Reflections and Highlights from the 2018 US-China Forum
Given the recent headline-generating and market-making tension between the United States and China, the University of Chicago’s fourth annual US-China Forum was held at a propitious time. Gathering current and former policymakers from around the world, as well as leading UChicago scholars, the Nov. 1-2, 2018, event featured panels on topics ranging from the environment and diplomacy, to trade and China’s ambitious Belt and Road Initiative, among other timely issues.

“There is nothing more important than Sino-US relations,” said Tom Pritzker, executive chairman of Hyatt Hotels Corporation and University of Chicago Trustee, who presented on a panel with Hank Paulson, former US Treasury Secretary. Pritzker’s sentiment was echoed by other participants, including Joshua Ramo, Co-CEO of Kissinger Associates, who warned that failure of the two countries to engage productively would harm future generations. “Continued conflict between the US and China stops us from finding areas of common interest, and presents a deeper cost than we may want to pay.”

And the cost of that conflict could extend beyond those two countries, according to UChicago President Robert J. Zimmer. China’s economy is undergoing a transformation that has ripple effects for economies around the world, Zimmer said in his opening remarks. “At the same time, there has been significant escalation in economic tensions between the US and China that also impact global markets,” he said. Nearly two dozen foreign policy experts and academics parsed the significance of those economic tensions for the US, China, and the world.

The following overview addresses some key themes from the gathering, but all discussions were captured on video and available for viewing here along with complete session transcripts.

**Presenters challenge, disagree, enlighten**

In a reminder of how much China’s economy has changed over the last 40 years when it began to open its markets to competition, Pritzker and Paulson kicked off the conference with a discussion of their business experience in China. For Pritzker and the Hyatt Corp., that meant enduring a long bureaucratic process to just build one hotel decades ago, while today nearly two dozen Hyatt hotels dot the Chinese map as local officials welcome such development. For Paulson, one of the many lessons he learned while doing business in China during his tenure at Goldman Sachs, was the value of building relationships. He stressed that those connections were key to managing the international fall-out from the Financial Crisis of 2007-08 while he was Treasury Secretary. Without those relationships, “the world would be a different place,” Paulson said.

China’s evolving economy was a key theme throughout the conference, often focusing on the degree to which the state is still involved in domestic and international markets. This question informed discussion of the China’s ambitious Belt and Road Initiative (BRI), a proposed multi-billion dollar infrastructure program impacting more than five dozen countries. The second panel, consisting of three UChicago scholars from history, political science, and economics, engaged in a lively debate about the purpose of the BRI (whether it is essentially an economic or political endeavor), as well as how projects are financed (whether recipient countries are put in a financially risky position), and other related issues. All sounded caution when it came to expectations for BRI, noting especially the problems that may arise if too many projects fail financially. Yet another panel addressed the implications for BRI on those countries where investment has occurred or is planned. While it is still too early to make a definitive assessment of BRI’s impact, the presenters noted, and while there is also a lack of data on individual projects to help determine benefits and costs. W. Guyde Moore, former Liberian minister for public works, said that China’s investments over the years have benefited African nations. “Chinese presence in Africa, especially in infrastructure investment, has been a net positive,” Moore said. Other panelists defended China’s efforts against critics who suggest that China is intentionally burdening countries with debt, noting that most of the projects are in sound shape.
and that it serves China’s interests for the projects to succeed.

Former US Treasury Secretary Bob Rubin led a panel on the growth prospects for China’s economy, and he framed the debate by challenging the presenters to consider the differences between China’s state-influenced economy vs. a free-market system, and how those two approaches influence growth. Professor Yiping Huang of Peking University’s China Center for Economic Development, was quick to state that China is taking a gradual approach in its move to market reforms and that, while such an approach can be frustrating for other countries, it will best serve China’s long-term interests and, by extension, the rest of the world.

In response, UChicago professor Anil Kashyap, struck a chord that resonated throughout the rest of the conference when he described a fundamental friction within Chinese society that comes down to reconciling between personal and economic freedom. “That’s the fundamental challenge,” Kashyap said. An economy that depends on state intervention to bail it out will ultimately suffer stunted growth, he said. In a market economy, the freedom to fail will ensure resources get allotted to optimal outcomes. “How much will you let the private sector do what it wants?” Kashyap asked. “If every time there is a slowdown you are going to prop up industries, that will work against growth.”

Hansen, along with co-presenters Wang Yanzhi, president of the Silk Road Fund and UChicago professor Raghuram G. Rajan, agreed that the development and stability of China’s financial system was key to stable growth. Hansen warned that China’s state-owned banks are not meeting the demands of aspiring companies, thereby encouraging the development of shadow banking that extends beyond the reach of regulators. Yanzhi said that China is carefully selecting its business partners and that such caution is necessary, even if it is perceived as inhibiting growth or encouraging other banks to step in. Competition from international lenders could help spur further improvements in the Chinese financial sector, Rajan said, adding that he has been encouraged recently by positive reports pertaining to China’s developing financial institutions.

Diplomacy was also on tap as former US and China diplomats joined Ramo to discuss how economic policymaking can impact diplomacy, and vice versa. In response to challenges about China’s status as a developing or a “first-world” economy, Zhou Wenzhong, former ambassador extraordinary to the United States, was clear that the large number of people still living in poverty in China (roughly 30 million) and its low levels of per capita gross domestic product (over 70th in the world), mean that China is very much a developing nation. Likewise, other nations that have had many decades of growth following the industrial revolution should stop pressuring China to make too many changes too quickly. China will continue to move toward a market economy, but it will take time, Zhou said.

Economic growth has implications beyond questions relating to GDP, business development, and finance, to include such issues as the environment, sustainable development and clean energy. UChicago professor and BFI Director Michael Greenstone put the issue of the environment and health into perspective when he noted that if China met the pollution standards set by the World Health Organization, Beijing residents would live an average of six years longer. Richard Sandor, chairman and CEO of American Financial Exchange and a UChicago Law School lecturer, recounted past environmental successes in the United
States—including drastic reductions in acid rain levels in the 1990s—and suggested that such progress is attainable in China if market forces are allowed to influence firms’ decisions.

The current tension between the US and China was noted by many presenters, and each cautioned that such tensions should be resolved soon before they devolve into something worse. Moore, in his concluding remarks, reminded the audience of a Liberian saying: “When two elephants fight, it is the grass that suffers.”

Michelle Caruso-Cabrera, CNBC contributor and moderator of the Forum, addressed this struggle directly in her framing remarks, noting that tensions between the US and China have escalated recently—both in word and deed—so much so that some observers have warned about the start of a new Cold War. Such a conflict would have profound consequences, Caruso-Cabrera said, and that’s why the questions addressed at the Forum were so important. “China’s growing role in the Global Economy is increasingly controversial,” she said. “In some places it is derided. In some places it is welcomed. Nowhere is it unnoticed.”