

## **Building Competitive Partnership between China and the United States**

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With the United States regarding China as its strategic competitor, it seems impossible to establish strategic trust between the two countries. However, their economic relationship, which provides enormous economic benefits to both countries, can still serve as basis for building strategic trust, since decoupling of the economic ties between China and the United States will be tremendously damaging to both sides.

Estimating gains from trade only in terms of trade balance will mask a country's real benefits from international trade and fail to fully recognize the damage caused by closing international trade. However, whether it is the CGE (computable general equilibrium) model or the method developed in the past ten years which uses share of domestic expenditure and the elasticity of substitution between domestic and foreign products, they greatly underestimate the real gains from trade and also greatly underestimate the damage that a country may incur if it puts an end to international trade. The gains from trade are mainly the development of specialization brought about by market expansion and the resulting efficiency improvement, the increase in output brought about by the allocation of resources to where higher output can be obtained, the possibility of producers being able to use intermediate products of higher quality and lower price, and consumer access to varied and diversified products. The fact that the United States imports 500 billion US dollars of goods from China does not mean that the US has delivered 500 billion dollars of benefit to China. It means that the US can reallocate resources of about 500 billion dollars to achieve higher output and income. Eliminating 500 billion dollars of import from China does not mean to that the US has more expenditure in domestic goods. Rather, it serves to wipe out benefits gained from efficient allocation of its own resources. As trade is cut off, the ensuing reallocation of resources and adjustment cost will cause tremendous damage.

According to *National Security Strategy* released in December 2017, it is the vital national interests of the United States to promote American prosperity. Normal trade between China and the US can contribute the prosperity of the United States, while cutting off trade will be harmful to US prosperity. Therefore, maintaining and promoting normal trade between the two countries is to protect the vital national interests and security of the United States, and disrupting the normal trade is to damage the vital national interests and security of the United States. This logic also holds true for China. Normal economic relations, which are relevant to vital national interests of both countries, can serve as basis to build strategic trust.

Is it necessarily true that the two countries can not establish trust in a competitive relationship?

For two agents with the same goal, if the success of one means the failure of the other, then there must be competition between the two. Such a relationship is obviously not conducive to building strategic trust. However, in some circumstances, temporary success or failure is not the most important thing for either side because they can both achieve other more important goals through competition. Just like two people racing each other, one runs faster than the other, one wins No. 1 and the other is No. 2. From the point of view of competition, one has succeeded while the other failed. However, it may not matter who wins. What matters is that through competition, both of them have run faster than they used to be and both have become healthier and stronger.

Take Boeing and Airbus for example. These two civil aircraft manufacturers are obvious competitors, as the increase of market share for one company will lead to a lower market share for the other. However, competition is *the* reason that drives the two companies to continuously improve their technology to make more convenient and faster aircrafts, so that more people can travel by air and as a result both companies can sell more aircrafts. If there were only one aircraft manufacturer in the world, it could well be that the production cost continues to rise while product quality improves only marginally and technology progresses very slowly, if at all, thanks to the lack of pressure to improve production efficiency and manufacturing technology. The company might occupy the entire market, but the size of the market would only increase slightly and might even shrink. Eventually the company would be replaced by a competitive means of transportation or a new aircraft manufacturer.

In fact, competition is a core concept in economics. The market economy system is based on effective competition. Perfect competition can make the economic system more efficient. Anti-monopoly law is acclaimed as the constitution of market economy, because its main purpose is to preserve market competition. In a competitive market, it is possible for competing players to develop a relationship of mutual trust. They are competitors when they fight for market shares, but they are also partners when it comes to expanding market, setting product standards and making technological progress. This is a relationship of competitive partnership, where it is possible to achieve trust between competitors.

To establish competitive partnership and the competitive-trustful relationship requires market players to transcend the success or failure logic and the zero-sum game mentality for market share competition. Rather, competition should be viewed as a mechanism for driving company's effort to make progress for long-term development and a way to achieve vitality of an entire industry or the whole economy. In market economy system, competitive partnership and competitive-trustful relationship do exist. In the arena of international politics, competitive partnership and competitive-trustful relationship can also be built.

The United States regards China as its competitor, but there are many areas where the two countries can cooperate. They share a lot of common interests. Both the United States

and China will have to constantly make progress due to competitive pressure from the other party. Through competition, the two countries can achieve sustained prosperity. Therefore, China and the United States can establish a competitive partnership and a competitive-trustful relationship.

How to establish a competitive partnership?

China and the United States must recognize the importance of competitive partnership from a strategic perspective and develop strategic understanding between them. Objectively speaking, neither country is able to beat the other in their competition, so the purpose of competition is to make both economies more dynamic and prosperous. Strategically, both countries must view competition from the other side as an impetus for sustained progress.

Of course, it is not enough to just have understanding, because that can often be disturbed by accidents or unexpected actions. To maintain the order of market competition, laws and regulations have been made to regulate the behaviors of market players, such as anti-monopoly law, company law, contract law, consumer protection law and intellectual property protection law. The competitive partnership between China and the United States also requires institutional support.

One institutional arrangement is to have China and the United States to sign bilateral treaties or agreements to govern their own behaviors. Under the current circumstances, it is advisable to reopen negotiations on bilateral investment treaty. China and the United States have completed several rounds of negotiations on this treaty and have reached consensus on general principles and many important areas. China's reform and opening up initiatives in recent years and the shortening of its negative list have laid a very good foundation for completing the negotiations. Signing a bilateral investment treaty is an institutional arrangement that is possible to achieve in the near future. After that, China and the United States may start negotiations on a free trade agreement so there can be a broader trade and investment agreement to regulate the behaviors of governments and enterprises.

Another institutional arrangement is to subject China and the United States to a multilateral regulating framework. At present, it is feasible for the two countries to jointly push forward the WTO reform. Although there are differences between China and the United States in their specific demands for WTO reform, they both have desire for reform and share the overall direction of reform, which is to adapt the WTO to the international trade practice of today. Therefore, with the joint effort of China and the United States, the modernization of the WTO can be achieved.

If China and the United States can develop strategic understanding and strategic trust, establish a competitive partnership, and stabilize such a partnership through bilateral and multilateral institutional arrangements, it will lead to closer economic ties, greater economic interdependence, increased common interests and potentially more harmful damage if the two countries deviate from the competitive partnership, ultimately making their competitive partnership more stable and securing lasting prosperity for both countries.