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China's Economic and Trade Relations

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Merit E. Janow, Professor in the Practice of International Economic Law and International Affairs and Director of the Program in International Finance and Economic Policy at Columbia's School of International and Public Affairs, hosted an off-the-record, high-level conference on China's economic and trade relations on November 10, 2011. The purpose of this interdisciplinary conference was to bring together a group of leading academic experts, practitioners, policymakers, and business executives to analyze and discuss certain key areas of both economic tension and potential economic opportunity between China and, particularly, developed economies. The conference focused on four areas: international trade, investment, capital markets, and technology and innovation. These areas were selected because they can be expected to present opportunities for commercial collaboration and economic growth in the years ahead. Participants were invited to identify concrete steps that could be taken in each area and to be bold and constructive. The event was held in a roundtable format to encourage discussion. Each topic began with four presenters making short speeches, followed by a discussion.

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INTERNATIONAL TRADE

The first panel focused on China's participation in the World Trade Organization (WTO), in regional trade arrangements, and China-U.S. trade and macro trends more generally. With respect to China's participation in the WTO, several participants stressed the importance of the WTO's dispute settlement mechanism and addressed how it is being used by China and by other jurisdictions with respect to their trade complaints vis-à-vis China. China has already been a very active participant in WTO disputes—as respondent, complainant, and third party. By some counts, there have been 14 disputes involving China. Most of these have occurred in the past five years. In those instances where China is a respondent, the complainant is usually the United States or the United States with others. The subject matter of the disputes has encompassed quite a few areas of the covered agreements of the WTO: trade remedies, discrimination, services, GATT, and intellectual property, among others. The compliance record to date for China of those few cases that have been fully litigated is also quite good. One participant expressed the view that the WTO dispute settlement mechanism is working, that it is increasingly being utilized by China and other countries with respect to trade disputes, and in fact it should be used still more often to address sources of trade tension between China and its trading partners. Other participants argued that there are practical limits to WTO dispute settlement. Some argued that an effective China trade policy requires a number of different elements working in concert; there are limits to the extent to which the WTO dispute settlement system can be used effectively. It was noted, for example, that the WTO process is lengthy and there are times when it is simply faster to try to negotiate a solution than litigate one. There are also market access problems that are not fully covered by the rules of the WTO. It appears that there are instances when the Appellate Body has so many cases under way simultaneously that it has had to put off accepting any further cases. More fundamental operational issues occur at the panel level; for example, there are significant difficulties in obtaining and handling evidence and numerous difficulties organizing panels, among other factors. Thus, it was suggested that while the WTO dispute settlement system is working quite well, it too faces limitations and challenges.

A second focus of the trade discussion concentrated on the rising importance of regional trade agreements such as the Trans-Pacific Partnership (TPP), which has recently been promoted by the United States and appears to have the endorsement now of Japan. Asia is involved in two separate tracks of regional trade agreements. One is the TPP, which currently excludes China, and the other is an agreement among the Association of Southeast Asian Nations (ASEAN), which will include and likely be driven by China, and may be enhanced by discussions between China, Japan, and South Korea. It was argued that policymakers and business leaders should think about the dynamics associated with a two-track approach to free trade agreements in the Asia-Pacific region and consider the long-term implications for the region. The long-term benefits from economic integration, including between the United States and China, are very great. There are many important economic and political reasons to cooperate, even though we should expect both competition and economic tension along the way. This is not going to be an easy negotiation for either track. Over time, it was argued, we should be thinking about approaches that would link these two tracks and foster deeper economic integration for all the players, including cooperation between the United States and China. In the near term, the U.S.-centric and the China-centric tracks are likely to attract and compete for new members. There will be differences in what is covered and how economic issues are handled under the respective rules. The biggest gains are likely to occur if both the United States and China are part of the same integration instruments, so this should be a long-term goal. It was suggested that we need to utilize existing mechanisms such

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as APEC as well as the WTO itself in order to help facilitate the evolution of these regional arrangements.

A third point of focus centered on the macroeconomic environment in which global trade is operating. Long-standing tensions over trade policies and exchange rates between the United States and China were unlikely to recede, it was argued, and could very likely intensify in the current global macro-economic environment. In the United States, the difficult outlook for the U.S. economy reflects underlying conditions that are fundamentally different from those that prevailed before the crisis. For example, the monetary policy transmission is badly damaged, the buildup of debt by households and governments means that household spending is limited, and governments are constrained from using fiscal stimulus measures. The debt situation of the federal government and state and local governments continues to be problematic. In a weak economy, countries have an instinct to block imports, and trade liberalization initiatives tend to lose priority. In fact, it was argued that virtually all of the major initiatives for trade liberalization have occurred in the United States during periods of relative economic health. Thus, it is unrealistic to expect that politics in the United States can support trade liberalization at present. At the same time, it may be possible to better manage corporate trade concerns such as intellectual property rights, innovation policies, and government subsidies. Chinese investment in the United States could also be an area where constructive actions occur. Nevertheless, we need to be realistic, it was argued, about what the macro numbers are likely to look like. It was also argued that the situation would not be improved by the passage of protectionist trade legislation, most particularly legislation such as the China currency bill that is currently under discussion. Some participants also noted that expanding trade and even expanding exports does not necessarily equate to expanding jobs to the extent that is necessary to address political issues in the United States. Thus, developments that are good for U.S. multinationals and shareholders do not necessarily address sufficiently the employment issues faced in the United States. A serious discussion about jobs in the United States will focus on a cluster of potential policy responses, including but by no means limited to international trade policies. It is also important, it was argued, for the U.S. and Chinese authorities to reach an agreement on a process for trade rebalancing that involves multiple elements, including savings-investment adjustment in both economies (in different directions) and real exchange rate changes. This needs to be monitored by both countries to ensure progress is sustained and trade pressures do not become severe.

INVESTMENT

The second session of the conference focused on investment and the potential for China to become a major outward foreign direct investor. There has already been a substantial amount of foreign direct investment (FDI) in China, with measures estimating a stock of $1.3 trillion accumulating between 1980 and 2010. This stands in stark contrast as a development strategy to that adopted by other countries in Asia that have been far less willing to allow or encourage foreign direct investment. The new development is outbound FDI from China, driven in part by resource interests, but increasingly by a broader set of objectives as well. The discussion on investment focused on why Chinese firms are investing abroad, in the United States and elsewhere; the obstacles and constraints that they face, at home and abroad; and, conversely, the investment/regulatory climate in China for foreign investors.

With respect to outbound Chinese investment, it was argued that drivers such as the following were among the reasons for going abroad: Chinese firms' need to diversify their exposure, the current reality that strong companies have a lot of cash, and that foreign markets also provided real opportunities to generate returns. In China, state-owned enterprises (SOEs) are often the vanguard of global FDI and are sensitive to achieving adequate returns. All state-owned enterprises are under the supervision of the State Asset Administration

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Committee (SASAC), a body that is concerned both about performance and governance. While "shareholder" pressure for performance as such may not be applicable to SOEs, there is an interest in return and performance that is felt by managers and encouraged by SASAC. A number of participants observed that this is actually an exciting time for outbound Chinese FDI, and many firms and advisers are interested in facilitating such investment. At the same time, outbound FDI is still at an early stage, and the United States is not receiving as much of this investment as one might expect. The total stock of China's outward FDI had reached only $280 billion as of 2010, though it is growing quickly (China sent out $60 billion of FDI in 2010). Of the United States' $2.3 trillion stock of inward FDI, Chinese investment comprises just 0.1 percent. SOEs may be the best equipped for overseas investment, but at the same time outward FDI above $100 million requires many regulatory approvals in China. Also, SOEs often move slowly, making it difficult for them to react in a timely fashion to active M&A opportunities.

One participant addressed why, in his view, the United States is not attracting more Chinese investment and what can be done about this situation. He argued that the problem stems partly from the nature of SOEs and the fact that they need to obtain so many government approvals in China in order to undertake significant investments abroad. There is a growing trend of overseas investment by the nonstate sector, but these investments tend to be smaller. A further factor influencing behavior is fear about the U.S. investment climate. Several participants stressed that Chinese firms are concerned about regulatory restrictions in the United States, an unpredictable and sometimes hostile Congress, and the consequences at home of running into problems in the United States.

It was noted that there might be an exaggerated view about the nature of U.S. regulatory restrictions, in particular the role of the Committee on Foreign Investment in the United States (CFIUS) and the extent to which a CFIUS review is likely to inhibit Chinese investment in this country. Most deals actually will not require CFIUS review or, if reviewed, the transaction will go through in a straightforward fashion. Only a few deals run into problems and bad press, but the perception of this risk creates considerable worry in China. To address such concerns, it was suggested that the U.S. government take additional steps to clarify its policies and indicate that the United States welcomes Chinese investment. Agencies responsible for reviewing transactions, such as the U.S. Treasury Department, which is in charge of CFIUS, could take further steps to make it publicly known that most deals do not need to go through CFIUS and that most Chinese deals actually go through CFIUS without running into problems. Americans should also recognize that there are numerous irritants facing foreign investors; for example, sometimes CEOs are required to stand in lines at the U.S. Embassy for hours in order to obtain U.S. visas. It was suggested that further constraints on Chinese FDI in the United States stem from a lack of experience and the lack of requisite trust of local American management to do a good job. Several participants observed that there are Chinese government policies that appear to be based in part upon practices in the United States and around the world. To the extent that the United States is viewed as a role model for how an economy should be organized to promote growth and social welfare improvement, recent attitudes in the Congress toward Chinese investment do not augur well for the U.S. example. This viewpoint generated a lively discussion among the participants about the nature and degree of real rather than perceived barriers to investment in the United States and in China.

Another participant observed that while there have been some notable successes in terms of Chinese investment in the United States, such as Lenovo's acquisition of IBM's notebook business, as well as transactions in the auto sector, there have also been some notable failures. There is also probably more investment "under the radar" than is generally perceived to be the case. One study has shown that there is considerably more Chinese capital outflow than officially reported. Considerable research now under way in the United States and elsewhere is examining Chinese investment activity. Some of this research, it was noted, suggests that there are differences in Chinese FDI from other countries; Chinese firms are paying higher wages on average than comparable average wages at U.S. firms and contributing positive net exports as well. The numbers are small and the evidence still limited, but these developments are worth study and review.

The discussion turned next to inbound investment to China. While China has been a major recipient of foreign investment, a number of participants spoke of changes in the Chinese regulatory environment that are making foreign investment in China more complex. The introduction of a domestic competition law, the newly introduced National Security Review System, which screens foreign investment from a security perspective, and the promotion of pillar industries and indigenous innovation, among other steps, have added to more central government review of investment and greater regulatory uncertainty for the investor. These developments may represent a reintroduction of central ministry oversight over investment behavior and screening; for some years, until about 2008, Beijing ministries generally played less of a role in foreign investment.

There was widespread recognition that two-way investment flows are important and likely to continue and deepen between the United States and China. Further, this increased economic integration between China and the United States is inevitable and desirable. Since China's SOEs often seek to invest in sensitive areas like natural resources, recipient countries' scrutiny will remain high. Several participants expressed the idea that Japan's experiences with outbound investment offer some useful lessons for China. Issues of reciprocity, insufficient rule of law, and mistrust on both sides, which require attention from policymakers and business executives, were cited by several participants as preventing enhanced U.S.-China investment ties. Some participants urged the negotiation and conclusion of a bilateral investment treaty between China and the United States. Such a treaty would offer protections to both Chinese and U.S. investors based on well-established international norms.

LUNCHEON DISCUSSION

The luncheon session featured keynote remarks by a leading Japanese business executive as well as a distinguished U.S. executive, both of whom have had extensive experience in China. The U.S. executive hoped that in the future the United States would not have to look back and wonder why it didn't partner more closely with China. His speech presented four main ideas to improve U.S.-China bilateral cooperation: (1) China should increase FDI toward much-needed U.S. infrastructure, which would be a potential win-win situation for both countries; (2) both countries should increase capital availability for small and medium enterprises; (3) the United States should work more closely with Chinese SOEs; and (4) the United States should find more areas, like services, where it can sell to China.

The Japanese executive presented broad-ranging observations on future prospects for the Sino-Japanese relationship and relations between China, the United States, and Japan. He observed that China's remarkable economic growth has expanded its influence in the world. Accordingly, China has become more assertive in articulating publicly its official views on matters and in some of its actions. One action, an incident involving a Chinese fishing boat ramming a Japanese coast guard vessel, has been criticized not only by Japan but the wider international community. China appears to have taken heed.

The speaker further observed that the Chinese economy and political system are undergoing significant changes. With respect to the Chinese Communist Party itself, at one time it was only open to workers and farmers, but under President Jiang Zemin, Party membership was expanded to include company owners, managers, and others. This resulted in a significant increase in Party membership from 20.6 million in

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2003 to more than 80 million in 2010. President Hu Jintao has introduced further reforms of the Party.

Finally, the speaker offered a number of suggestions on improving Sino-Japanese relations and strengthening the global international trading system. He believed that interaction with China should be multilateral, making a point to thank the United States for being a strong Japanese ally. China has established a free trade agreement (FTA) with ASEAN and indicated its willingness to consider a structure involving ASEAN Plus Three or even ASEAN Plus Six members. With regard to Japan-China relations, he suggested that it sometimes appeared that China was torn between wanting to be more open and not. He pointed to the Japan-China Friendship Committee and its efforts to resolve issues of culture, energy, education, and the environment. He described the Committee's meeting with Premier Wen Jiabao, who claimed that China, despite its military buildup, did not have plans to challenge U.S. hegemony. In closing, the executive said that the 21st century would see further interdependence between Japan and China.

FINANCE, BANKING SYSTEM, AND CAPITAL MARKETS

The panel on the financial and banking sector explored the dynamics between the Chinese and U.S. models of financial intermediation, banking practices, accounting standards, regulatory institutions, and capital markets development. The topic of China's currency policy, while not explicitly on the conference agenda, was inevitably involved in the discussion. Participants agreed that the recent global financial crisis has had a great impact with regard to how governments handle these sensitive economic sectors. China, many felt, has been somewhat vindicated in its centrally planned and more restrictive financial sector, as it was largely shielded from the effects of the crisis while the United States suffered major setbacks. The U.S. model of liberalized financial markets has become harder to defend in light of the great damage caused domestically and internationally by the U.S.-centered financial crisis. Despite this consensus opinion, the panelists still emphasized extant problems in China's financial sector, particularly with regard to reforms that China has stalled on or failed to initiate as well as new areas of concern in light of China's increasingly large role in the world economy. Participants described both the Chinese authorities' need to acquiesce to international standards and their reluctance to push quickly or firmly toward more complete liberalization. It was acknowledged that, regardless of their issues, China and the United States would inevitably increase their financial interactions, and solutions were presented mostly in the context of mutual cooperation.

Participants focused much of their attention on the market distortions of the Chinese financial system. It was argued that intermediation of savings in China is failing. The practice of the People's Bank of China (PBoC) to continue accumulating foreign assets—largely due to their interventionist currency policy—has led to negative real interest rates for domestic savers. As a result, ordinary citizens are not able to grow their assets faster than inflation, thus eroding their ability to save. Furthermore, artificially low interest rates combined with PBoC restrictions on domestic liquidity have led to excess domestic demand for credit; this has resulted in rapidly increased unofficial intermediation of credit. Statistics were presented suggesting that 50 percent or more of domestic credit is now funded by the nonbank sector, and that often these unofficial lending channels charge exorbitant interest rates. Also, the overall level of domestic credit in the system has risen dramatically in recent years; aggregate credit has risen from approximately 110 percent of GDP before the financial crisis to about 180 percent of GDP today. Chinese policymakers, while cognizant of these issues, seem unwilling or unable to remedy these distortions.

With respect to the banking sector, arguments were made that China should be encouraged to move faster toward Basel standards for capital adequacy. Also, it was suggested that the United States needs to be more open to Chinese investments into the U.S. banking sector. Participants also raised the topic of corporate governance practices among Chinese banks. Although China has invited in foreign and domestic shareholders by listing its largest banks, the government maintains large or majority shares in those enterprises, and political connections between banks and the government can mask underlying problems. Also, the PBoC, through its massive buildup of foreign reserves, has created an environment where banks earn negative real interest rates on a portion of their liabilities.

Much attention was given to Chinese regulatory structures in the financial system. The possibility was raised that Chinese regulations are detracting from rather than adding to transparency, already a concern among international investors. A number of participants argued that improved regulatory cooperation between U.S. and Chinese authorities is important, especially between the China Securities Regulatory Commission (CSRC) and the SEC as well as the Public Company Accounting Oversight Board (PCAOB).

With regard to Chinese capital markets, it was generally agreed that liberalization in this area would remain slow. China's equity markets are small relative to the country's GDP, indicating restricted access to capital. One participant observed that the relative foreign ownership in China's banking


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and insurance sectors, for instance, has been falling rather than rising. It was suggested that the United States should seek more investment or joint venture opportunities with local Chinese investment managers and broker-dealer institutions. Also, China should increase domestic investors' ability to purchase foreign equity through its "qualified domestic institutional investor" (QDII) program. Another idea in this area was that China implement its long-stalled China Depository Receipt program and allow foreign companies to begin listing on China's stock exchanges. It was argued that such policies could lead to greater transparency among Chinese companies as Chinese investors become accustomed to the higher information disclosure standards of foreign firms.

In discussing solutions to the various financial sector issues, it was argued that the G20 body should maintain pressure on China to do its part to correct global imbalances. In conjunction with its membership in institutions such as the G20, Financial Stability Board, and Bank for International Settlements, China's regulatory quality should be expected to rise to the standards adhered to by all other countries. The supposition is that China will continue to need to receive foreign capital and to access foreign capital markets, which can be used as leverage to encourage adherence to global rules.

TECHNOLOGY AND INNOVATION

The fourth and final panel of the conference focused on technology and innovation. This discussion ranged from hot topics like indigenous innovation and intellectual property rights (IPR) to more nuanced issues such as regulations, culture, and legal structures. Conference participants who have been involved in the recent U.S.-China Innovation Dialogue explained that discussions that should pertain to innovation and technology have given way to bickering over political and economic concerns. They stressed the need for a return to dialogue to address real innovation issues. The historical basis for China's indigenous innovation policy stems from the government's 2006 strategic plan for science and technology. At the heart of the policy was an effort for China to reduce its dependence on foreign technologies and promote domestic innovation. China has been successful in attracting production of technology-driven goods but over time realized that it was not reaping any of the benefits of the technology. Also, analysis has shown that the revenue capture from the production of such goods has been extremely low. The Chinese government has devoted immense resources to research and development in recent years and possesses the fiscal flexibility to prioritize this area. Despite this, participants noted that China remains significantly behind the United States, and for the most part also behind Europe and Japan, when it comes to domestically led innovation. The reasons for this vary. One major factor is Chinese culture. China's government likes to promote a "harmonious society," but new innovation is often born out of change and a certain degree of creative confusion. Also, Chinese tend to be averse to failure, in stark contrast to the U.S. concept of "creative destruction" that sees failure as a necessary part of the process in new technology creation.

Several participants addressed what they saw as the common misperception that IPR is lacking in China. IPR is frequently evoked as a reason for the lack of willingness to share technology with China, but in truth, IPR enforcement has improved greatly as compared with 10 to 15 years ago. In fact, the Chinese copyright docket is 1,200 percent larger, and its trademark docket 300 percent greater, than in the United States. The patent office is also considerably larger. IPR cases heard in courts have increased to more than 40,000 in 2010 from 17,000 as recently as 2007. Clearly, the mechanism for dealing with the legal aspects of innovation and technology exists. The problem, however, is that very little of the legal process—only a small percent of cases—involves foreigners, meaning there is little confidence among foreigners that they will have recourse. Also, indigenous innovation policies leave foreigners questioning whether they have an equal playing field to begin with. Intellectual property in China is lacking a private, market-oriented approach; the government attempts to mandate IPR, which results in inefficiencies. This is demonstrated by the vast number of low-quality or "junk" patents granted in China each year.

When speaking of the outlook for Chinese innovation, it was argued that it will be difficult to change those structures keeping China behind the West, particularly the United States. Although devoting vast resources to university-affiliated research institutions, the financial system is unable to allocate capital efficiently and inhibits commercial monetization opportunities. The low threshold for litigation means trivial matters can constrain potential innovators. However, this does not mean innovation will take a back seat on the Chinese authorities' agenda. It was argued that rather than embracing "creative destruction," China can be a leader in process technologies and has the resources to pursue loss-leader strategies. Having missed out on recent technological revolutions, such as that for microelectronics, the Chinese are determined to take part in both the emerging life sciences and clean energy revolutions.

When it comes to cooperating and consulting about IP issues, some participants argued that there is no formal structure in place in overseas missions to ensure a coordinated presence by the U.S. Patent and Trademark Office or to undertake engagement with foreign counterparts at a suitable diplomatic rank. Structural impediments impact business groups and law firms, both of which have limited "boots on the ground" in China. Looking ahead, one participant argued that additional steps should be taken to review and strengthen the civil remedy system for patents in China. Better coordination among U.S. government agencies about China IPR issues is necessary, as well as better allocation and cooperation between government and industry groups. Greater technical cooperation between U.S. and Chinese experts and rewards for technical expertise are also needed. The United States should also align the staffing and processes used for engagement with the Chinese government and commercial entities so as to understand better and advocate for U.S. commercial and IP interests.

CONCLUDING REMARKS

The conference ended with a few concluding observations by two academic participants. One noted a major evolution in U.S.-China relations in a relatively short period of time. The stakes are high and countries have become much more competitive, but some participants expressed optimism that the high degree of interdependence between the United States and China on economic matters could foster cooperation on more contentious issues. For Chinese officials, China's own domestic political environment is also challenging, with the government overly reactive to shifting public sentiment. It was also noted that China had previously gone out of its way to encourage foreign investment and commercial activity, and part of what foreign firms are now experiencing is being treated with less "special" or preferential access than was the case in the past. The second speaker related the evolution of the U.S.-Japan relationship to that of the United States and China. It was recalled that during Japan's emergence in the 1980s, Japan was an established U.S. ally. Conditions in China today are fundamentally different, though, and China is less willing to accept the rules of the game introduced by the United States or other Western nations. Still, it is important to remember that Japan experienced a difficult transition from an export-led to a consumption-based economic model. A comparable transition is now occurring in China, and it will be challenging for China and for the world.

DINNER SESSION

Over dinner, conference participants enjoyed concluding observations by three different attendees from the United States, China, and Japan. One speaker led a complex and broad-ranging discussion of the U.S. and Chinese economies, noting how significant China's contribution to global growth has been during the past decade. The second speaker focused on the history of the U.S.-China relationship, asserting that relations were too strong to break apart but too complicated for easy solutions. A final presenter compared current U.S.-China relations with former U.S.-Japan relations, observing that both faced challenges.

CONCLUSIONS AND POTENTIAL RECOMMENDATIONS

The conference participants did not attempt to come to a consensus on recommendations or conclusions that emerged from the discussion. Nevertheless, the editors have attempted to identify a few of the more significant points that surfaced at the conference. These include:

On International Trade

- We need both to understand and be realistic about what trade policy can and cannot do. Trade policy cannot deliver jobs on the scale and in the time frame that are needed in the United States. Other policies have to be undertaken along with trade policies to support that objective.

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Mark Wu, Hugh Patrick, Curtis Milhaupt

- The WTO is an important mechanism for resolving disputes that is actively being used by China and its trading partners, and there is reason for its continued and active use and its further development. At the same time, not all problems/issues can be readily addressed through this instrument.
- There is a two-track approach to regional trade developing in Asia: one driven by the United States and the other by China. It is important to watch the unfolding dynamics and ensure that the long-term benefits of deeper integration by both China and the United States are achieved.
- Perhaps the WTO itself can take on some new functions, serving as a kind of adviser to the regional arrangements that are being shaped around the world. The WTO has expertise that can be brought to bear to offer greater consistency to a process that is lacking consistency across arrangements.
- The United States and China need to develop significant and symbolic gestures that would encourage the world to think of the U.S.-China relationship in terms of the long-term, integrated, and productive framework that is necessary for the world to remain prosperous and peaceful. We need to develop and deepen a long-term framework while recognizing that sharp disputes are likely to persist.
- The APEC mechanism itself may be one such useful means to support regional integration in the Asia-Pacific and reconcile differences in approach being undertaken by China and the United States.
- It is also important for the U.S. and Chinese authorities to reach agreement on a process for rebalancing that involves savings-investment adjustment in both economies, albeit in different directions and real exchange rate changes. Both countries, among others, need to monitor this process to ensure that progress is sustained and trade pressures do not become severe.

On Investment

- There may be an exaggerated view about the nature of U.S. regulatory restrictions, in particular the role of the Committee on Foreign Investment in the United States (CFIUS) and the extent to which a CFIUS review is likely to inhibit Chinese investment in the United States. To address such concerns, the U.S. government should consider taking additional steps to clarify its policies and indicate clearly that the United States welcomes Chinese investment.
- Agencies responsible for reviewing transactions, such as the U.S. Treasury Department, which is in charge of CFIUS, could take further steps to make it publicly known that most deals do not need to go through CFIUS and that most Chinese deals that go through CFIUS do not run into problems. The conclusion of a bilateral investment treaty between the United States and China would offer protections to both jurisdictions and investors in China and in the United States.
- Additional attention to visa constraints for business executives, both for Chinese coming to the CFIUS and Americans going to China, is needed in order to facilitate such movements.
- U.S. analysts anticipate greater regulatory uncertainty and concerns about the future as a result of further centralization of foreign investment review in China. Chinese authorities should consider additional steps to clarify existing practices and priorities and introduce greater transparency in this area.

On Finance, Banking System, and Capital Markets

- The Chinese model of central planning and a still-restricted financial sector has been somewhat vindicated since it was largely shielded from the effects of the crisis while the United States suffered major setbacks. Conversely, the U.S. model of liberalized financial markets has become harder to defend in light of the great damage caused domestically and internationally by the U.S.-centered financial crisis.

- China's currency policy and the resultant massive pileup of foreign assets have led to negative real interest rates for domestic savers. A system hungry for official channels of credit has pushed borrowers to nonbank sources of lending. Such distortions can become a serious problem without policy action.
- The United States should be more open to Chinese investments into the U.S. banking sector.
- Improved regulatory cooperation between the CSRC, the SEC, and the PCAOB are needed to foster necessary information exchange and development of best practices.
- China should increase domestic investors' ability to purchase foreign equity through its "qualified domestic institutional investor" (QDII) program. China could implement its long-stalled China Depository Receipt program and allow foreign companies to begin listing on China's stock exchanges. Such policies could lead to greater transparency among Chinese companies as Chinese investors become accustomed to the higher information disclosure standards of foreign firms.
- The G20 is an important instrument for encouraging global rebalancing efforts by the United States and China.

ON TECHNOLOGY AND INNOVATION

- China's indigenous innovation policy is relatively new and born out of China's concern that it was continuing to fall behind in the areas of innovation and technology. The policy has made many foreign firms feel uneasy and at a disadvantage. While some steps have been taken by the Chinese government to address these concerns, more are needed.
- Despite devoting vast resources to research and development and making innovation a major policy priority, China has struggled to make progress and close its technology deficit with the West, particularly with the United States. Many participants seemed to feel that cultural factors inhibit the "creative destruction" process that leads to so much innovation in the United States.
- China is determined to play a part in the life science and clean energy technology revolutions, and U.S. firms should seek expanded collaboration with Chinese firms in these sectors.
- China's weakness in IPR enforcement is something of a misconception; in fact, China has a large and active system for handling patents, copyrights, and trademarks.
- When it comes to cooperating and consulting on IP issues, there is no formal structure in place in the United States. Missions overseas should ensure a coordinated presence by the U.S. Patent and Trademark Office and undertake engagement with foreign counterparts at a suitable diplomatic rank.
- Constraints also impact business groups and law firms, both of which have limited "boots on the ground" in China. Looking ahead, additional steps should be taken to review and strengthen the civil remedy system for patents in China. Better coordination among U.S. government agencies on China IPR issues is needed, as well as better allocation and cooperation between government and industry groups. Greater technical cooperation between U.S. and Chinese experts is necessary, and technical expertise should be rewarded.
- The United States should align the staffing and processes used for engagement with the Chinese government and commercial entities so as to understand better and advocate for U.S. commercial and IP interests.

This event was cosponsored by various schools and centers at Columbia University, including the Asia-Pacific Economic Cooperation Study Center, the Center for International Business Education and Research, the Weatherhead East Asian Institute, and the School of International and Public Affairs at Columbia University; the Center on Japanese Economy and Business and The Jerome A. Chazen Institute of International Business at Columbia Business School; and Columbia Law School.


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