ABOUT THIS BOOK

From 1998 through 2000, the China Reform Forum (CRF) in Beijing and RAND in Santa Monica have jointly organized an annual conference of experts from China and the United States, focusing on economic and security subjects of mutual concern. Venues of the three conferences alternated between Beijing and Santa Monica, and conference participants included practitioners as well as scholars from both countries.

This book contains the papers delivered at the 1999 conference in Santa Monica, California, whose theme, “China, the United States, and the Global Economy,” provides the book’s title. The conference agenda and list of participants appear at the end of this volume.

The broad theme was deliberately chosen to provide ample scope to address both economic and security interests and concerns of the United States and China. While the theme was overly ambitious, it allowed participants to address both quantitative and qualitative aspects of the subject: quantitative data relating to trade and investment, both bilaterally between China and the United States, and multilaterally between them and the rest of the world; and qualitative considerations such as those relating to China’s (and Taiwan’s)

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1The subject of the conference held November 16–17, 2000, in Beijing was “The Challenges of Globalization.”
membership in the World Trade Organization (WTO), as well as the convergent and divergent security interests of China and the United States.

The principal objective of the 1999 CRF–RAND conference was to compare analysis and judgments from both sides about the economic outlook for each of the three entities referred to in the conference title—China, the United States, and the Global Economy. Associated with but subsidiary to this aim, the conference papers and accompanying discussions considered the extent to which the economic outlook in each of the three entities is dependent on, or independent of, that for the other two.

OVERVIEW OF THE CHAPTERS

In Chapter Two, Dr. Gary Hufbauer examines the outlook for the global economy. He projects relatively rapid growth in some countries and regions, but not in others. These differences he ascribes to four principal “drivers”: macroeconomic stability, the rule of law, privatization and the market economy, and international trade and investment. Hufbauer’s “bottom-line” assessment is that East Asia is likely to be the world’s most rapidly growing region, while the rich Organization for Economic Cooperation and Development (OECD) countries will sustain reasonably good rates of growth, (about 1.8 percent per capita per year). He concludes that “one thing that will not happen . . . is a blissful convergence between rich and poor countries.” Some of the poorer countries in East Asia will move toward convergence, but most will not.

It is no surprise that Dr. Hufbauer finds that sustained growth and prosperity in the American economy will redound to China’s benefit through its stimulus to China’s exports to the United States. However, he also suggests that China’s economic development will be more affected by factors other than the buoyancy of the American economy: for example, by streamlining and genuinely privatizing China’s state-owned enterprises (SOEs), extending the rule of law, and enforcing property rights and contracts. In turn, the economic outlook in the United States is likely to depend much more on domestic factors—for example, sustained productivity improvements, stable monetary and fiscal policy, and high employment rates—than on developments in China. Most economists would also assert what
Dr. Hufbauer’s balanced evaluation only implies: China’s economic prospects are much more likely to be influenced by the U.S. economy than is the U.S. economy to be influenced by that in China.

Dr. Cao’s contribution in Chapter Three on “World Economic Restructuring and China’s Economic Transformation” envisages three principal challenges facing China’s economy: rural industrialization, modernization and restructuring of urban industry, and “developing its knowledge economy.” His chapter is principally concerned with how these challenges will be affected by, and may in turn affect, the global economy. His discussion anticipates increased “globalization” and opening of China’s economy, its exposure to intensified international competition, the effects of these trends on the restructuring and reform of China’s economy, and its comparative advantages in international trade.

In Chapter Four, Dr. Gail Fosler, poses a critical question: “Can the United States’ Economic Status Continue”? Her answer is strongly affirmative. Although acknowledging “these very optimistic conclusions may appear to be Panglossian,” she grounds them in the buoyancy of consumer incomes and consumption demand, rather than in the enhanced technology and productivity of the high-tech economic sectors in the United States.

In Chapter Five, Dr. Yeh reviews “China’s Economic Growth: Recent Trends and Prospects.” He notes and dissects the myriad problems and puzzles presented by China’s economic statistics. He concludes from this analysis that, while the aggregate size of China’s economy has been underestimated, its economic growth has probably been overestimated by at least 2–3 percent! Dr. Yeh contends that China’s problem of sustaining an adjusted economic growth rate of 6–8 percent is likely to be an “arduous challenge.” He concludes that the long-term growth rate is in fact likely to be somewhat lower: “How much lower will depend largely on the pace, direction, and effectiveness of economic reforms.”

Professor Angang Hu’s Chapter Six, “The Chinese Economy in Prospect,” assesses China’s near-term and longer-term growth prospects. In the near-term, he emphasizes the importance of anti-deflationary policies in the economy to offset the deflationary tendencies engendered by the downsizing of SOEs and the accompany-
ing increases in urban unemployment and the losses of pension, health care, and other social benefits that typically have been provided by the SOEs to their employees. For the longer-term, Professor Hu’s package of recommended policies is far-reaching, dramatic, and daunting. The package of reforms includes reducing the burden of taxes and fees on investors, canceling direct and indirect subsidies to the SOEs, building an efficient “social safety net,” establishing transparent competitive bidding procedures for production and procurement contracts, reducing or canceling tariffs and nontariff barriers, and repealing current policies and practices that discriminate against or in favor of foreign investment.

If President Jiang Zemin and Premier Zhu Rongji were to give these policies the explicit imprimatur of China’s government, such negative consequences as might ensue from them in the short-run would be swamped in the medium to longer-term by the gains for China, the United States, and the global economy.

In Chapter Seven, Professor Yasheng Huang presents a provocative analysis of “The Role of Foreign-Invested Enterprises in the Chinese Economy,” employing what he refers to as an Institutional and Policy Factors Approach (IPF). He acknowledges the importance of foreign direct investment (FDI), and the relatively rapid growth of foreign-invested enterprises (FIEs) as sources of both gross national product growth and of real investment in fixed assets, compared with the contributions of the SOEs. Addressing the question of why FDI and FIEs are ascribed special importance in China’s economic growth, Professor Huang devotes about equal attention to two issues: rebutting the standard explanations and advocating his own novel explanation. In the first category, he finds the conventional explanations—enhanced productivity, export performance, bridging savings-investment gaps, and importing technology and improved management techniques—to be unconvincing.

In the second category, Professor Huang describes a new approach to explaining the FDI/FIE phenomenon in China—an approach that places principal emphasis on institutional and policy factors. In brief, IPF focus on the imperfections and inefficiencies in China’s domestic product and financial markets. These inefficiencies, he argues, result from China’s slowly changing legacy of central planning, and of non-market-based mechanisms for resource allocation: for
example, the favoritism still accorded to SOEs in access to capital and their protection from import competition. The result is discrimination against domestic start-ups and competitive markets. The institutional and policy factors approach also includes China’s jurisdictional decentralization, which inhibits those Chinese provinces that are short of savings access to capital in other provinces that have excess savings.

In Chapter Eight, Dr. Xiaomin Shi considers “China’s Macroeconomy: Expanding Domestic Demand and Interim Reforms,” focusing on the “structural contradictions” that inhibit China’s growth and modernization. He emphasizes the “contradiction” between the efforts of financial and central ministerial management, on the one hand, and the operation of market mechanisms in allocating resources, on the other. To reduce if not remove these contradictions, Dr. Shi urges that the division between government and market responsibilities should be more rigorously defined. Government should retreat “from areas in which government interference is improper,” while increasing its “presence” in areas where Dr. Shi believes the market does not function well. He envisions a concentration of government efforts to “promote and perfect market mechanisms,” while supervising the behavior of market players to prevent monopoly and abuse.

In Chapter Nine, Professor Henry Rowen elaborates China’s “Short March from Isolation to Major Player.” He charts the “march” in terms of China’s growing shares of international trade and global foreign investment, according particular attention to the important facilitating role of Hong Kong and prospectively of China’s accession to WTO.

John Despres presents in Chapter Ten a broad overview of “American Interests In and Concerns with China.” Among the main U.S. interests that he cites are preventing wars in Asia, ensuring that China’s relations with Taiwan remain peaceful, and sustaining growth in both the Chinese and American economies. More specifically, he notes China’s economic growth is of importance to the United States—“not just to large multinational firms like Boeing, Microsoft and Motorola,” but to American workers, farmers, and small businesses, as well. The importance of these interests will ex-
pand as China’s markets open further as a result of WTO membership.

He points out that China also registers as a U.S. security concern in connection with Taiwan’s peaceful future, and in China’s evolving relations with “nuclear-armed South Asia.” In Mr. Despres’ view, U.S. concerns also extend to China’s “one-party dictatorship,” and the constraints it imposes on human rights, noting that “openly criticizing such strict constraints . . . will continue to be an essential expression of American ideals.”

Dr. Xianquan Xu addresses “Sino-U.S. Economic and Trade Relations” in Chapter Eleven, concentrating on two key issues: the U.S. bilateral trade deficit with China and China’s accession to WTO. Concerning the first of these issues, he contends that U.S. estimates of the bilateral trade deficit are based on erroneous data and, in any event, “the United States should not view its trade deficits with China as a serious problem.” It might be noted in passing that while many American economists would demur on the statistical part of this contention, most would concur with Dr. Xu’s quoted conclusions about trade deficits and especially the bilateral U.S. trade deficit with China.

Turning to China’s accession to WTO, he suggests this will propel economic reform, enhance China’s economic openness, and strengthen the rule of law in the economy and society at large.

Finally, in Chapter Twelve, Dr. Hui Wang provides a broad overview of U.S.-China relations—bonds and tensions. Among the “bonds” he cites regional security and prosperity, “business ties,” bilateral trade, and preservation of the global environment. Among the “tensions,” he emphasizes the status and future of Taiwan—citing “the contradictions,” as he sees them, in U.S. policies toward Taiwan, as well as the bilateral trade imbalance and ideological divisions (including human rights in China). Dr. Wang concludes with the admonition that emphasis on the bonds in the U.S.-China relationship, rather than the tensions, is plainly advisable because “if the United States treats China as a friend, China is likely to act like one.”

So much, then, for a brief overview of the diverse contributions to the 1999 conference between RAND and the China Reform Forum included in this volume. Particularly noteworthy is the diversity among
the papers presented by senior Chinese scholars and members of the bureaucracy. Notwithstanding their diversity, several common themes emerge. These include, for example, the multiplicity of developments in the global economy encompassed by the term “globalization,” including especially the frequent attention in several of the chapters to global capital flows, the importance of foreign direct investment, technology transfer, and enhancement of economic openness. Underlying these themes is agreement among both Chinese and American authors concerning the substantial benefits to be realized by China from these developments.

Indeed, these common themes were in large measure responsible for our decision to focus the third annual CRF–RAND conference in Beijing in November 2000 on “The Challenges of Globalization.”

THE CHALLENGES OF GLOBALIZATION: COMMENTS ON THE BEIJING CONFERENCE IN 2000

While the emphasis accorded in both the American and Chinese papers to globalization is important to note, the term’s precise meaning as reflected in the various chapters that use it is ambiguous. The millions of words and the dozens of books that purport to describe and define “globalization” recall the observation of an 18th century American philosopher, Benjamin Franklin: “A flood of words, and a drop of reason,” as well as those of an anonymous 17th century poet: “Where words most abound, much sense beneath is rarely found”!

At a simple, nontechnical level, globalization may be defined as “the act, process, or policy of making something worldwide in scope or application.”

A narrower definition focusing on economic openness, might be expressed in these terms: “globalization represents the increased speed, frequency, and magnitude of access to national markets by nonnational competitors.” Moreover, this definition is intended to cover all markets including social, cultural, recreational, intellectual property, literature, film, music, and sports as well as those for merchandise and commercial services.

Globalization has struck all the countries of the world like a turbulent wave, capturing attention by politicians, scholars, entrepreneurs,
workers, farmers, and voters around the globe. Some see it as a good fortune for global economic development, and some consider it a dangerous threat, if not a disaster. In any event, the issue is important. People from different countries with differing points of view should seek to strengthen mutual understanding.

The 2000 conference in Beijing on “The Challenges of Globalization” addressed the following aspects of globalization:

1. Meaning and measurement of globalization.
2. Experience, lessons, and implications of globalization across countries and historically since the mid-19th century.
3. Issues facing the United States and China in relation to globalization including issues of the recent trends of the U.S. economy, the recent explosive development in the information technology industry and the role of innovation, and empirical examination and implications of economic integration across the Taiwan Strait.

The annual CRF–RAND conferences offer scholars and practitioners a forum to demonstrate and exchange views and ideas from their broad and diverse backgrounds. It provides a platform for scholars and officials to explore and explain current and future issues and policies—in the process enhancing mutual appreciation and understanding.