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Abstract

Although the US-China relationship has been strained by the latter’s economic and military rise over the last decade, China’s development can benefit the US in a variety of ways. This paper argues that the most important facet of the US recovery is the reindustrialization of a largely service-based economy. To accomplish that goal, this paper suggests that the United States end barriers to Chinese FDI and eliminate export controls set up during the Cold War. The paper also points out a wide range of areas where greater US-China cooperation is mutually beneficial, emphasizing greater cooperation in basic research and environmental regulation.

Keywords: US-China relationship, foreign direct investment, export controls, manufacturing

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Although there are considerable differences between China and the US, there also exist common interests, especially in a time of US economic recovery. Certain signals sent by President Obama suggest that the administration intends to promote manufacturing, a process that can be summarized as “reindustrialization.” The two countries’ interdependent nature makes it necessary for both to communicate and cooperate more effectively. And US foreign investment and export control policy are two areas with great potential for cooperation, changes in which are needed to achieve sustainable, “win-win” development.

1. Complementarities between the mid- and long-term national development strategies of China and the US

The US and China share similar goals: improving economic performance. Chinese companies want to invest in the US, which, in turn, needs foreign investment for job creation. Both governments want to achieve bilateral trade balance. Indeed, both nations share the desire to enhance economic cooperation.

1.1 China’s strategy for economic development

Since 1978, China has maintained an average annual real growth rate of GDP of 9.8%. For a long time, achieving rapid development was the government’s most important goal. But as challenges arose to further economic development, China needed to adapt to new realities.

In 2005, Chairman Hu Jintao attended the Asia-Africa Summit. He proposed that countries from both continents ought to work together to become peaceful neighbors and, based on equality in dialogue and the growing prosperity of differing civilizations, try to build a “harmonious world." This was the first time that a Chinese leader proposed this concept. In the same year, a reference to a “harmonious world" was recorded in the Sino-Russian Joint Declaration. Efforts to build a harmonious world have so far resulted in the establishment of basic tenets that will guide social and economic activities in the future.

The Chinese government usually issues five-year guidelines to direct the next half decade of development. The time span from 2011-2015 is the Twelfth Five-Year Guideline Period. In this period, the Chinese government has promised to focus on rebalancing the economy by both shifting emphasis from investment to consumption and moving development from urban and coastal areas towards rural and inland provinces. To achieve these goals, measures are needed to transition coastal regions from their current role as the “world’s factory” to hubs of research and development that emphasize high-end manufacturing and services. To move towards this harmonious world, each country should try to take into account how its domestic development affects its trade and investment partners.

Looking back, China benefited greatly from inflows of foreign investment from both developed and developing countries. But much of the value in its supply chain was captured by multinational companies, and the environment of some cities has since been destroyed by pollution. If development were to continue in that manner, quality of life would suffer greatly.

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1 Over the same period, the nominal average growth rate in local currency was 15.5% and in US dollars, 12.4%.
On the other hand, as China has become a manufacturing center, large quantities of raw materials have been imported. Its position as the biggest buyer makes it more difficult for enterprises to operate profitably. Through a strange phenomenon, Chinese buying increases prices while Chinese selling decreases prices, further reducing companies’ potential profits. This surprises many, given that monopoly power is usually regarded positively and price increases for essential inputs are normally fully passed on.

To change this situation, the Chinese government has tried to encourage better global allocation of the factors of production. The “going global” strategy was one measure proposed at the end of the last century to achieve that objective. Another was to seek balanced trade between China and its trading partners. A priority is to import more from the US, thereby reducing the bilateral trade deficit and alleviating political tensions.

1.2 US strategy for economic recovery

Industrialization refers not only to aspects of industry, but also to social and legal fields. Viewed historically, US industrialization was achieved in several stages. From 1880-1920, the US established extensive power and transportation infrastructure, and invested heavily in human capital and the legal environment. Although World War II interrupted this progress, in the 1950s, the US began to improve the welfare and public sectors. The 1960s and 70s saw increased focus on social justice, decreased stigma towards alternative life styles, and the development of robust consumer and environmental protections. However, the 2008 financial crisis, which affected the global economy, reversed much of this progress.

When President Obama was sworn in on January 20, 2009, he encouraged people to boost the economy. He used several words with the prefix “re”—recover, rebuild, rescue and reinvest—to portray his ideas as a revolutionary change from the existing situation. In his address to a Joint Session of Congress in February 2009, the President told the audience that “we will rebuild, we will recover and the United States of America will emerge stronger than before.” However, the economic situation was bleak, and the risk of enterprise bankruptcies and capital chain breakdown has since increased. Since then, the reconstruction of the financial regulatory system has imposed tighter controls on derivatives and through three rounds of quantitative easing, the Federal Reserve has sought to loosen monetary policy and add liquidity to support commercial activities.

But one of the most important goals of any government is job creation, not a simple task given the US’s situation at the time. The American Recovery and Reinvestment Act was passed to help the US economy recover from the recession. With over $787 billion in funding, this Act became one of the single largest investments in the US economy in the nation’s history. The Act’s design was three-fold: rescue a rapidly deteriorating economy; place the country on a path to recovery by putting Americans back to work quickly; and reinvest in the country’s long-term economic future by building a foundation for a new, more robust, and competitive American economy. The Act supported measures to modernize transportation, emphasizing investments into advanced vehicle technology and high-speed rail; promote clean and renewable energy; construct a platform for private innovation in broadband and smart grid and

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health information technology; and foster groundbreaking medical research. From all of these areas, “renewable energy and energy efficiency” has attracted the most finance (Figure 1).

\[\text{Figure 1: Funding for Innovation and Technology Deployment in the Recovery Act}\]


The unemployment rate dropped considerably in 2011 (Figure 2). By January 2012, the rate was about 8.3% or 1.5% lower than its peak in January 2010. But the Obama Administration is far from satisfied with that. From 2001 to 2008, the unemployment rate averaged between 4 and 5%. Whenever President Obama visited a factory, he urged manufacturers to bring jobs back to the U.S. With the goal of reinvigorating the manufacturing sector, Obama often includes the words “insourcing,” “on shoring,” and “reshoring” in his speeches. For example, at the January 2012 Insourcing American Jobs Forum, he said, “I want us to be known for making and selling products all over the world stamped with three proud words: ‘Made in America’.” And in his State of the Union Address in 2012, Obama proudly noted, “Last year, [the private sector] created the most jobs since 2005. American manufacturers are hiring again, creating jobs for the first time since the late 1990s.” Manufacturing is at the core of Obama’s blueprint for recovery and the auto industry in particular has been an important driver for job creation.

\[^{3}\text{The Recovery Act: Transforming the American Economy through Innovation, the White House.}\]
1.3 Complementarity of Chinese and American strategies

China and United States clearly have similar needs, so both countries should exploit their advantages to create mutual benefits.

China needs to offer support to companies that seek to expand globally. Among possible measures, two important ones are promotion of the foreign investment that enhances firms’ abilities to allocate their resources more efficiently, and increased importation of capital goods that provide better quality and superior technology.

The United States wants to create more jobs and reduce its trade deficit. However, it must pursue a strategy that does not hurt its closest partners. For example, in Europe, Germany finds itself in an analogous situation as it is in a central position and must act for the region’s benefit. Although the US does not have to consider too much on the valuation of its currency affects others except for the pressure on international trade and foreign investment, it still must deal with policy constraints arising from pressure from its creditor countries, specifically over the potential harm resulting from the depreciation of the US dollar. A lack of domestic savings has increased the US’s reliance on foreign sources of capital as foreign investment is now an important stimulus for the economy. Also, efforts to rebalance foreign trade are constrained by at least one other important issue: security concerns limit the types of goods the US is willing to export, with the notable exceptions being airplanes, software, and agricultural products. This might be the right time for the US to reevaluate the situation and possibly relax its restrictions on exports in order to give importers greater choice in buying what they need from America.

Thus, there are at least two complementary aspects to the international transactions of China and the US. First, Chinese companies want to invest in the US and the US economy needs more investment from
anywhere. Second, the US wants to export more to improve its trade balance and create jobs and China wants to import more, especially currently restricted goods, to reduce its own trade imbalances.

In fact, through 2010, FDI from China was still a comparatively unimportant component of all FDI inflows to the US. As shown in Figure 3, FDI from China was only 3.15 billion dollars in 2010, which nevertheless represented the highest amount since 1997 when the data were first reported. But investment from China is so small that, even in a record year, it amounted to only 0.13% of all FDI to the US. Clearly, there is potential for much greater Chinese investment into the US.

![Figure 3: Investment from China and its share of total FDI in the US, 1997-2010 (%,$ million)](chart)

John Dunning’s research on foreign direct investment suggests that countries with GNP per capita above 2000 dollars will see investment outflow grow faster than investment inflow. As shown in Figure 4, Chinese GDP per capita exceeded 2000 dollars in 2006. Although the calculation of GDP and GNP differs, the gap between inward and outward Chinese FDI has already narrowed considerably. In 2010, China’s GDP per capita reached 4430 dollars, only 320 dollars below the level at which Dunning proposes that countries will experience net outward investment flows. Chinese companies are now able and willing to invest in foreign countries.
2. Policies and measures to promote exports and expand manufacturing under the US’s reindustrialization strategy

The Obama administration has initiated several strategies to encourage the reindustrialization of the US economy. But the US seems to only have a few options available. Although the federal government emphasizes basic innovation capabilities and has created a specialized agency for improving American competitiveness, the process of reindustrialization has been much slower than expected.

2.1 Strategy for American Innovation

The Obama Administration released the Strategy for American Innovation in September 2009 and updated it in February 2011. As shown in Figure 5, this strategy comprises three tiers. The first tier includes the workforce, scientific research, and infrastructure. Obama has implemented the largest increase in federally-funded research in history and will double funding for three key basic research agencies: the National Science Foundation, the Department of Energy’s Office of Science, and the National Institute of Standards and Technology. The second tier is composed of policies designed to promote market-based innovation, i.e. to accelerate R&D in business. And the top tier is formed by policies to catalyze breakthroughs for national priorities including developing alternative energy sources, reducing costs and improving care with health IT, catalyzing advances in educational technologies, and maintaining leadership in the anticipated bio and nanotechnology revolutions.

In his State of the Union address, President Obama proposed a national commitment to equip two million Americans with skills that will lead directly to a job. To accomplish this goal, companies together with community colleges are to be involved. The administration will provide community colleges with the resources that they need to become career centers where people are taught the skills that businesses are looking for. He also recommended that schools be given the funds needed to keep good teachers on the job and that those good teachers should focus on creativity and passion. Presi-
dent Obama also expressed his willingness to help universities lower the costs of higher education to levels that any family can afford.

In the FY 2012 Budget, the Obama administration launched the Advanced Research Projects Agency – Education (ARPA-ED) to support research on breakthrough learning-enhancement technologies. Working with a coalition of private sector leaders called Change the Equation, the Administration encourages the growth of public-private partnerships that inspire more students—especially girls and other currently underrepresented groups—to excel in science, technology, engineering, and mathematics (STEM). That will require training 100,000 STEM teachers over the next decade.

![Figure 5: US Innovation Strategy](image)


2.2 Taxation Lever

In the State of the Union Address, President Obama described his approach to bringing manufacturing back. He mentioned that this should start with the tax code.
Under his proposal, an American business will be unable to claim a tax deduction if it outsources jobs to other countries. And the money saved will be used to cover moving expenses for companies that decide to bring jobs back to America.

Second, an American company that moves its jobs and profits to another country will no longer be able to avoid paying its fair share of taxes. All multinational companies should have to pay a basic minimum tax, and the revenue from that reform should be used to lower the taxes of companies choosing to stay in America.

Third, American manufacturers would receive a bigger tax cut, with high-tech manufacturers receiving a double tax deduction for making products in America. And if a company chooses a site in a depressed area, it would be eligible for aid to finance a new plant, equipment or training for new workers.

2.3 Nationalization

The US government seldom intervenes in the market through nationalization, the exception being several times for the needs of World War II. And even in those instances, the government just appointed managers instead of directly purchasing the companies. The free market is the defining spirit of the US economy. Although nationalization also happened recently, mostly for financial firms such as Fannie Mae and Freddie Mac, manufacturers also benefited from government intervention. On June 1, 2009, General Motors filed for bankruptcy and was partially nationalized after the US government invested up to $50 billion to acquire a 60% ownership stake in the company. During the recession, other companies also received significant federal and local support.

2.4 Insourcing Forum and Reshoring Initiative

In January 2012, an Insourcing Forum was hosted by President Obama at the White House. A diverse group of American industry leaders, experts, and cabinet level officials gathered to discuss with Obama how to bring jobs back to the US. The President wanted to demonstrate his desire to see companies reinvest in the US and bring jobs back home. Some companies that expanded production in the US also explained their reasons.

During the meeting, the president of the Reshoring Initiative\(^4\) tried to persuade the audience that many American companies were making sourcing decisions based on price alone, thus ignoring the total cost of offshoring production. The largest costs typically overlooked include emergency air freight, travel, and the negative impact of separating manufacturing from engineering on innovation. He estimates that these overlooked expenses account for as much as 20-30 percent of the total cost of outsourcing.

2.5 Trade Remedies to Lower Others’ Competitiveness

Raising the price of other countries’ products to make US exports more competitive is another important component of the strategy. The Obama Administration has opened trade cases against China at

\(^4\) An industry-led institution founded by Harry Moser in 2010, which aims at bring manufacturing jobs back to the US. Its website is www.reshorenow.org.
nearly twice the rate of the last administration. And the Obama administration also created a Trade Enforcement Unit to investigate so-called “unfair trading” practices in other countries.

3. The implementation effects of US re-industrialization policies and measures

Manufacturing sector growth has resumed in the US. After falling every year since 1998, the number of manufacturing jobs rose in the US in both 2010 and 2011. Since December 2009, the sector has added 300,000 jobs. Manufacturers added 50,000 people to their payrolls in January 2012 alone, which is the biggest monthly increase in a year.5

Although some researchers believe that a wide range of manufactures will reshore in America (e.g. appliances, televisions, computer equipment, furniture, machinery, plastic and rubber), the most important manufacturing industries in the US today are the automotive and aerospace industries.

3.1 Auto Industry

Later in this year’s State of the Union address, President Obama proudly declared that the American auto industry is back and that its resurgence can be replicated in other industries as well. The facts do seem to back up President Obama’s claims. General Motors is once again the world’s number-one automaker by volume. Chrysler has grown faster in the US than any other major car company, and Ford is investing billions into US factories. More cars were exported by the US in 2010, due in large part to the weaker dollar and the perception of higher quality. The implementation of the US–South Korea free trade agreement created more market access opportunities for domestic carmakers. Finally, another important reason for the industry’s resurgence is that foreign manufacturers’ US plants have contributed substantially to exports. For example, BMW exported more than 110,000 luxury crossovers and Japan’s Subaru exported 14,262 vehicles. In all, over 1.5 million new cars were exported in 2010, 38% more than in 2009.6

But the situation may not be as wonderful as the President described. As reported by the New York Times, Detroit, which is the capital of America’s auto industry and was once the nation’s fourth-largest city, has only half the residents it once had. As a center of the manufacturing industry, tax revenues were abundant for the city’s government. But, recently, those revenues have slipped too low to support the costs of running Detroit, contributing to the growth of its debts to a stunning $12 billion.7 Although an advisory board will be created by the Michigan government to oversee the city’s financial decisions, the situation is still far from full recovery. First, the tax base has been reduced by population decline. Balancing the city’s budget remains difficult because government activities and infrastructure need to be maintained or improved even while debt is reduced. A lack of revenue will lead to further reductions in the government work force, a trend which might encourage even more people to leave Detroit. The poor level of municipal services has and will likely continue to strengthen deeply held pessimism about the city’s prospects. Second, assuming the manufacturing industry can provide more jobs, the lack of


skilled workers will make it hard for factories to find suitable employees. Third, although the number of working residents has shrunk, labor unions are still very strong. Negotiations between employers and employees are still challenging, which will not only test the wisdom of the two parties, but will also impede the manufacturing recovery to the extent that labor costs stay high and competitiveness remains unlikely.

3. 2 Aerospace

Boeing is the leading exporter of manufactured goods in the US and has occupied this position for the last decade. As one of the two major aircraft manufacturers in the world and the only one in the US, Boeing has taken advantage of opportunities presented by the euro debt crisis and carbon tariff resistance by other countries, and has achieved five consecutive years as the top US aerospace and defense company. This stability stems from its involvement in military and governmental projects such as NASA, and the development of new types of commercial airplanes that fly with a diminished impact on the environment and higher fuel efficiency (the Boeing 787 will use 20% less fuel when compared to other airplanes in its class).

Under its diversification strategy, Boeing has employees in more than 70 countries and has 22,000 global suppliers. It operates in 26 US states and has parts suppliers in all 50 states. This strategy enables Boeing to deploy a variety of technologies, while minimizing the cost of building airplanes. But it also means that the company must deal with the risk that unpredictable events will delay, or even halt, the whole operation. When the earthquake hit Japan in March 2011, a gasoline supply shortage and the breakdown of logistics meant that the suppliers responsible for certain sub-modules of the airplanes had to cease production. This unavoidable accident demonstrates the risks that Boeing’s strategy implies for its operational stability.

Since the aerospace industry operates in an order-delivery mode with a production cycle of several years, the economic crisis may have effects that only show up with a time lag. Although Europe’s downturn might seem to signify a major obstacle for Boeing’s growth prospects, a new carbon emissions scheme will increase the market share of Europe’s environmentally conscious domestic airlines. Moreover, fuel-sipping planes similar to the aforementioned Boeing 787 will increase the company’s market share in fast growing developing markets.

4. The impediments that threaten US reform of its export controls

Although the Obama administration initiated export control reforms in 2009, the US government has yet to make any meaningful progress. Barriers to reform include the enormous cost of changing the original system, political pressure, and the complexity of existing regulations.

4.1 Aims and Procedures of Export Control Reform

The US’s export control system has developed to address international needs. The system’s primary goal has changed from maintaining military supremacy to combating terrorism to improving global competi-

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8 On July 18, 2013, Detroit filed the largest-ever municipal bankruptcy in U.S. history on Thursday

tiveness. To move the US export control system away from a cold war mindset, the Obama administration proposed significant reforms in 2009. After more than two years, the goal of “Four Singles” (a single control list, export licensing agency, enforcement coordination agency, and IT system for managing licenses) has yet to be achieved. To combine military and dual-use control lists into a single control list, the items in both need to be categorized into three tiers according to their availability and importance. The Export Administration Regulations have been modified to provide some exceptions and certain items in the list have been revised to reflect the current situation. Some progress was made in December 2012 when four drafts were disclosed for public review, including Modernization of Export Control: Exceptions of Strategic Trade Permission, Commerce Control List: Modifications on the Description and Foreign Availability of Items, Modifications on Munitions List, and Modifications of International Weapon Trade Management Regulation. The good news is that the unified electrical administration website has already been put into practice, which has reduced costs for companies trying to find the right information and the appropriate gateway for license applications.

4.2 Barriers for Systems Integration

To accomplish this reform, new legislation is unavoidable. There are two laws related to export control: the Arms Export Control Act and the Export Administration Act (EAA). Although Presidents have kept using their authority under the National Emergencies Act to extend the EAA since it expired, the legal framework contained within, which was built in the cold war era, is unsuitable for today’s environment. Most congressmen agree that a supportive export system is vital for maintaining US competitiveness. But several have concerns about exports to China. The inability of Congress to reach consensus will continue to block the entire reform procedure. Since the system is tied to so many employees all around the US, the complication of integrating and redesigning several related agencies will make the reforms even more difficult to accomplish.

4.3 Transfer of Focus in a Presidential Election Year

Since Senators and Congressmen represent different groups, including their party and the voters of a state or electoral district, their ability to negotiate is often compromised. Even though President Obama labeled his administration as a revolutionary one, partisanship continues, and it is not easy to get more from the Republican opposition, essential for successful reform of the export control system. Perhaps recognizing the futility of the reform effort, the President didn’t even mention the export control system in his 2012 State of the Union address. He did, however, discuss the so-called “China problem” presumably to demonstrate, in an election year, that he is tough on China. Those who oppose reform are likely to find it much easier to obtain support, a fact that will surely delay the reform process.

4.4 Multi-purposes of US Trade Policies towards China

The goals of US trade policies towards China are manifold. Increased protection for intellectual property rights and the appreciation of the Chinese currency have been long-standing US concerns; recently, quotas on exports of rare earths and complaints about export subsidies and dumping have emerged as new concerns. The US government encourages China to appreciate the RMB Yuan so that Chinese goods become more expensive relative to American ones. And at the same time, the US seeks to expand its exports without allowing new sectors to export to foreign markets. Here, the attitudes of the states can
differ from those of the federal government, with many states seeking to expand their exports of currently restricted products.\textsuperscript{10}

4.5 Restrictions on the trade balance and sustainable development

The restrictions on exporting to China are detrimental to the bilateral trade balance. This control makes it hard for companies in both countries to find matched items for trade. China has been excluded from the list of exemptions for strategic trade proposed by the US Department of Commerce. On the other hand, China has opened quite large part of its own markets to FDI except for those listed in the category guide on FDI. US investors can carry out assembly and processing activities in China and then export the finished goods to other countries. This processing trade accounts for more than half of China’s exports. As agreed at a previous G20 summit, this imbalance problem is regarded as a major barrier to sustainable development. But it cannot be resolved through unilateral Chinese action. Without the exchange of products by foreign trade, input and initial investments cannot be compensated for, blocking the two countries’ sustainable development.

5. Problems and impediments restraining the investment of China’s manufacturing enterprises in the US

Although Chinese investment in the US is increasing, there are still many barriers impeding investment, which can be categorized into two groups, (i) the ambiguous regulations and unfriendly circumstances found in the US, (ii) the weaknesses of the Chinese companies themselves.

5.1 Vague Definitions and Lengthy Procedures for M&A Administration

In the US, all merger, acquisition, and takeover transactions started by foreigners draw the government’s involvement. The Foreign Investment and National Security Act (2007) contains some vague definitions that provide administrative officials in CFIUS (Committee for Foreign Investment in the United States) with considerable discretion in dealing with FDI. For example, the term National Security is defined as issues relating to ‘homeland security’ and includes its application to critical infrastructure. For critical infrastructure and technology, the descriptions are related to national defense. Since the definition of the keyword “National Security” is imprecise and unclear, a foreign entrepreneur will think twice before deciding on investment destinations.

Investigations of foreign M&A comprise three phases. In the first review phase, one member of CFIUS will collect all needed information to have a preliminary judgment by the 30\textsuperscript{th} day after a company has submitted its application. The second phase of investigation consumes up to 45 days, and all agencies, including the intelligence agencies, can submit information. In the third phase, the President has another 15 days to make the final decision. If one company is refused by CFIUS, the media and other related entities will doubt its legitimacy, which could harm its subsequent future in the US.

5.2 Biased Attitudes towards Chinese Companies

\textsuperscript{10} The author sent survey questionnaires to investment and trade promotion departments to get their opinions on inward FDI and export controls. The questionnaires revealed a desire to expand export opportunities in areas where selling goods overseas has previously been restricted.
Many people in the US are unfamiliar with China. As China has developed rapidly for several decades, the two major political parties and the media tend to attribute US problems, such as unemployment, to China’s depreciated currency and inadequate protection of intellectual property rights. Some politicians also express concerns about the background and intentions of Chinese companies. Although most Chinese companies consider profitability to be their main priority, the US government and public view state-ownership as an important characteristic that influences the way they assess a company. In 2005, when CNOOC (China National Offshore Oil Corporation) wanted to buy Unocal, there were several influential voices that opposed the purchase. Finally, CNOOC withdrew from the bidding even though it had offered a higher price than its competitor – Chevron, a US company. Huawei also failed the second time when it wanted to buy 3 LEAF, after its first attempt for 3 COM. The media believed that the military background of Huawei’s boss could harm US interests. This failure is quite similar to the attempt Haier made to buy Maytag in 2005. Misunderstandings have made many Americans uneasy about what are clearly economically motivated activities. As a result, protectionism is growing in a supposedly free market economy.

5.3 GDP Differences Reflect the Ability to Invest

China is a developing country, even if its economy grows very quickly. After the subprime loan crisis, the gap between US and Chinese GDP began to close more rapidly. As shown in Figure 6, China’s GDP was only 31.8% of the US’s in 2008. In 2011, this percentage reached 48.4%. As the US economy gradually recovers, the gap could widen once again, though it is more likely that it will continue to close, albeit less rapidly. As GDP is an indicator of the comparative economic strengths of the countries’ companies to some degree, it can be used for certain comparisons. Although there is a trend of narrowing differences, the gap is still prominent. According to some observations, companies from developed countries tend to invest in other developed or developing countries. In contrast, companies in developing countries hardly have enough experience or the ability to invest in developed countries, which means that the Chinese companies may still not be able to expand quickly in the US even if its government opened its market or reduced its investment restraints.

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11 The appreciation of the RMB will further narrow the GDP gap between these two countries. After reform of the exchange formation mechanism, the RMB has appreciated 26% percent from 8.28 to 6.13.
5.4 Lack of Competitiveness

Chinese companies are leaders in the manufacturing sector. They have dramatically lowered the cost of mass production, which has benefited the world greatly by keeping inflation low. But most Chinese companies are located at the bottom of the supply chain and are not competitive in the broader industry. Because of their limited experience and finite resources, Chinese companies struggle to compete with industry leaders worldwide. To invest in a place where the industries’ leaders have already established a presence is even more difficult for most Chinese companies.

5.5 Inexperience on Investment-Related Issues in the US

Since Chinese companies’ exposure to the global marketplace essentially coincided with their introduction to the market economy, most of them lack experience dealing with new issues that surround FDI, especially regarding relationships with foreign stakeholders. To improve their inter-cultural communication abilities, companies need to be able to handle all situations. First, companies should familiarize themselves with the varied laws and regulations of host countries, specifically through the study of historical precedent. Second, knowing the habits and unwritten conventions of doing business locally can enable faster growth and a more positive relationship. Third, in this new technology-driven era, a lack of research and development capabilities can easily lead to significant market share loss. Fourth, most Chinese companies have little experience managing foreign employees, and their inability to communicate with the local media can produce tension with the local community. These problems ensure that the integration of new investments into a company’s global operations is difficult, adding to investors’ risk.
5.6 Factory Transfer Lag

Unlike companies in the service sector, manufacturers need production facilities and infrastructure that meet special requirements. Obtaining buildings and installing equipment takes time and this pre-production phase may require considerable amounts of capital. Thus, it is not easy to change the locations of factories, which has created barriers for Chinese companies seeking to invest in the US.

6. Suggestions for China and the United States to achieve win-win results in the process of US re-industrialization

The Chinese and US governments must identify opportunities for consensus on their mutual development, creating a better situation for investment and trade.

6.1 Continuous In-depth Intergovernmental Communications

Both countries should try to identify their common interests from a strategic viewpoint. Their communications should focus not just on recent history, but also on their long-run objectives. Since both countries are trying to improve the lives of future generations, i.e. improve the environment and make people wealthier, there should be ample scope for cooperation. In the Sino-American Strategic Dialogue, both countries have expressed concerns, and both need to try to understand each other's views and identify possible areas for cooperation. Many obstacles to cooperation are attributable to the large gap between a developed and still developing economy.

The two countries' political systems, population sizes, and resource endowments differ significantly, but nevertheless China and the US need to understand each other's perspectives.

6.2 Be Unbiased to Chinese Companies

China's state-owned enterprises (SOEs) may be less pampered than some Americans believe. It is important for Americans to recognize that the primary objective of these enterprises is profitability. It would be quite unusual for Chinese SOEs to carry out unspecified special objectives. Some enterprises in the US are also state-owned. Those companies are owned by the government and their behaviors may also differ from those of private commercial companies. However, the US should avoid judging state-owned enterprises from an ideological standpoint. Since China is only in the early stage of outward investment, it is understandable that the stronger state-owned enterprises are the first to participate in investment abroad.

US concerns about security are understandable, especially in the context of combating terrorism. But the framework in place during the cold war, under which China is not viewed as a friend of the US, is inappropriate in a modern context. China has devoted almost all of its resources to economic development for more than 30 years and is also troubled by terrorism. Both countries could cooperate more in this field, making US export controls directed at China unnecessary. This change would have the secondary benefit of creating more US economic opportunities and jobs.

6.3 Cooperation in Fundamental R&D

There are many areas in which China and the US can cooperate fruitfully. Both countries want to achieve sustainable growth in the future, so fundamental research on how to sustain growth should be attrac-
tive to both nations. In a number of fields, the US has the best scientific institutions or laboratories and the most advanced technology in the world. China has huge needs for improved technology that promises to provide “greener” growth and that will help to realize the enormous potential of China’s expanding purchasing power. The two countries’ strengths should be exploited mutually. New energy is important for both countries, and is a crucial area for future development. The US has more experience in environment protection, a major challenge for China going forward. The resolution of China’s problems of pollution and overpopulation is vital for the country’s sustainable development. Creating safer air, water, and food for the people are certainly important objectives and opportunities exist in these areas that could be of benefit for both countries. Reducing emissions of greenhouse gases will benefit all of humankind and China would welcome closer cooperation in this field.

6.4 Promotion of Economic Activities between the Provinces and States

The governments of states in the US, much like their counterparts in China, are interested in doing business globally. Both federal governments should encourage their local representatives to cooperate directly based on their own advantages and interests. Communications at this level are more focused, flexible, and pragmatic. Exhibitions of products, investigations of commercial environments, cooperation on government-funded projects, and even training of skilled workers are all positive examples of collaboration. If the state of Michigan attracted more capital from China, it would quicken the auto industry’s recovery, creating more job opportunities for its workers. For the state of Washington, cooperative research or business-to-business cooperation is possible since both areas have strong industrial bases and enormous market demands. Certain provinces on the east coast of China are highly competitive in manufacturing, whose assistance could support the reindustrialization of the US economy. Trade efficiencies could be further improved if logistics are redesigned by states and provinces.

6.5 Integration of Functions of Different Entities

Different entities should be encouraged to work together to achieve better outcomes from bilateral economic activities. Better use of consulting, legal, accounting, and tax-related institutions could encourage economic activity. To enable the success of these efforts, there should be common criteria to regulate supporting institutions.

Cooperation between industrial organizations is also very important. These organizations understand the industry well and could further reduce costs and limit the negative effects of imperfect information. Since the organizations recognize the requirements of companies in an industry, communications between the two countries’ industrial organizations might be an effective way to coordinate industrial standards and avoid unnecessary harmful competition.

6.6 Helping to Achieve Sustainable, Win-Win Development

Understanding and obeying international rules and practices requires experience. At this stage, most Chinese companies have insufficient experience to invest abroad even if they want to. The government and intermediate organizations should use different channels to provide information to those companies to let them know what they can and cannot do. With effective communication and a willingness to adapt, regulations could be harmonized from one country to the other in the areas of investment and
export control. Giving more opportunities to the free market is always important for sustainable, win-win development.

References


