationship. President Hu declared: “I also have a message to American entrepreneurs. That is, we welcome you as companies to China... we will always try to provide a transparent, just, fair, highly efficient investment climate to U.S. companies and other foreign companies.”²

The question now is whether these leaders will effectively make this “White House Forum” into an enduring and meaningful platform to improve Chinese-U.S. business relations – or if this opportunity for shared success, and maybe the business relationship itself, will go unutilized?

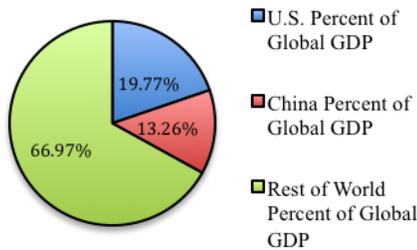
A Vital Economic Relationship

There can be no understating the significant role China and the United States play in the global economy. It is this fact that laid the foundation for the inaugural White House Forum.

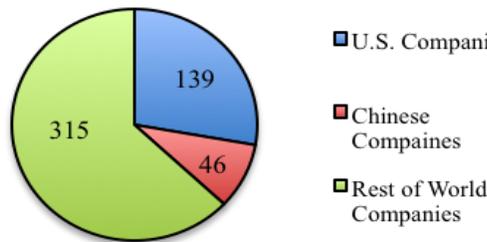
Whether this economic relationship is viewed in terms of production, trade, business leadership, investment or monetary policy, the two countries are highly interdependent upon each other.

China and the U.S. have the two largest national economies, which when taken together account for over one-third of global production at \$24.6 trillion per year.³ The countries are also home to over one-third of the Fortune Global 500,⁴ as well as nearly one-quarter of global population 1.65 billion people.⁵

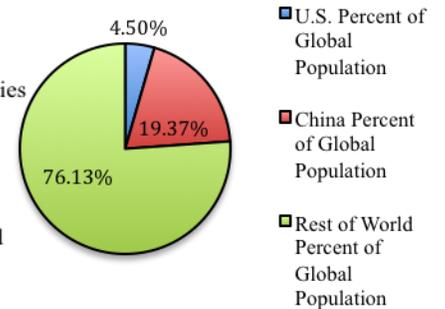
GDP (PPP), 2010



Fortune Global 500, 2010

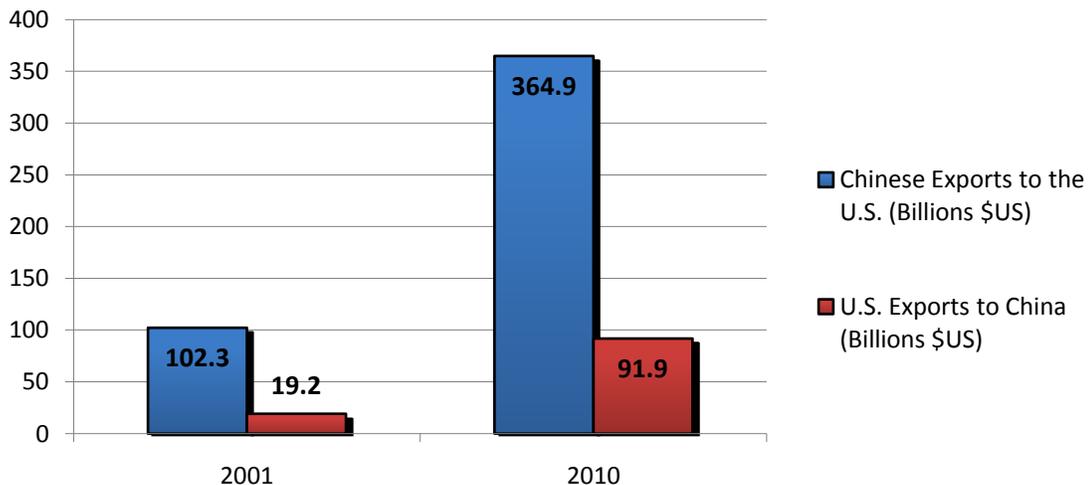


Population, 2010



As centers of gravity for the global economy, China and the United States also play increasingly vital roles in each other’s wellbeing. Trade relations continue to grow dramatically, characterized by enormous Chinese exports to the United States, but also by increasing U.S. exports to China.

For instance, from 2001 to 2010 Chinese exports to the U.S. rose about 356% from \$102.3 billion to \$364.9 billion – one of the largest trade flows from one country to another in the world. Trade in the opposite direction is often overlooked, but is nevertheless very significant. From 2001 to 2010, U.S. exports to China rose roughly 478% from \$19.2 billion to \$91.9 billion, while total U.S. exports to the rest of the world increased only 55% in the same period.⁶



Additionally, investment between China and the United States has grown in the last decade as well, despite hiccups correlated with the downturns in the global economy. According to a March 2011 U.S. Department of Treasury report, as of June 2010 China had invested a total of approximately \$1.61 trillion into the United States – about \$1.1 trillion of which is in the form of U.S. Treasury Bonds.⁷ U.S. investment into China peaked in 2002, with \$5.4 billion in over 3,300 projects, or about 10.2% off all FDI in China. In the decade from 2000 to 2009, the United States originated approximately \$38.2 billion of investment into China.⁸

China's and the United States' economic ties are further characterized by private sector operations. There are important revenue flows from Chinese companies such as Lenovo, Haier, and new automotive players operating in the United States going back to China. But it has only been recently that Chinese companies have begun operating extensively in the U.S. On the other hand, many American companies have found success operating in China for over a decade. Examples such as IBM, Proctor & Gamble, Motorola, and General Motors characterize the commitment.

These examples illustrate the growing interdependency of Chinese-U.S. economic ties, but they also mask an underdeveloped relationship between the two countries. This is why the White House Forum provides such an important opportunity. While China and the United States are partnered in several effective and necessary bilateral fora – such as the Joint Commission on Commerce and Trade, U.S.-China Chamber of Commerce, and the U.S.-China Strategic and Economic Dialogue (S&ED) – the countries do not cooperate in any bilateral business platform as high or as strategically important as the White House Forum. An economic relationship as profound as that of China and the U.S. should “brand” its cooperation in bolder ways, and the altitude and freshness of the White House Forum allows for this.

Accordingly it is useful to examine two possible economic and political futures – one marked by growth and increased partnership between Chinese and American businesses and their governments as embodied in the White House Forum, the other marred by separation and mistrust.

A Future of Partnership and Growth

A bright and productive future awaits China and the United States if a concerted effort is made by both to deepen and diversify business relations and visibly demonstrate mutual commitment to an open, rules-based global economy.

Credit should be given to both sides for the recently concluded third S&ED this month in Washington, DC and the newly launched Innovation Dialogue. Meaningful developments have been reported on issues such as “indigenous innovation” and government procurement.

Notwithstanding these important initiatives, the White House Forum has the potential to be that concerted effort that can take the bilateral relationship to new levels of growth and more multidimensional commercial relations. A continued and robust Forum will enhance existing bilateral fora such as the S&ED and the Innovation Dialogue and send an important message to the rest of the global economy: that the approach to global growth that has enabled globalization and an increase in living standards for billions around the world will continue. The presence of the heads of state and heads of industry will signify that the two largest economies see greater value in cooperation than separation. The significant roles of the U.S. and Chinese economies in the world demand this level of leadership and interaction.

Similarly, the importance of these two economies within the G20 – an evolving organization, but the authorized and credentialed forum for economic collaboration in the world following the recent financial crisis, and the collapse of the Doha round – means that the spirit of cooperative, direct engagement embodied in the White House Forum will set a positive example in a crucial time for multi-lateral financial and trade negotiations in the world. The Forum can act as a global weathervane, turning against protectionism and towards open markets.

Developments that were announced at the inaugural White House Forum foreshadow further successful Chinese-U.S. public-private partnerships. During President Hu’s January Washington visit, China and the United States announced the Public-Private Partnership on Healthcare. The new partnership involves several American companies including GE, Johnson & Johnson, Pfizer, Microsoft and IBM, as well as organizations like PhRMA and AmCham China. This mutually beneficial partnership will, according to Commerce Secretary Gary Locke help “U.S. companies offer world-class healthcare products and services that can help China raise the quality of medical care for its citizens, while increasing U.S. exports to China.”⁹ It is this sort of targeted public-private cooperation that can deliver increased prosperity, as well as vital and resilient commercial relations, to both China and the United States.

Furthermore, a permanent and effective Forum will be an excellent platform from which to address mutual macroeconomic interests – such as the effects of China’s exchange rate on American businesses, or the effects that the United States’ future plans for dealing with national debt might have on China. For example, with officials from both governments in attendance, Chinese and American energy companies might make their case for expanded

government investment in high-level renewable energy research, leading-edge clean tech best practices and export financing practices.

The White House Forum can also allow for increased mutually beneficial business-related academic relationships between the two countries. There are long-term strategic questions about a globally integrated economy and the interdependence of China and U.S. businesses that require in-depth research. The future and security of global supply chains, the availability of clean water, the proliferation and distribution of cross-border information management, and the 21st century profile of a “global middle class” are just a few examples. Both China and the U.S. have highly valued academic institutions that should be conveners and partners in exploring these issues. For example, Fudan University’s Center for American Studies and the University of Virginia’s Darden Business School’s new Institute for Business in Society might partner with Chinese and U.S. businesses in a resource- and expertise-sharing program designed to develop the next generation of commercial and business leaders. Both universities are highly regarded by business leaders and renowned for their economic and marketplace insights.

This future, characterized by close, productive interactions at the intersections of statesmanship and business, and language and culture is available to the two nations if we have the foresight and commitment to embrace it.

A Future of Separation and Mistrust

Alternatively, more negative possibilities exist in a future characterized by separation and mistrust. Currently, there exists a high level of suspicion between Chinese and U.S. officials regarding commercial interests and matters. Recent polls reflect this. A November, 2010 CNN poll revealed 58% of those Americans asked saw “China’s wealth and economic power” as more of a threat to the U.S. than an opportunity. Only 35% saw it as an opportunity.¹⁰ And efforts by Chinese enterprises to acquire American companies have been denied.

Conversely, over a five year period the U.S. “likeability” score among the Chinese public increased to 55% from 41%.¹¹ Notwithstanding, US businesses’ doubts about doing business and investing in China are becoming more evident.

As the Chinese-U.S. bilateral relationship is unarguably the most important and consequential in the world, what might we expect in a future without sustained, direct efforts from both parties to further develop a more informed and constructive relationship?

Just as the rest of the G20 – and indeed the world – would see Chinese-U.S. cooperation as a direction-setter for future global economic policy, so too might this group see uncoordinated policies, weak bilateral interaction and potential antagonism as a sign that close economic cooperation is viewed by China and the United States as more of a risk than an opportunity. Such perceptions can foster an environment characterized by murmurs of protectionism. That is, there might be profound negative implications for the openness of the global economy if the United States and China cannot, on a substantive basis, visibly demonstrate to policy and market leaders that they cooperate meaningfully at the highest levels of joint public/private sector commercial relations.

Additionally, without redoubled efforts towards developing China-U.S. business ties, the American public's image of China might remain suspicious and not develop to a more informed and comprehensive understanding of China's strengths and value to the world. This lack of public understanding and appreciation might be easily translated into further political and economic protectionism hurting both nations as well as the global economy, while real opportunities for mutual growth go unappreciated.

Towards Partnership and Growth

Steps must therefore be taken to move towards the vision of a more productive, vibrant and trusting Chinese-U.S. business relationship as embodied by the White House Forum. If the two nations and their commercial leaders are to share success in the future, coordinated and timely actions should be taken.

First, China and the United States should make the White House Forum a permanent activity. Such a forum will provide the high level imprimatur to the bilateral relationship necessary to increase business and commercial ties at the highest possible level.

Second, the Forum should be utilized to identify areas where private Chinese and American businesses can partner in mutually beneficial ways. Neither international economics nor success in business must necessarily be viewed as zero-sum games. For example, there is room for Chinese IT companies to benefit from the experience of American companies in competing in developed markets, or for American construction firms to draw lessons from the success that their Chinese counterparts have had in sub-Saharan Africa. China's 12th 5-year plan successfully presents new opportunities to multinational corporations to participate in China's growth, and could further encourage cooperation and sharing between leading Chinese and American companies in areas like health care, new energy, joint R&D and standardization. The Public-Private Partnership on Healthcare is an important first step, but more can be done to ensure that the Sino-American business narrative is one of respectful competition, positive

interaction and a shared commitment to an open business and investment environment free from unfair policy barriers. The Forum would be an ideal venue for such a collaboration to develop.

Third, the Forum should be utilized to address the deficiency in China-U.S. cooperation in small business innovation and entrepreneurship. The two countries have until recently held only irregular lower-level conferences in this important area, such as the U.S.-China Innovation and Commercialization conference in Beijing in 2008. Given that both China and the United States recognize that small- and medium-sized enterprises are essential to growth, more must be done to jointly develop best practices and the future leaders among this important constituency.

Fourth, the Forum should be empowered as a platform from which to discuss macroeconomic phenomena that affect both countries. Businesses from China and the United States would then have the opportunity to give input, in a consultative process, on any legislation or new policies that might affect issues like debt, currency appreciation, or investment and trade barriers.

Fifth, the Forum should invite representatives from highly regarded academic institutions in both countries to participate, with the goal of building university-industry relationships between China and the United States. In this manner, the countries can address the mutual and global problems of tomorrow in a direct and effective manner. This relationship could jointly help train the next generation of commercial leaders – who will carry forth a commitment to open, transparent, and growth-benefiting commercial activities. A changing global economy, societal trends and the expectation of businesses' role have created a complex and often unfamiliar operating environment for business leaders, and the world of commerce and academia must work together to produce a new cadre of leaders who function skillfully in a complex and global world. The value that would come from a regular Chinese-U.S. private sector symposium on commercial leadership would be enormous and have a forward leaning impact on the global economy.

Conclusion

These are defining times. China and the United States, upon whom much of the shape and promise of the future depends, have arrived at a decisive juncture in their relationship. Commercial cooperation and a deeper business relationship will deliver a brighter tomorrow to the citizens of both countries, and to citizens of the world. Separation and mistrust benefit no one. It is crucial that Chinese and American public and private leaders recognize this and work together to deliver the benefits of partnership and growth. The White House Forum was a good idea and initiative by Presidents Obama and Hu. It should be formalized.

¹ Presidential Remarks, 1/19/11, 12:36pm; www.whitehouse.gov

² Presidential Remarks, 1/19/11, 12:36pm; www.whitehouse.gov

³ CIA World Factbook; 2010 GDP (PPP)

⁴ Forbes.com; 185 companies

⁵ CIA World Factbook, July 2010 estimates

⁶ U.S.-China Business Council; <http://www.uschina.org/statistics/tradetable.html>

⁷ Reuters; <http://blogs.reuters.com/india-expertzone/2011/03/02/chinese-investment-in-us-2-trln-and-counting/>

⁸ U.S-China Business Council; http://www.uschina.org/statistics/fdi_cumulative.html

⁹ United States Trade and Development Agency;

http://www.ustda.gov/news/pressreleases/2011/EastAsiaEurasia/China/USChinaHCP_011911.asp

¹⁰ CNN Poll November, 2010;

<http://politicalticker.blogs.cnn.com/2010/11/17/cnn-poll-americans-see-china-as-economic-threat/>

¹¹ China Daily & Horizon Research Consultancy Poll;

http://www.chinadaily.com.cn/ndy/2011-01/17/content_11862197.htm