

# Opportunities and Challenges in Doing Business and Trade in China-US

Dr. Guoqiang Tian,  
Professor, Department of Economics

## **DESCRIPTION:**

Our roundtable in the China-US Relations Conference held in November 2003 mainly discussed opportunities and challenges that governments and business firms face in doing business and trade in both countries. The roundtable topics included: (1) dilemmas and directions of China-US economic relations, (2) Chinese financial system and its reforms, (3) implications of RMB appreciation and Currency Stability, (4) foreign direct investment in US-China, (5) poverty and urbanization, and (6) China-US trade and business development

## **SIGNIFICANCE:**

China is now experiencing a radical transition from backward society to an economic power. The world and the U.S. have a large stake in China and whether it continues to be politically stable and makes a smooth institutional transition to a free market economy. This is why the reforms undertaken in China have attracted the attention of policy-makers and scholars. China's market-oriented economic reforms since 1978 have achieved great success both in terms of economic performance and in terms of changes in its economic system. China has surprised the world with its robust economy throughout the 1980's and 1990's. The average annual growth rate of GNP was about 9.4% from 1979 to 2003, which made China the fastest growing economy in the world. China's ownership structure has also made a vast change. In 1978, about 80% of GDP was produced by the state-owned sector, but it has come down to less than 30% now

With China's transition to a market-oriented economy and high-speed economic development, the economic cooperation of China and the US has constantly improved. The U.S. has become the biggest trade partner of China, and China has become the fourth biggest partner of the U.S. China has a huge potential market for the world. Because China's economy will likely maintain a high rate of growth and has huge potential markets, increased numbers of U.S. business firms will invest and do business in China. Some of China's big firms also have begun to directly invest in the U.S. Both countries have greatly benefited from the improved economic relations. These trends will continue and are an invertible phenomenon.

Among many goods and services traded between the two countries, US forest products are highly competitive in Chinese markets. China is the fourth largest foreign market for US wood products. Due to its limited forest resource, about half of China's demand for wood and paper products (equivalent to 150 million m<sup>3</sup> of roundwood) will have to rely on imports. Expanding US forest product exports to China will not only strengthen the bilateral trade relationship and benefit consumers and producers in both countries, but also contribute to environmental protection in China by alleviating timber harvesting pressure on its fragile forest ecosystems.

While the economic relation is the most important one among China-US relations and US and China face many opportunities in doing business, investment, and trade, there are many uncertainties, challenges, puzzles, dilemmas that may deter a further improvement in economic relations between China and the US. For instance, the modern market system in China has not been completely established yet. China is still in the process of transition to a market economy, many supporting institutions are either undeveloped or immature. How to build up these supporting institutions becomes very important in order to improve the

environment of business, investment, and trade. There are still lots of government interventions on economic activities in China. So far, China has done very little in reforming its financial system. Most banks are owned or controlled by the government. Interest rates, exchange rates, and capital mobility are controlled by the government, and not determined by markets. These banks are very inefficient with bad debts ranging from 25% to 40%. They cannot survive if they compete with foreign banks. The differences in economic institutions between US and China cause many dilemmas such as difficulties in running businesses in China, debate on RMB appreciation.

The US now has a huge trade deficit with China. Yet there is a significant disagreement on the magnitude of trade deficit. To have a good long-term trade relationship that can benefit both countries, it is important for both US and China to find causes, to reach an agreement on fair measurement of the trade deficit, and to solve the trade deficit problem. Also, Law and regulations governing economic institutions are still immature and are not established yet in China. Because most US products exported to China are high tech and IT products, the protection of intellectual property rights becomes very important to the US. It is important to enact and implement legal property rights in China. Furthermore, Serious unequal income distribution is connected with rapid economic growth in China. Inequity of opportunity from power is most critical because it results in corruption and in turn unequal income. Inequity of opportunity in China results in inequity of income and social injustice. Restrictions on rural migration result in rural poverty and social injustice. These social injustices have raised many people's suspicion on the rationality of marketization reforms in China, which in turn will hamper the improvement of economic relations in China-US. Therefore, policymakers and scholars need to identify and solve these problems and challenges mentioned above.

### **Topics Discussed and Participating Institutions:**

Our roundtable in the China-US Relations Conference held in November 2003 has initiated and identified some of these problems. The themes of the roundtable included (1) dilemmas and directions of China-US economic relations, (2) Chinese financial system and its reforms, (3) implications of RMB appreciation, (4) foreign direct investment in US-China, (5) poverty and urbanization, and (6) China-US trade and development

Scholars from many participating institutions in both countries attended the roundtable. The institutions from China are: 1) Development Research Center of the State Council of China; 2) Tsinghua University; 3) Huazhong University of Science and Technology; and 4) China-America Institute (Beijing) of Management. The institutions from the US are: 1) Univ. of Hawaii, 2) Univ. of Minnesota; 3) Trinity College; 4) Texas A&M Univ.; 5) and Pan-America Investment and Bank Pan-American Capital Group

### **Recommendation for Future Research Topics:**

The topics discussed in the roundtable can lead to potential long-term research projects that may provide solutions and/or policy suggestions. The future research topics consist of general issues such as reforms in China's economic institution and strategic economic relations of China and the US as well as the hot issues on China-US trade and business such as RMB appreciations, trade deficit, intellectual property rights protection, market opening, and many others. Specifically, potential research include:

1. Causality and Measurement of Trade Deficit and Its Solution
2. Intellectual Property Rights and its Legal Protection
3. Reforms in Banking System, Financial Institutions, and Financial Markets
4. National security and Foreign Direct Investment in US-China
5. International Business and Trade and China-US Economic Cooperation
6. Identify Comparative Advantages, Specialization and Industrial Development Strategies of US-China

7. Innovation, Management Improvement and Private Enterprise Governance
8. US Taxation System and China's Tax and Fiscal Reforms
9. US Experiences of Private Enterprise Development and its Implication to China
10. Understanding How Business Is Conducted in China by Americans
11. US-China's Trade Policy Changes after China's Participation in WTO
12. Monetary and Currency Stability
13. Forest Product Trade and Business Development

**Strengths of Both Sides:**

The above issues are the ones that governments, scholars, and business leaders in both countries should answer. The common interest shared by Chinese and U.S. governments provide fertile ground for cooperative research on identifying the challenges and their solutions. Collaboration between the researchers in the U.S. and China will offer combined strengths to tackle the proposed research topics and establish/strengthen existing partnerships in research and scientific exchanges between Texas A&M and institutions in China.

**Justification for Collaboration:**

Relevant research projects at Texas A&M include the work sponsored by the ARP and USDA as well as research being conducted by visiting scholars from China in many areas but especially from International Technology and Economy Institute (ITEI) of Development Research Center of the State Council of China with Texas A&M faculty in the Department of Economics. TAMU research strengths in science, social science and humility as well as science in business are key areas for this roundtable to lead to additional proposals for long-term research. The following lists some possible collaborators from China and US.

**Possible Chinese Research Collaborators:**

Prof. Cui, Wei, Director of International Technology and Economy Institute, Development Research Center of the State Council of China  
 Prof. Liu, Yongming, Chairman, Department of Finance, Shanghai University of Finance and Economics  
 Prof. Liu, Junchang, Dean, College of Economics and Management, Beijing Forestry University  
 Prof. Liu, Weiping, Dean, College of Economics and Management, Fujian Agricultural and Forestry University  
 Prof. Liu, Haiyun, Associate Dean of School of Economics, Huazhong University of Science and Technology  
 Prof. Wang, Shaoping, Huazhong University of Science and Technology  
 Prof. Chang, Shiquan, Associate Director of International Technology and Economy Institute, Development Research Center of the State Council of China

**Possible U.S. colleagues:**

Dr. George Z. Hong, Associate Vice President Sponsored Research and Faculty Development, West Chester University of Pennsylvania  
 Mr. William F. Mei, Vice Chairman, Pan-America Capital Group Corp  
 Prof. Yijiang Wang, University of Minnesota  
 Prof. James G, Trinity College Trinity College  
 Prof. Jing Zhou, University: Rice University

Prof. Kate Zhou, University of Hawaii

Participants – Texas A&M University

Dr. Cai, Zhiyong, Assistant Professor, COAL/FRSC  
Dr. Jianbang Gan, Associate Professor, COAL/FRSC.  
Dr. Li, Qi, Professor, COL/ECON.  
Dr. Mahajan, Arvind, Professor, COB/FINC  
Dr. Tian, Guoqiang, Professor, COL/ECON  
Dr. Wolken, Larry, Senior Lecture, COB/FINC  
Dr. Zoghi, Ben, Professor, COE/IDIS  
Dr. Weihuan Xu , Principal Economist, Texas Forest Service