

Unedited Event Transcript

Toward a US-China Bilateral Investment Treaty

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Panel II: Services, Manufacturing, and the Impact of BITs

Chair: Jeff Schott, Peterson Institute for International Economics

Panelists: HAN Bing, Chinese Academy of Social Sciences, "China's Negative List"
Brad Jensen, PIIE/Georgetown University, "Role of BIT in increasing Trade in Services"
ZHANG Fan, Peking University, "Impact of the BIT on China Manufacturing Industries"

Jeff Schott: All right, we're about ready to start the second panel. This morning we talked about BIT and the key issues that are involved in the negotiations between the United States and China. But of course investment is done by firms and so this panel will focus on implications for manufacturing and for services. And indeed for services investment is a crucial part of the equation.

We have three speakers for the second panel, and hopefully we will have very succinct and informative presentations that will allow us time for a lengthy question and answer.

I will introduce each speaker before he or she speaks. We will start with Dr. Han Bing, who is a Senior Research Fellow at the Chinese Academy of Social Sciences, where she is with the Institute of World Economics and Politics. She holds a doctoral degree from China University of Political Science and Law and a Master of Law from the University of Exeter in the United Kingdom. We're very pleased to have her with us today.

Wherever you're more comfortable. You can speak here or at the podium. Oh, then you'd better go to the podium.

Han Bing: Good afternoon ladies and gentlemen. I'm honored to attend today's conference. And today the topic of my presentation is the Outlook For Negative Listings of China and the US Bilateral Investment Treaty.

In July last year, as you know, China and the US meeting of the strategic and economic dialogue, the two countries committed to initiate the negative list negotiation early in 2015, based on each other's negative list offers. At this stage the active list has become one of the core issues of China and the US BIT negotiations.

In 2013, Shanghai opened the China (Shanghai) Pilot Free Trade Zone and the Shanghai municipal government has announced the Special Administrative Measures on foreign investment access to the China Pilot Free Trade Zone, which is the first negative list in China and a big step forward in China's reform of foreign investment management.

Last year, Shanghai's municipal government has published the revised version of the Special Administrative Measures. To provide an outlook for the negative listing of China and the US BIT, it need to give analysis of the implication and the application of the negative list approach and the regulation obligation. And in fact, Shanghai negative list as well as a comparative study upon the two Shanghai FTZ negative lists and the negative list of 2002 or US Model Bilateral Investment Treaty. So the main content of my report includes list of five parts. Considering the time requirements I will mainly introduce the first part, the outlook for the negative listings of China and the US BIT.

Before we talk on outlook for the China and the US negative list, we need to know the differences between the Shanghai FTZ negative list and the negative list of China and the US BIT. There are mainly reflected in the following four areas. First is the effect. We know that the negative list in the US and China BIT will be the international law, while the Shanghai FTZ negative list is the national law.

The second difference is the revision. The negative list in the US and China BIT may have the effect in 10 years, and the revision of it. Neither the two contracting countries have former negotiation. While Shanghai FTZ negative list can be amended according to the practice.

The third indifference is the contents. Provided that the China and the US BIT be concluded in accordance with the US Model BIT, the negative list between the China and the US BIT will include the reservations and the obligations of national treatment; most favored nation treatment, performance, requirements, senior management and the boards of directors. Whereas the Shanghai negative list merely concerns on the liberation, commitments of national treatment.

The last difference is the dispute settlement. We know that in the event that the investor incurs damage by reason of the host country breaching an

obligation, under the China and the US BIT the investor may submit a claim to international arbitration. In accordance to these regulations, the investor state dispute settlement. While under the Shanghai FTZ negative list the investor may seek relief through the domestic judiciary.

Based on the about analyzes all the differences between the two Shanghai FTZ negative list that's under the negative lists and China and the US BIT. This report intend to outline the negative—the general framework to the negative list of China and the US BIT and make the following recommendations to it.

The first one is that it could be argued that the Shanghai FTZ negative list could be the basis for offering the negative listings on China and the US BIT by China. We know at present the Shanghai FTZ become a test field for pushing forward the reform, improving the level of an open economy so it may provide some references to the negative listing of China and the US BIT.

Secondly, the negative list of China and the US BIT would include more nonconforming measures than that of the Shanghai FTZ negative list. As noted about the Shanghai FTZ negative list it simply includes the nonconforming measures, [inaudible 0:08:08] obligation of national treatment while the negative list of China and the US BIT involves the revisions for most favored nation treatment, for performance requirement, and the [inaudible 0:08:24], besides the national treatment.

Thirdly, it is recommended that China and the US BIT adapted the internationally accepted classification measures as negative list. Currently, as for foreign investment, there are differences in industrial classification, in different policy documents in China. The difference is in industrial classification easily causing confusion in the implementation process. So it is suggested that the negative list of China and the US BIT apply international accepted classification.

Lastly, it is considered that the negotiation of the non-conforming measures in sovereign states shall be the most important and difficult issue in the upcoming negotiation on negative listings over China and the US BIT. We know that in the UNCTAD study of 4,806 nonconforming measures scheduled under the [inaudible 0:09:41] IIA, International Investment Agreement, the share of nonconforming measures in services is 71% under the number of reservations for services is six times higher than the number of reservations for primary industries. So the impact of negotiations on negative listings of China and the US BIT this year would be a rocky road.

It is worth to note that China signals further liberation of services. According to legislation a major issue concerning comprehensive deepening reforms which were adopted by the third plenary session of the 18th [inaudible 0:10:43] central committee. It states that the finance, education, culture and the medical sectors will enjoy an orderly opening up to market access while nurturing pension, architectural design, accounting and auditing, trade and logistics and an eCommerce investment restrictions. Restrictions will be eased. Following liberation will be achieved in general manufacturing.

Further, according to the regular price conference, the Ministry of Commerce in January this year, the Ministry of Commerce says that this year it will be vigorously implement these decisions.

So to sum up, only to the different levels of economic development and the differences in regulatory approaches between the two governments, the two sides in the negative listing negotiation is said to be too difficult. Nevertheless, if both sides uphold the principles of a win-win cooperation agreement, in particular the parties fully respect each other's national conditions and [inaudible 0:12:15] more flexibility in the negotiation with the negative list, a balance the win-win and the high level China and US BIT will be even truly reached. Thanks.

Jeff Schott:

Thank you very much, Dr. Han. Our next speaker is Brad Jensen, who is a Professor of Economics and International Business at the McDonough School of Business at Georgetown University. He's also a Senior Fellow here at the Peterson Institute and a Research Associate of the National Bureau of Economic Research.

He has taught at Carnegie Mellon. He has worked at the US Census Bureau. He has gotten his PhD at a small school in Northern California called Stanford. And last but not the least, he is the author of the important chapter on services in the institute's new briefing on the US-China Investment Treaty. So well worth reading Brad's contribution and the other contribution from this publication. Brad, the floor is yours.

Brad Jensen:

Right. Thanks Jeff.

So I'd like to take a few minutes and try to persuade you that there is an important win-win opportunity for China and the US to increase growth in both countries by increasing trade and services.

China's economy, I think growth is being held back by the lack of a large, robust, efficient service sector to grow faster. China needs access to more efficient and cheaper business services. The US for its part needs to grow

faster and we need to balance our trade, so we need to export more. We happen to have a large and globally competitive service sector.

China has relatively high barriers to services trade, and importantly for our purposes today for the bilateral investment treaty, it has particularly high barriers to foreign entry. So this seems like an important opportunity. By liberalizing foreign direct investment through the BIT it could lay the foundation for increased trade and services to both countries benefit.

So I think there is growing recognition in China that growth is hampered by the lack of a robust service sector. And if we compare China to the other developed economies we see that service sectors are an important piece of an advanced economy. And if we look at China, I guess the coloring didn't come out too well, but we see that in terms of the overall economy, services account for about 35 or 36% of employment in China.

The data for China overall is not very detailed. If we look at urban China where more detail is available, we see that even in urban China the service sector only accounts for about 44% of employment. And an important category within services is a category called Business Services. This is things like telecommunications, finance, insurance, software, professional, scientific, and technical services, these services are very important intermediate inputs into the economy at large, whether it be the manufacturing sector or other service sectors. And we look at the business sector in urban China, the business service sector only accounts for about 11% of employment.

In contrast, if we look at the United States the service sector accounts for about 85% of employment in the United States. So the United States is a service economy. And if we look at that important category of business services we see that it accounts for over 20% of employment in the United States. So we have, in this country, a large business service sector.

When we look at the productivity of the service sector, now measuring this is difficult, the data is not as robust as one would like, but this has worked for my colleague Mark Nolan and co-authors that looks at labor productivity, the top row is the OECD and the highlighted row is China. And what we see is that there is a large differential in terms of labor productivity in the service sector between the OECD and China. And I would argue, while I don't data to back this up, that the US would be at the high end in terms of labor productivity in the OECD. So that the gap between the US and China in terms of services, productivity is quite large.

The US, I believe, has comparative advantage in services and the US in contrast to its large and persistent trade deficit in goods, the US has a

growing and persistent trade surplus in the service sector, again, suggesting that the US has a globally competitive service sector.

Okay, now what is the underlying source of this difference in the service sector between the United States and China? I don't think that there is anything intrinsic about Americans versus Chinese. I think it goes back to history, and that is that the US has been on the forefront of educational attainment and it turns out that business services are very skill-intensive. So when we look in the United States at workers within tradable service industries we see that they're twice as likely to have a college degree as workers in the manufacturing sector.

So these are highly-skilled workers. So tradable business services are these important business services, these important intermediate inputs, are very skill-intensive. It turns out that historically, the United States has been relatively skill-abundant, relative to other—even other developed economies. So these [inaudible 0:19:30] chart plots out average educational attainment for 60 to 65-year-olds for a number of important countries in the world. And what you see is that for people who are at the peak of their careers at this point, the United States, and this has been true even further back in the past, has been an outline in terms of educational attainment. So the United States is skill abundant historically.

And so I think that's why we observe the patterns that we observe today. Now, history is not destiny. If we look at what's happening with educational attainment in China we see that China that made rapid increases in average educational attainment. So the green bubbles are 25 to 29-year-olds. And you see that educational attainment among 25 to 29-year-olds in China is rapidly converging with levels in the developed world.

So this will solve that services problem eventually, but it may take decades for this educational attainment to work its way through the labor force. And what I argue is that in the meantime it makes sense to trade. There are gains to trade between the United States and China that would allow the United States to export more to reduce its trade deficit and would facilitate faster growth in China.

Now, an important impediment to this increased trade is trade policy in China. Now ranking measuring impediments to services trade is very difficult but the OECD has had an ongoing project where they have attempted to do this. And here is data for China and I'll just note a couple of things. The black triangles are average impediments to services trade among OECD countries. And what you see is that China has relatively

high barriers to services trade. In all of the 18 categories China is above the OECD average; so China has high barriers to services trade.

In addition, and what's important for thinking about a bilateral investment treaty, the bottom part of the bar, the orange part, that is what the OECD rates its restrictions on foreign ownership. And we see that restrictions on foreign ownership are a very important component of the high barriers to services trade in China. So reducing these barriers to foreign investment through a bilateral investment treaty will lay the foundation for increase trade and services to both countries' benefits.

And now while a BIT is an obvious prerequisite for increased foreign direct investment, in foreign direct investment commercial presence or mode 3 is very important for the delivery of many services. So for certain types of services foreign direct investment is really the only way to trade services, so this is an important impediment to mode 3 trade. But just to remind you there are other modes of trade that I think are also impeded by the lack of foreign entry. So mode 1 is think of digital services; software. It could be produced anywhere in the world and shipped to China, but often for high end business services, software customization is facilitated by a local office. So to really deliver that mode 1 you need some mode 3, okay, or mode 4 to deliver that high-end service. Whether it be software services, financial insurance, telecommunications, you often need the temporary movement of corporate executives to support the sales, to provide technical assistance. Again, having a local presence can help.

Okay, so we've often talked about these four modes as being distinct channels of services trade. And while there is no real data on this that I'm aware of, I'm increasingly convinced that all channels need to be functional for the delivery of modern business services. So when I think about higher education. an area where I think the United States has a comparative advantage, and I look at Georgetown where I work, for us to be successful as an institution of higher education we really need access to all four modes. We need to provide online delivery, we need to have students come from abroad to Georgetown's campus here in Washington, DC, we need to establish campuses around the world. We need the movement of professors around the world to support education around the world.

So for us to deliver a successful 21st century higher education experience, we need all four modes to work. If one of those modes is missing it kind of shuts off the whole enterprise. So that's where I think for the BIT, these restrictions on foreign entry are very important. They will obviously preclude mode 3 delivery, but I think that they will impede all the other types of service delivery as well.

So just in conclusion I think there's a big win-win opportunity for China and the US to increase growth in both countries by increasing trade and services, reducing the impediments to foreign direct investment is an important prerequisite to increase services trade. I think a robust US-China BIT with very few exceptions, make sure that negative list is short, could play an important role in facilitating this process. Thank you.

Jeff Schott:

Thank you very much, Brad. We are very fortunate now to have as our third speaker Dr. Xiang Fan. Dr. Xiang is a Professor of the National School of Development at Peking University. He has his PhD, which he received in 1994 from Wayne State University. After his PhD he went back to China and joined a group of scholars to create the China Center for Economic Research at Peking University. He's a Professor and teaches Macroeconomics, Urban Economics, and Economics of Antitrust and Regulation. We've very pleased to have you at our podium.

Xiang Fan:

Thank you. The Potential Impacts of BIT on China's Manufacturing Industries. My co-author is Professor [inaudible 0:27:07]. He is not here. He's in Hong Kong. China benefited a lot from manufacturing industries in the past 30 years, it is now the most hot topic. But China still needs manufacturing sectors. So our idea is that we don't quite know the potential impacts of BIT, but the manufacturing sector has already opened up to the world since China joined WTO. So it is a good example to show what can happen when a sector or an industry opened up to the world. It is an actual experiment. So we will talk about the impacts and some suggestions.

So our basic idea is the manufacturing sector do not need to be protected except for limited fields related to national security, scarce natural resources, and the [inaudible 0:28:40] strategic sector. So first let's see some facts.

This is the old version of the PPT. It is wrong. It should be the flow FDI in all sectors actually reached 117 billion in 2013. I think Peterson Institute had some stock at the numbers of stock of FDI. But the FDI in the manufacturing sector has grown much slower than the average. You can see the blue lines are the manufacturing sector, the FDIs. The red ones are now manufacturing sector. So since 2005 there's not much change for the manufacturing sector.

And here's some numbers about the US from the Chinese source, maybe different from other sources. You can see the share of US direct investment in China reduced dramatically from 10% to about—something around 2%. Probably there's some manufacture, for example, some of the

investors just invest through other countries. It is possible but there is slower domestic reduction.

I want just to report some impacts. It's a metric analysis. We use a large database, foreign level database, collected by China's National Bureau of Statistics from 2000 until 2007. It includes over 2 million foreign levels of observations.

And the first econometrics analysis, I will escape the details, but the first analysis inward FDI on domestic forms, we find overall FDI has a positive impact on foreign productivity and the profitability. Then the US impact would be smaller because the US has a smaller share. Then we see the specific industries. This chart shows two dangers to industries. You see the blue ones, the blue color, shows the proportion of foreign investment enterprises. In some industries it is very large, like industry number 39. That is their computer and the information technology industry. We found that direct impacts of FDI on foreign productivity are positive for almost all industries.

We look for different specific industries and then we found the indirect impacts in some industries are negative. So what is the direct impacts? If you are FDI firm, if you are a foreign investor firm, then we will expect a higher productivity for that firm. The indirect impacts if the sector, if the industry has a larger share of foreign direct investment, then the average productivity will be positive or negative. And then we found some negative effects.

So we found some vulnerable industries, labor-intensive industries, like shoe production, large technology gaps which is the world frontier such as the pharmaceutical industries. And the industries has environmental problems.

Okay, this is the first econometrics analysis. Then we did another metrics to see the policy changes on the FDI. Actually we collected the information restricted and forbidden items in China's category of getting FDI. That's China's policy's list, there's a positive list in the past several years and we found that 10 out of 51 restricted and forbidden items are lifted the total FDI were increased by about 4%. It is not very big.

Then the third econometrics analysis, the BITs impact on China's outward investment, we found that outward direct investment has increased the productivity of the parent company. If the firm invest afterward its productivity will be higher. And also, it can risk the productivity of other firms in the industry. That's the three econometrics analysis we did. And we have some suggestions on firms, negotiation strategies.

First, China needs to be clear that China is serious in joining the BIT and I believe it is true. And the second, there are some protection measures we needed in the long run, including the fields related to national security, related to national resources, and limited number of strategic sectors. These protections are needed, but the rules should be clear, should be agreed, and should be small; limited. And then there are some others in the short run that maybe needed some gradual lifting process for some protection measures and also need cooperation of the BIT negotiation with the domestic reform.

For example, if you gave the firm foreign national treatment then some of the items can be dropped from the list because you can use domestic regulation to deal with that.

And then we have some suggestions for the firms. They need to learn to use the BIT to enter the fields that are not open to domestic firms in China by current regulation because they can use BIT to get national treatment. And also the domestic firms need to have their global, their foreign level global strategy, and their goal outside. Suggestion, we also have some suggestion for the government.

The conclusion is that the overall effect of BIT and therefore the FDI and thereby the BIT on the Chinese manufacturing sector is positive. And then if the signing of BIT is part of the process of more widespread domestic reform then the gains may be larger. And the manufacturing industry as a whole do not need to be protected except for the fields, for a well-defined limited field. And gradual lifting of production may be needed in the short run for a small number of vulnerable industries.

So overall I think my story is that the manufacturing industry's successful story to show what will happen if a sector opened up to the world economy and how the government and the business will deal with it. Thank you.

Jeff Schott:

Thank you very much, Professor Xiang. All our speakers have been very disciplined in using the time. So that leaves about 25 minutes for questions from the audience. And what I would suggest is just raise your hand and when you get the microphone please introduce yourself before asking the question. We're open actually for the broad range of questions on issues that have been raised throughout this conference today, so we look forward for discussion. First question. Nick.

Nick Lardy:

Nick Lardy, Peterson. I'd address the question to Professor Xiang and also to Professor Jensen. Professor Xiang, you mentioned that once the BIT is

established that indigenous domestic firms could use the national treatment argument to enter into certain restricted sectors, particularly in services. So if China were to sign a BIT could either of you say something about to what extent do you think this space in an expanded service sector would be filled up by indigenous private firms that are also restricted from entering into things like telecom and financial services, and how much of the space would be filled up by foreign firms? I don't know any methodology for estimating this so I'm just interested in your impressions.

Xiang Fan: The analysis, I think probably a large part of the sector will be filled up by domestic firms. As you mentioned, likely the telecommunication and banking sector, but it depends. It depends on how the process. This is still a long way to go. First, the two countries need to sign a treaty and then how it depends on how the Chinese government to be informed domestically. But theoretically this is possible for those Chinese firms because the people talk about the national treatment because before some of the foreign firms get better than national treatment than domestic firms. So this is theoretically possible. I think this is the most—if it is implemented the domestic firms will be—occupy a large part of it.

Brad Jensen: I don't know the answer either and I think it would depend on the whole suite of public policy and regulation and accreditation and licensing that might not be part of a traditional BIT. So I've heard stories. I am not a China expert. I study the US but in talking to US multinationals you hear stories of, yes, we're allowed to enter so a bank can enter. But every time they want to establish a new ATM they need a new license. So if there are distinctions in the way that regulators treat domestic firms versus foreign firms, in terms of adding locations, then in spite of national treatment within the BIT this other kind of behind the border barrier might make it difficult for foreign firms to enter as robustly as they might otherwise. So I think that this is I think an issue with services.

It's more acute with services than with goods, though certainly an issue with goods, the kind of behind the border issues loom are very large. And as I mentioned with the foreign modes, I think there is a web of domestic regulation that can impede service firms entering a market even when national treatment is given in terms of commercial presence.

Han Bing: I can give answer to this question. According to the state council's document, which published last year, name [inaudible 0:43:23] opinions of the state council promoting fair market competition and maintaining the normal market order, it states that the negative list for market to assess shall be formulated in China and that the state council will clearly set out in the firm or list the sectors fields and the business among others where investments and operations are prohibited or restricted.

The various market participants may legally again, assess to those outside of the negative list so the private companies will also benefit from the BIT I think in this way. Thank you.

Jeff Schott: Next question, Lori.

Lori: Yeah, with [inaudible 0:44:33] again.

So two questions. One for Professor Xiang and Dr. Han, which is according to your analysis the effect of the BIT on manufacturing FDI into China from the United States will be trivial; very, very small and the big effect is on domestic reforms in China. So my question is why don't you just do the domestic reforms? Why do you need the BIT?

The question for Professor Jensen is in a sense the opposite, which is you have talked about all the opportunities for exporting into China services but we know that the big gains from trade come from own reforms, own liberalization, et cetera. You didn't mention at all what do you us would have to do in terms of making its own system more efficient. Maybe the assumption is that we have already reached nirvana, in which case you don't have to answer.

Xiang Fan: First, about a number. My number is the [inaudible 0:45:59] FDI from US is about 2.4% in 2013. It may be underestimated. It is from the official Chinese Statistic Bureau. For example, people may come invest or from other countries to China.

I think Peterson has another data that's for the stock. The stock FDI in China, the number is 1.2%. In the total stock the US occupy 1.4, but the number may be underestimated.

Second, about the why you do not do domestic reform directly, why you want to do the—to sign the BIT to persuade the government to do the reform. I think that that's a question about the Chinese domestic political economy. And through the 30 years in the past, in the Chinese reform process there are a lot of cases. It is very difficult to do the reform domestically directly so sometimes you need to go another way, like join WTO to open the market to use the international standards in the domestic market. I think that happens a lot in China.

Jeff Schott: Dr. Han.

Han Bing: I can give one example. We know that as a negative list this management is institutional in ways, which marks the huge [inaudible 0:48:23] over

China's foreign investment system. But it is also a trend for China's foreign investment management to moving closer to the international high standard investment rules. Thank you.

Jeff Schott: Brad, are we in nirvana? It doesn't feel like it.

Brad Jensen: No, I don't think we're in nirvana and I think that's a good question. I guess I would take a step back from it and say that when thinking about the bilateral relationship between the United States and China I think that both the United States and China have benefited enormously from the liberalization of goods trade and that in that liberalization and that you could think of the MFN and then the assertion to the WTO, United States consumers have benefited enormously from cheaper, more efficient Chinese produced or assembled goods. And we have facilitated or enabled a significant reallocation out of manufacturing, which I don't think is a comparative advantage industry within the United States.

That was then and we liberalized goods trade. That was comparative advantage for China and not comparative advantage for the United States. We benefited from that, so you could think of that as unilateral liberalization. So we did do that.

Now on the services side I think that China would benefit enormously just like we did from liberalizing goods trade. China would benefit enormously from allowing our globally competitive service providers access to their market and they would see some dislocation much like we did in the manufacturing sector, but their consumers and their businesses would benefit from these lower cost and immediate inputs. So that's kind of taking a step back.

Now, on services barriers, no, the United States is not clean. I don't know that where we have issues it's big in the US-China relationship. I think of them as being more of USU issues. And you could think of civilian air transport, maritime transport, and courier services are areas where they always see the ranks US impediments to trade and services is higher than the OECD average. So those are three areas that are—I don't think of those as looming large in the US-China BIT negotiation, they're probably a US-Europe thing.

Jeff Schott: Other questions? Yes sir.

Audience: It's a question first for Xian Fan.

You mentioned an important part of the negotiations and China's contribution will be the identification of strategic sectors. What's your list

of strategic sectors? You said they needed to be well-defined. so I was wondering if you could give us your list.

For Han Bing, you talked about the negative list and sort of theoretically how it would be developed. Could you tell us a little bit about the actual process by which we should expect to see the negative list put forward by the Chinese government? Are they going to be taking the Shanghai FTZ negative list and then just simply marking lines off of it to come up with a new US-China BIT negative list and what government agencies and other stakeholders are going to participate in that process? Thanks.

Xiang Fan: I think it is a difficult question and I think [inaudible 0:52:30] before and I think it is quite difficult. Probably the national security sectors and the natural resources sectors have some overlap with the strategic sectors so it's related to the natural resources, related to the oil and also the security, like arm production. These sectors probably should be—or maybe the nuclear energy production. But I think that at least there should be negotiation between the two countries. So I just have my own idea but it is not—it need for both sides to negotiate and it needs to be clear, needs to be limited.

Han Bing: The Shanghai FTZ is a test of field for pushing forward reform in China and it also published the negative list to explore the application on pre-access national treatment and negative list as the management mode. After this test review firms [inaudible 0:54:14] and vitally applicable experiences. And some of this experience will be extended to all other nations. And on that basis, the government will develop China's negative list. Thank you.

Jeff Schott: Next question, Irv.

Irving Williamson: Irving Williamson, Commissioner, US International Trade Commission. I was wondering if the panelists who could address the possible economic benefits to the United States from the BIT, particularly in terms of increased employment in the US. And in that regard if there's more Chinese investment in the US firms is that going to mean more jobs in the US?

And for Brad Jensen, if it's important that you have the liberalization at all four modes to have, shall we say, the maximum benefits from the services agreement, what does that say about US immigration and visa policies regarding how we're going to benefit from the agreement? Thank you.

Jeff Schott: You want to start, Brad?

Brad Jensen: Right, immigration.

Audience: It's good.

Brad Jensen: It is good. Immigration is good and our immigration and visa system, if you can call it a system, is not serving the national interest. Yes, for us to export services we need to mode two. In higher ed, we need a rationalized visa system for students. We're losing students to other parts of the world because it's hard to get in here or it's hard for their parents to visit. So yeah, we need a better immigration system.

In terms of jobs economists don't think that trade creates jobs. It changes the type of jobs that are done in places and we think that trade allows people to do the most efficient thing that they can. So I would expect a BIT, if it were accompanied by the regulatory changes, that would allow a robust US service firm presence in China to increase good jobs in the United States. I don't think it would increase the number of jobs but it would increase the quality of the jobs.

Xian Fan: I think in the past 20 years Chinese manufacturers, their costs are very low so they sell a lot of manufacturing products in the United States so consumers here can buy cheaper products. I remember I read a book about a lady about 2007 or 2006 about here. She has a plan to buy—does not buy anything made in China in one year. She found it is very, very difficult, she made a lot of difficulties. So I think that's the benefit.

For the employment or immigration, I think that theoretically you do not need to get the benefits for immigration. You can trade in another channel to transfer the benefit, even without immigration. But I don't know in the future. Probably this is too old. I don't know.

Brad Jensen: I would just add a word on that. Though it would be wonderful if your trade commission was asked by Congress to do a study that did an honest assessment of how these agreements could boost productivity in the US economy and that productivity growth would then create the opportunity to grow employment. That's the key. And in that way, what Brad and the other panelists were saying about the service sector is very important because the service sector allows—opening up that investment in the service sector, allows the possibility of increased productivity growth not only in services but in manufacturing and in agriculture. So you can have it across the economy. And that I think is one of the key things that the BIT could do or FDA could do in promoting economic growth and overtime employment growth in the partner economies.

Jeff Schott I think we have time for one last question if there is one. One last one and then we'll turn to President Posen.

Audience: I'm wondering if Dr. Han could elaborate more about the negative list. You mentioned as a nonconforming [inaudible 1:00:03] in services it may be the most difficult issues and I don't quite catch that. Could you give some specific examples of which service industries the US are interested to enter but China is not ready to open at this stage? Thanks.

Han Bing: Thank you. I just say that list would be the difficult issue during the China and the US BIT negotiations. I gave the start of the [inaudible 1:00:50] UNCTAD it believes from the past practices most of the time they will discuss the services sectors for reservations. So from this perspective I think it may be a difficult issue.

And I also can give you a data of that. most of the time the transportation, banking, and then insurance, business services and the communications, they are the most categories in the negotiations of the BIT. That's the data. It accounts for a combined 82% of total nonconforming measures listed in the services sector in the eight example international investment agreements. Thank you.

Adam Posen: Thank you very much. On behalf of all my colleagues we offer our thanks to Jeff and everyone on this terrific last panel. Thank you very much.

Look, if you allow me to wrap up. It's very helpful that our colleague from the ITC took us back to sort of the big picture. We've spent a lot of today, not in the weeds, in the very fruitful crops that go with really tilling the trade hardware, really, if you'll excuse the expression, fertilizing the ground for future growth. And I think it's important we do that. And I'm grateful to the China Development Research Foundation, but especially my colleagues Jeff Schott and Sean Miner, for leading our research effort on this and getting us into how feasible, in what we way we can advance the cause of greater integration and the mixed logical step for that for China and the US.

That said, as I said we closed with the ITC and we opened with Lu Mai speaking about the big picture of US-China relations and I think it is important for us to all recognize that foreign direct investment in a free flow way is one of the few relatively undisputed goods in international economics that we sometimes talk about the pluses and minuses of fast floated capital flows. We talk about the adjustment problems involved with migration and the need to look after people.

We talk occasionally even about the displacement of trade and various standards. but we have a huge range of evidence including with experience in China, including with experience in the US, that commercial direct investment transfers technology and know-how, promotes best practices, tends to raise wages, not just in developing countries, but in the US, tends to be a true win-win in a way with very little challenge. And I would argue in the spirit of both my senior colleagues sitting here at table one, that it has massive spillover effects in terms of political relations and trust as well.

And so, I'm very proud of the work we've done together on this. I'm very grateful to all of you for engaging with us on this important issue and we look forward to not only continuing to work on these issues but with our friends in Beijing, advancing this cause again next month with the CDRF. This meeting is adjourned.

