William Zarit – Chairman, American Chamber of Commerce in Beijing, China



China cannot be isolated. Just as China cannot innovate effectively in a bubble, the world economy cannot thrive without China, but it needs to be a China that competes fairly with the rest of the world

02.11.2018

Tags: China, Investment, AmCham, Association, Chamber of Commerce

The Honorable William Zarit, Chairman of the American Chamber of Commerce in Beijing (AmCham Beijing), shares the insights gained over his 25 years in China, the key priorities of AmCham Beijing regarding trade and economic linkages, and the fundamental need for both countries to strike a new 'grand bargain' based on fair and reciprocal treatment, transparency and consistent enforcement.

Bill, you have now been with AmCham Beijing for four years now, firstly as vice-chairman and now chairman. What have been the highlights for you?

In the last two years while I have been chairman of and therefore spokesperson for AmCham, I had to be very clear on what our membership thought. So I have listened very carefully to what the members have said about policy issues, which has been a great learning experience.

What has surprised me is that, as the chairman of AmCham China, I actually received better access to Chinese government officials than in my previous role as the minister for commercial affairs at the US Embassy in Beijing. We have met with government leaders both in the US and China – and within China, usually at the director-general or Vice-Minister level. Our influence has actually grown in the past two years – notably during the Trump administration – particularly as the Chinese and US governments are not communicating very much with each other.

AmCham has always been a bridge between the two countries but it is more important today than ever. As a simple indication, in the past, the AmCham Chairman might only hold a press event sporadically, but we now work with the press regularly to share our members' views.

AmCham China is separate from, but works closely with, the US Chamber of Commerce based in Washington as well as the AmCham bodies in Guangzhou and Shanghai.

What are the main concerns of your members at the moment?

AmCham conducts annual and ad hoc member surveys. In the last annual survey in fall 2017, we asked our members what they wanted the US government to do for them. The top answer was to advocate for a level playing field. The next was to advocate for an economic relationship based on fairness and reciprocal treatment.

We also asked them to list the top five challenges they faced working in China. The top answer was the lack of transparency in regulatory environment and the lack of consistent enforcement in the regulatory environment. Another major challenge was local protectionism. What was interesting is that policy compliance is now an issue – where before it might have been the absence of policy! As an example, the Chinese are getting stricter on environmental regulations, which is a positive. But there is inconsistency and lack of clarity regarding these regulations, which means that companies – American but also other foreign companies as well as local companies – find it difficult to understand how to comply. The other two top five challenges were inadequate human resources due to fierce competition with both foreign and Chinese companies; and increasing costs.

Much more topically, of course, our members do not like the tariffs imposed by the US-China trade war. It might surprise your readers: three-quarters of our member companies are negatively affected by the US tariffs – compared to only two-thirds by the Chinese tariffs! The two countries are so economically interlinked with such interconnected supply chains. That said, while our members do not like the tariffs, they support the idea of encouraging a level playing field and reciprocal treatment. I would say this concept of reciprocal treatment is really at the heart of current US-China tensions.

Could you elaborate on this concept of 'reciprocal treatment'?

First and foremost, I must say, the Chinese and the Americans often have very different definition of this concept of ‘reciprocal treatment’. For the Chinese, it often means “mutual benefit” (□□□□). That is not what we are talking about. We mean “equal” treatment (□□). Naturally, we would like to see mutual benefit and win-win collaboration, but fundamentally we are looking for equal treatment when it comes to openness in trade and investment.

Simply put, the US economy is quite open, the Chinese economy is not. If the Chinese were to open up their markets – not completely, we do not expect that – but significantly and sincerely, within a reasonable timeframe, that is the single biggest thing China could do to ease the current tensions – in my opinion.

Some Chinese business leaders may think China has an advantage in the trade war because of the sheer size of her market. However, the Chinese economy is soft at the moment! Opening up is good – for the Chinese economy. This was one of the key messages of the World Bank ‘China 2030’ report: to avoid the middle-income trap, China needs to open up and she needs to innovate.

That said, I believe there are Chinese leaders that understand the necessity for change – for opening up markets to drive the Chinese economy. If I had the opportunity to meet with top leadership, I would ask, “Looking back at history, when has China’s economy really flourished and when has it slowed down?” The answer is evident: China’s economy has flourished when it has opened up and slowed down when it has been closed.

But the Chinese system has worked very well for them – just as the US system has worked very well for us. So realistically, neither side is going to change its system. The more pertinent question is, how should both sides accommodate each other? I do not think we have a good answer to this yet.

What do you think about China’s ‘Made in China 2025’ national plan then – is it a positive example of Chinese innovation?

We have a saying: throw mud at the wall and see what sticks. Made in China 2025 is, firstly, very wasteful for the Chinese with RMB billions of subsidies, much of which will be unproductive. A tax credit system would be much more efficient. This is something China could do to improve the strategy for itself.

Having said that, there are two key problems with ‘Made in China 2025’ for economies based on competition and market forces. Firstly, if innovation is not done on a global basis, it will not be

optimal. Secondly, with its protectionist quotas, subsidies and preferential loans, which will help create national champions that will then compete in international markets, you essentially have a country competing with market-based companies. In the West, we like to say that is ‘not fair’. I do not see that China is acknowledging the predatory nature of such economic policies.

There is logic from the Chinese side. The global trade paradigm was established over 70 years ago under US leadership and therefore it is in the interests of free-market capitalism. It is not perfect, and it does not fit the Chinese model of state capitalism. It is one thing to behave as you please within your own market, i.e. practice state capitalism. But once you venture into international markets, you will find that there are other players that will push back strongly.

On the flip side, how receptive is the US government to the concerns of your members?

I led an AmCham delegation to Washington in May this year that attended 50 meetings with Congressional offices, as well as other meetings with officials from Commerce, USTR, State, Treasury, National Security Council, National Economic Council, and so on. We had six main talking points. The first was how critical the US-China economic relationship is. Frankly, up until now, the economic relationship has been very fruitful, and the glue that has kept the relationship on track when there was conflict in other parts of the relationship. The second talking point was that our members do not like the tariffs. We feel that we should have focused more on reciprocal treatment, e.g. if there is a market sector that is not open in China, the US should find something within its economy that is fairly equivalent (perhaps in dollar value) and close that off. That would have been more strategic and less damaging than the tariffs we have seen. Thirdly, we recommended that the US should work with like-minded countries. For instance, like most of the world, our membership also felt that we should have joined the Trans-Pacific Partnership.

We also did not agree on the expansion of the Committee on Foreign Investment in the US (CFIUS). What we wanted was a more transparent mechanism to review non-national security-related investments, mergers and even licensing agreements in high-tech areas of importance to the US economy (in America’s “economic national interest”), which include technology the Chinese would like to make their own. We wanted these decisions to be reviewed through a different mechanism. We also wanted the US to increase investment in education and R&D – because China is becoming increasingly competitive to some extent due to its investment in education and R&D, at a rate growing faster than that in the US.

I must add, under the current administration, a priority seems to be encouraging US companies to focus more on bringing operations back to the US, so perhaps the White House is not overly focused on the interests of US companies abroad.

A key piece of advice to foreign companies looking at entering the Chinese market?

You need to have an IPR strategy. Obtaining a Chinese patent is only the first step. Some companies keep the “black box” – the critical technology – out of China. Some just rely on innovation to stay ahead of Chinese piracy. That said, the IPR environment has improved markedly in China over the past 20 years. Today the weakest aspect is enforcement is in trade secrets, which is more nebulous and therefore not as well-regulated as patents, copyrights, or trademarks.

A final message to our international audience?

Even before the current trade friction, we had formulated three policy priorities, which we believe continue to be true for healthy US-China economic relations, as well as for the Chinese economy.

The first is building trust through clarity and consistency. That goes back to the regulatory environment and the need for transparency and consistent enforcement. The second is promoting development through open investment. The importance of foreign investment to the Chinese economy should not be ignored and yet China tends to be ranked as one of the least open foreign investment markets. The third is stimulating innovation through global cooperation.

The Chinese will celebrate their 40th anniversary of ‘reform and opening up’ on 18 December. I hope to see sweeping and substantive economic reforms announced then to be put in place as soon as humanly possible. The reality is that U.S. President Trump has pushed both Chinese President Xi and himself into a corner with neither one having room to compromise. But if the Chinese can use their 40th anniversary celebration to announce new reforms in celebration of the 40th anniversary (and not in response to US pressure), that could start to move things in a constructive direction.

The US and China once had what I call a ‘grand bargain’. The US received cheap products from Chinese manufacturers, which allowed Americans to stretch their consumer dollars, and allowed many US companies to do well. All the same issues – IP violations, a unlevel playing field, forced technology transfer – existed back then but it was accepted because the US was benefiting as well.

That grand bargain is now over for a number of reasons. A new one must be struck – and it should be based on reciprocal treatment. It is in the interest of both countries.

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