

Unedited Event Transcript

Toward a US-China Bilateral Investment Treaty

Conference cohosted by the Peterson Institute for International Economics and the China Development Research Foundation, held in Washington, DC, February 10, 2015.

Keynote Remarks by LU Mai, Secretary General of China Development Research Foundation, on US-China Economic Relations

Adam S. Posen: Good afternoon, I'd like to reconvene our session here at the Peterson Institute for International Economics. We are scheduled to have luncheon remarks by Lu Mai, Secretary General of the China Development Research Foundation. I will return to introducing the Secretary General in a moment.

Just to reiterate for those of you who just joined us, either in person or online, we're very excited today to be doing the Washington release of two parallel sets of studies; one for the Peterson Institute, one for the CDRF, on what would be involved in moving ahead and what would be the benefits of US-China bilateral investment treaty.

Our version is available on Amazon, Barnes and Noble, Google Play, as well as our website for free download. The CDRF publication is available in English with CDRF website and we will hope to have a Chinese translation of our work in time for the joint event we will be doing with CDRF in Beijing next month.

We've had a very exciting, I frankly think, and substantive discussion this morning about issues of state-owned enterprises, competition policy, a little bit about CFIUS, a lot about precedents from China's other treaties and US's lack of bits on how this would go forward.

I'm going to ask Secretary General Lu to come forward and give a broader set of remarks, as he already introduced the Conference in the context of his longstanding work and all of our common benefit from the increasing opening of China and the increasing integration of China in the US, going back to the key presidential decisions in both countries involving most favored nation status, WTO admission and so on.

And while perhaps not as earthshaking, a bilateral investment treaty or its equivalent, the TPP integration of China, would be another major step in economic terms in this regard as an accent for reform in China and I

believe liberalization in China in both political and economic terms, but also an improvement for the US.

Just so that you all fully appreciate, Lu Mai has been Secretary General of the China Development Research Foundation since 1998. He is, of course, at the helm of China's most prestigious annual economic event, The China Development Forum. He was the organizer and coordinator of China's Human Development Report 2005, which got worldwide acclaim. He has been involved and thoughtful about, as well as active in issues of world reform in China. He studied in the US as was a Research Assistant of the Harvard Institute for International Development. He has been involved with Chinese business in Hong Kong. And as he mentioned earlier, the China Development Research Foundation, our partner in this endeavor, is an independent agency funded by the independent of the Chinese Government and we're very proud to be working with them.

Lu Mai has a Master's Degree from my alma mater in Public Administration from the [inaudible 00:03:38] School, as well as a BA in Economics from the Beijing College of Economics. I would now like to invite Secretary General Lu to take the stage and give us his thoughts on this important topic.

Lu Mai:

Thank you Adam for your very kind introduction. Today in this room there are many friends, this English person in US, so I am very honored to talk here.

We discussed about bilateral investment treaty between the US and China. So I think our friends would like to know where China goes, what kind of a country it will become. Now is number two, consider about the economic size and sooner or later in total GDP it will pass the US. So if our competitor is a friend country or is another.

So if we talk about this issue I would like to recall the President Xi Jinping before he came to this position two years ago. Two years ago, in US many people already know him. He was at the US as Vice President and many Chinese don't know him. He come from a very low position from a county and a city and the province then to the Central.

But could he handle this very difficult task? Not so many people didn't sink in that way, this difficult task. Two sides tried to influence him. Many people want to give him idea. Very optimistic group think there is the Party Congress, it's 18, but they said maybe there's now 19 or 20 Party Congress. That's one group of the people.

Another group of people so proud of China's performance during the World Financial Crisis and they model it and say, "This is State

Capitalism and we're the model in the world." So both sides tried to put this on his shoulders. But he came and made it very clear about the Eighth Plan. Six were forbidden at the beginning and the one people support and then clearly implemented his policy.

Recently he summarized his policy with a full comprehensive. I just want to explain what this is about the full comprehensive by him.

First the comprehensive is build the comprehensive we're all for society by 2020. This is the commitment by a Communist Party. It's the start of a social contract they want to achieve. By 2020 the GDP will double compared with 2010. And also the income, the individual income will also double in 2020 when compared with 2010, that too doubled.

And also it says that in all fronts, that means not just economic growth, but also political, cultural, environment, all those should make progress. I should mention where our society is the goal set up by Xi Jinping, some people close to him tried to figure out who give this idea to him. But the result is nobody raised this, it was Xi Jinping himself make it shall come shortly.

What does it mean, shall come? This was come from history 2000 years ago. It's the idea about you have enough clothes and food. You're not worried about the food and the wear. But it's not a reach. So that too shall come whereof.

By his idea there is three steps; 1990's double the GDP. By 2000 double it again and by 2015 we are catching up by the mountains society. So the Party, or our leader, decided by 2000 where we should go. They decided to keep this whereof society and make it become the comprehensive. They even choose another firm, someone suggest that we become more than a society like during Chairman Mao [inaudible 00:10:18], for modernization, they even choose that. They decided to use the whereof Society in their comprehensive. That is very practical.

Our goal is still by 2020, we're a developing country compared with many developing countries, we should realize the difficulty in China. For example; in China the stunting rate in five year old children is 4 percent. This is number is very close to US. US, their starting rate is 2 percent. But in the rural area, in the poor rural area, it is 20 percent. One out of five children under five years old is stunting.

So this is the reality. The big gap between the rural and the city and the big gap between the different groups. So by 2020 the Chinese government promise to bring the warehouse society in the whole country benefit that the whole people. So recently President Xi emphasized about the rural

development, about the anti-poverty and also emphasized about build up the social protection for all.

That's a difficult job, not easy. But I think our leader will keep their promise, will increase the expenditure for those social protections and by 2020 we will have a better society.

Second. He mentioned, he emphasized is the comprehensive stiffening reform. As I said before that, the people think, some people suggest that account intervention is very good. So stay at the capitalism is the model for other countries. But by the decision made by the Communist Party, the Central Committee, is the market should play the role, a decisive role. Not the state, not the government.

So I think this is a market economy, very close, in other words under, we don't think China will go another way, but we will go just as a market economy. So price will be decided by the market. Government working on the market, in the market and so no difference when compared with many other countries.

So by this plan, several presidents, not several but the President [inaudible 00:13:50], President [00:13:52], talk about economic reform and then they take some action, but very difficult in the many area that makes progress. It's difficult. With WTO, that's our biggest achievement. They abolished more than 300 regulations and then we have our progress.

But after that the reform looks like have many difficulties and moves very slowly. So the whole society enjoyed the prosperity after joining the WTO. But no big incentive to push forward the reform.

Now comes to President Xi Jinping. He figured out our growth rate will slow down. The only way to keep our economy growth is reform, is make it more efficient. So he make a comprehensive plan, including more than 300 add them to the reform. And he himself become the leader of this leading group, take responsibility for the reform. So not any Ministers, not any local government can find some excuse unless they say, this is difficult, but he himself promised by 2020 we will make a market economy work more efficiently, more in the right way.

So last year in several areas they make progress. One is the financial reform and the tax reform. This is a low key way. Our Minister of Finance lead this reform. Before he become the Minister, he already have this plan, but we saw that plan now become the reality. It is defined as the central government's responsibility and the local government responsibility clearly and to make those financial resources available for the local government, just unconditional transfer and also changed the tax system.

All those step-by-step, last year and this year it's become the reality. It's a very clear restriction on the local government who borrow the money, who guarantee the company they owned to borrow the money. So this is the one area where we see the progress.

Another area we see is the Hokou system reform. The government promised by 2020 at least 100 million of local residents have a Hokou in the city. But meanwhile, all the residents who live in the city should enjoy the equalized public service.

The third area is about land reform. The land reform will take several years because now they start to experiment. The first one is [inaudible 00:17:52], is farmers have a right to use this land. But that land is only decided in the village and the richest in the village are or writing. But now the government should make it very clear who use this land, have the right and to give them a document. That make the farmers leave this village and move to other place easier, but make the government to seize this land more difficult because you need to negotiate with each farmer because that certifies the documents about the lands use right.

So there's still are some difficult areas. We hope this year they can make progress. One is [inaudible 00:19:01] reform. This morning they already mentioned the [inaudible 00:19:11] need to reform to improve their efficiency. The big issues I think is not simply the ownership, but most important is the government.

Governments have structure change, the behavior of the manager will change. So we saw the many companies already have those changes. So I hope this year it will make some progress. The most difficult part, actually, is that the body, the Ministry, they call it the [inaudible 00:19:54], committee of state owned enterprises. Each month they issue about 100 documents. They have a lot of division in that committee and all of them want to issue some document regulation instruction to state owned enterprises in the very broad range. So to let them give up their power is not easy, but it will happen this year.

So in overall, prospect of reforming in 2015 I think is optimistic. We will see several new measurements to be implemented under, I think BIT will promote economy to move into the more level way and to give the reform a pressure to move forward the discussion about the SOE between US and China, this is also helpful in China to implement that reform measure.

The third thing is comprehensively advancing the rule of law. This is the important issue Chinese Communist Party does have a Central Committee under issue the documents are on this. So they make several progress in

this regard. It is aimed to for the revised legal system occurring in the legal system. There is already legal system there, but we saw something is still missing like [inaudible 00:22:08], the civil law, civil law. But make it a legal system independent, that's proposed by many people including Peterson Institute about this under, it's become more closely to that independence.

The local government and the Central government should not intervene, the course, the world, and anyone give a phone call or give some suggestion, they should write it down report it so publicly. So that makes those government officials more difficult to do that.

And some other things that changed according to this reform plan, I will now go through the details. The key issue about this is rule of law. On the one hand, but another hand is Party CCPCs role. Here now by the Chinese government, they hope this to will guide together. The Communist Party leads the people to make the law and meanwhile it's will working under this law, constitution.

I hope this two sides rule of law, to idea under leadership of a Communist Party can work together in the coming several years. It's a good try to do that.

So this is the start of the third part. It's already make a progress, especially on what I mentioned, the legal system independent. The fourth one, many people may be interested in, is about enforcing party discipline strictly and then comprehensively. So that means that from one side they have a more restriction on the behavior of a government official from another side is the anti-corruption movement.

So since the 18th National Congress of the Communist Party, 76 government officials at the level of [inaudible 00:25:02] ministries on the path in the government. So they were corrupted and there have been remotely moved. Some might think this is just a power struggle, but Xi Jinping explained this in the meeting and there is evidence is there, is very clear. Who can point out which one is the wrong accused? Nobody can say that. And all those people, 76, someone already or someone will be put in the court. And after that they will send them to Quincheng, the prison near Beijing.

So what's the situation now? Is it finished or is closed to the finish? No, Xi Jinping said recently, he says it's still in the [inaudible Chinese 00:26:20]. Settlement under the corrupted force and anti-corrupted force now it's fighting and the fighting we didn't get the overwhelming success. So Xi Jinping said he will lead this continue.

Someone worried like a professor MacFarkle at Howard says, “Probably all those corrupted will get together and fight back.” It's not easy and I don't think they will success like that.

So if they can do this, totally the culture at the government official will be changed. We see some changes. We organized a training program that the beginning always have a change these school. At the beginning all government officials cook the dishes in the dorm, but after that, after 2008, they have a lot of money and every day they eat in the restaurant and they have liquor. So that's really bad, very bad culture.

And in the last three years it's changed back. They cook in their dorm by themselves and they take their time to study but they do not drink. So those are changes.

Under the government has decided from one side they fight with those appointed government official, but from another side they will make sure the new appointed government official will be clean. So now the measure is, everybody report your assets if you're above the Division Chief, including myself. I'm not a government official, but I have to report about that.

And if they want to appoint you in the government in a new position, in three days nine ministries will work together to make it clear that you'll have the foreign export green card, asset green card, what are the assets you have and the stock that you have and so on, three days. I've heard that many government officials in Quantong did not get a promotion because that they failed to write those, to report their assets.

So people said if I were young I will get a government position because so many high level government officials removed, so 76. That's good news! I'm also optimistic by this. If they keep fighting the corrupted government official, meanwhile promote the right people. I think, after five years, after this 19th People's Congress, we will see the new teams working in the government.

So in general, I see China moving in the right direction with some risk. If Xi Jinping cannot successfully lead this full comprehensive it will be a disaster for us.

So from abroad you cannot give any influence in this domestic issue but where it starts BIT, Free Trade Agreement, I think you can make a more friendly environment for China's economic growth and keep this open to our side.

Some things US want, you already use, including France in the Peterson, you use challenge, you think about China if they make a right direction. Either or not, they will challenge US leadership in the world. I don't like this word challenge. Whenever you have a different opinion, for example, in my institute, it's very Euro. I have my idea, but my colleagues have a different. Do I call them challenge me. No I will not say that. I will listen, probably I'm right, probably him right.

So US make many good decisions, but also made some mistakes. If they looks bad in the last 10 years we can see all those could be challenged, you can call this or maybe you can think it's come from a good friend's suggestion. If we look at the word in this way we can see a very bright future, but not a fight, not a challenge. And how do I say? Anyhow that's just my suggestion. I end it here, thank you.

Adam S. Posen: He may be older for government official purposes, but he was just able to just step up on stage like that, so that was pretty good.

I've very aware that the clock is running and given the Secretary General gave us his insights on the broader China reform agenda, including some of the motivations that he believes President Xi is talking about, I think that rather than my pressing him on interpretations of the word challenge I will allow our audience to pose a couple questions.

What I'd suggest is let me ask people to identify themselves. I'll recognize you. I'll gather three questions and then let the Secretary General respond and we'll take it from there. Who would like to be first? Yes please. No we're actually putting this on the web, so you hand me the glasses Jessica and you can hand that gentleman the microphone. That's fine, thank you.

Carter Dougherty: Hello, my name is Carter Dougherty. I'm with *The Bloomberg News*. I wonder if you could elaborate a little bit on your explanation of how the Bilateral Investment Treaty can help to promote the reform process in China and in particular whether the policy choice that is faced here in Washington about whether to make this, broadly speaking, relatively narrow or relatively broad matters for the internal process in China. How this question of the design of the agreement, how that fits in with China's interest in it?

Adam S. Posen: Thank you Carter. Is there a second question someone would like to pose? Come on, by any definition of the word challenge people should be willing to speak. All right, why don't you, if you're willing Mr. Secretary General, respond to Mr. Dougherty on the question of broad versus wide BIT. How that would affect reform in China and then we'll see.

Carter Dougherty: Broad versus narrow.

Adam S. Posen: Broad versus narrower.

Lu Mai: Firstly, it's about the broad. US/China relations is important to China. It's a very sensitive issue. Both sides have some people, group of people, feel very suspicious for other side. No trust between these two group of the people. So we need to move forward. What that means is re-balancing? US we do have a big interest in Asia. I think China should welcome that, but if the re-balancing only means something like contain, like a Ministry of Action, that means the policy changed.

So we need to keep this momentum. We need to convince both sides there is some people who do not trust each other. Others think this is a consistent the policy for US and for China. It's real welcome China to the growth, but not a containment. This is the broad way, it's a gesture.

And the reality is China really increase their investment abroad. We don't expect that before, but Asia's society did a report, I think seven years ago, and the CDI helped them to release that report in China. It says that by 2020 China FDI abroad will buy \$2 trillion US dollars. Nobody believed that at that time but now last year we are \$1.4 trillion of FDI abroad.

So with our treaty it's guaranteed the right for a Chinese investor to come to the US and also to make Chinese financial market under other slow risk sector is more open. This is the benefit for both sides.

Adam S. Posen: Thank you. We have time for one more question, if someone wishes to take the opportunity. Yes please, if you could go to the microphone in back.

Audience: Thank you very much. My name is [inaudible 00:38:40], from the Egyptian Embassy. I'm also working for our embassy in Beijing.

My question now since China has initiated this investment treaty with the United States, is there any possibility that China can consider joining the Transpacific Partnership Agreement? Thank you.

Lu Mai: I think Chinese government would like to join that if the US government does really welcomed. Free trade agreement between US and China is an important issue. 2009 Mr. Harry Hank Greenberg raised this in front of our Premier. We organized China different forum and each year in the end for, forum participants, go to meet the premier. And Hank raised this free Trade Agreement. So our Premier, Li Kegiang, said this is the right question. It is such an important suggestion, I support and if it's become the reality you are the first one to give this proposal.

And last year I saw Fred Bergsten and Hank Greenberg wrote a piece and they estimate with the free treatment China would get more like \$300 billion of benefit from this free trade. And US total exports will to increase \$400 billion and income, American income, will increased \$100 billion. That's a big number and I think we should overcome all those political [inaudible 40:49] and reach that under get that; \$300 billion is a big money.

Adam S. Posen:

We do like big money. Just to build the moment on what the Secretary General said. In part thanks to Hank Greenberg's impetus, but in part with support of US-China Business Council, which you mentioned and in part because of Fred Bergsten's vision, we did do the study we released a few months ago by Gary Hufbauer, Sean Minor, Fred Bergsten, and co-authors and we went through what it would take to really achieve the Free Trade Agreement.

And I think there are always going to be objectors. Like you said, there are people who don't trust on each side. But I am thoroughly convinced, based on our discussions following that work, that the current Obama administration, the trade team led by Michael Frohman, genuinely would welcome Chinese participation so long as it would not indefinitely postpone the conclusion of the talks and so long as it does not downgrade the standards of the talks.

And that's part of the reason we're having this discussion of the Bilateral Investment Treaty, is as some people here mentioned earlier this morning, the Investor Dispute Settlement, the State Owned Enterprise, the competition policy issues being talked about in TPP are much the same set of standards that we today, your organization and ours, are talking about putting between China and US on investment.

And in the last chapter of Gary, Fred, and Sean's book, they talk about using TPP or free trade area of Asia-Pacific as the means of getting China and US together. The issue of course remains, as you know well, there is an understanding in China or I should say an understandable feeling in China, you went through the accession process previously. You don't want to be coming into a new negotiation after the deal is settled. But the reality is that's where we're going to be. And so I think, I mean you're thoughts in this matter more than mine. But I think it's going to be a diplomatic challenge that the US and China are able to build on what we hope will be a TPP agreement without people in China saying, "Oh we're having the gate barred to us again," or, "People are demanding stuff from us again."

I don't know how you feel, but ...

Lu Mai:

As I said, I work in the non-profit organization and I do not represent the government. But in general, I think Chinese government is willing to negotiate with United States. So we do not have the specific problem stuff on each item. It depends on the negotiation, put those things under on the table, it can be solved about those.

If we come to think about, in the goal we want to reach the political willingness is there, I think and finally can get that. There is some difficulty probably in Congress and some political situations but if we work together and also work with local governments and the United States government we can solve this. We can overcome these problems.

Adam S. Posen:

That would be great. Please join me in thanking Secretary General Lu for his remarks. I ask everyone except him and me to stay in their seats. We're just going to take three minutes to rearrange the stage, in which case then Jeff Schott will chair the closing panel for today.

