Program on International Financial Systems China Development Research Foundation

SYMPOSIUM ON BUILDING THE 21st CENTURY: AN AGENDA FOR CHINA AND THE UNITED STATES

September 10-11, 2020

Final Report

PIFS

The Program on International Financial Systems (PIFS) is a 501 (c)(3) organization that hosts international symposia, executive education programs and special events that foster dialogue and promote education on issues impacting the global financial system. PIFS also conducts research on these issues.

PIFS was founded in 1986, by Hal S. Scott, now Professor Emeritus of Harvard Law School. Over thirty years later, Hal Scott continues to lead PIFS. Today, PIFS hosts three annual international symposia, US-Japan (21 years), US-Europe (18 years), and US-China (17 years).

Harvard Law School is a non-financial sponsor of PIFS symposia and PIFS collaborates with Harvard Law School Executive Education for programs delivered on campus.

Symposium on Building the Financial System of the Twenty-First Century: An Agenda for China and the United States

Virtual via Zoom, September 10-11, 2020

The 17th China-U.S. Symposium of the Program on International Financial Systems was held via Zoom on September 10-11, 2020. The Symposium was held at a time of considerable economic and political uncertainty and heightened tensions between the two countries. Concerns over the global course of the COVID-19 pandemic remained high, although participants noted that the situation within China appeared to be under better control than that in the U.S. While many participants were optimistic that the pandemic would be contained through behavioral changes, better therapeutics, and the development of effective vaccines, they did not expect a return to pre-pandemic behavior for the foreseeable future. There was also considerable concern about the state and direction of China-U.S. relations, with the U.S. presidential election campaign adding uncertainty to the already fraught situation. Sessions discussed Chinese and U.S. public health and economic responses to the pandemic, the future of China-U.S. trade and supply chains, and the prospects for financial market access between China and the U.S.

Topic 1: How Did the US and China Each Respond to the Initial Covid-19 Outbreak and How Are They Mitigating Ongoing Risks?

For Topic 1, a panel of experts (Xue Lan, Jeff Bader, Wang Shaoguang, and Mark McClellan) discussed the performance of the U.S. and China in responding to the COVID-19 pandemic and addressed questions from participants. Participants also addressed the issue at several other points in the Symposium. While the first known outbreak occurred in Wuhan and spread quickly within China, a vigorous public health response in China had reduced community infection to very low levels by March 2020. In contrast, the U.S. had first detected community transmission much later, and by the time of the Symposium accounted for the largest numbers of COVID-19 cases and deaths in the world.

Early Responses

Some panelists gave Chinese authorities high marks for rapidly detecting the virus, sequencing its RNA, and developing a test kit. They noted that Chinese authorities had alerted the World Health Organization and communicated about the disease with counterparts in other countries, including the Centers for Disease Control (CDC) in the U.S. In their view, the Chinese CDC moved quickly to try to find the geographic origin of the virus and to track its spread. Although there was a general agreement that the Chinese government response was quick and effective once the Chinese CDC was brought in, some participants were more critical regarding the early days of the pandemic timeline. They argued that local authorities initially covered up the appearance of the new SARS-like disease, and that the Chinese CDC was not called in soon enough to contain its spread. It was also observed that there had been no independent report on the details of how the Chinese government handled the initial outbreak. Some participants believed such a report was essential to putting China-U.S. relations on a more cooperative footing.

In response to the rapid spread of the virus, panelists agreed that Chinese authorities acted quickly to lock down economic and social activity in hot spots such as Wuhan, other parts of Hubei, and Henan. While there was some spread to more distant areas of the country due to individuals trying to escape Wuhan, for the most part community spread was confined to a small number of hot spots in which public health measures were highly effective—reducing reported cases in Hubei to zero in about two and a half months and Henan cases to zero in about a month. While the lockdown efforts were portrayed as draconian in much of the Western media, public health experts agreed that they shown the effectiveness of making intensive use of traditional public health measures including lockdown, quarantine/isolation, and contact tracing. Other countries that were similarly successful against the pandemic, such as South Korea, used similar tools.

The U.S. responses were seen by panelists as disappointing. In their view, a series of political and epidemiological errors contributed to widespread transmission, despite ample warning of the disease's contagiousness. Early some failures in producing and distributing test kits hampered real-time tracking of the spread of the virus. Meanwhile, the lack of a coordinated federal effort to provide personal protective equipment (PPE), testing kits, and ventilators to the areas that needed them most were seen by some participants as failures of leadership. There was also considerable variation across states in the extent to which they chose to enforce public health measures such as masks and social distancing.

Medical Developments

Participants were complimentary of both countries regarding the work in understanding the disease and developing testing, therapeutics, and vaccines. Researchers around the world, but particularly in China and the U.S., devoted unprecedented resources and technical expertise to these problems, with unprecedentedly rapid successes. From the early sequencing of the virus in China to the development of techniques to track the geographic spread of particular mutations, the two countries' research institutions provided a new model of speed and cooperation, despite mutual criticism at the political level. The two countries' CDCs and other research institutions also took the global lead in determining how the disease spread, which contributed over time to better protocols. Similarly, their biotech industries were among the leaders in testing and developing therapeutics and vaccines.

The extraordinary U.S. infrastructure of research hospitals, federal and state research funding mechanisms, and biotech industry allowed the country to respond much more effectively on the research and development side than it had on public health measures. By September, the U.S. had tested more people for COVID-19 than any other country, and public health officials were predicting that safe and reasonably effective vaccines would be available by the end of 2020. While the administration of vaccines to the population was seen as likely to be a significant logistical challenge, the federal government had put in place a policy to ensure rapid procurement of huge quantities of various vaccines currently under development.

Lessons

Participants drew several lessons from the experiences to date of China and the U.S. in confronting the pandemic. One was the effectiveness of traditional public health measures of lockdown, quarantine and isolation, and contact tracing when used in a consistent manner. Another was the importance of transparency in providing vital and accurate information. In addition, some participants drew a contrast between the social bases of Chinese and U.S. society, arguing that the Chinese people had been more willing to sacrifice for benefit of community and trust political authorities, whereas the importance of individual rights in the U.S. had made lockdowns, travel bans, and mask mandates extremely difficult. Several also expressed concern about the effects of anti-establishment sentiments in the U.S. They worried that, even after safe and effective vaccines had become available, the prevalence of anti-vaccine sentiment in the U.S. would continue to hamper efforts to control the pandemic. Finally, participants expressed dismay at what they saw as a mutual political recriminations between the U.S. and China.

Topic 2: What Is the Future of China-U.S. Commerce and Trade? What Are the Risks to the Global and China-U.S. Supply-Chains?

For Topic 2, a panel (Nicholas Lardy, Shen Jianguang, Michael Taylor, and Yu Miaojie) discussed the future of global supply chains and addressed questions from participants. In particular, they addressed two challenges to the current configuration of supply chains: China-U.S. political and trade tensions and concerns about supply chain resilience sparked by the COVID-19 disruption. These forces had contributed to popular predictions of "decoupling" of either the U.S. or China from global supply chains. Despite the rhetoric, most panelists saw global supply chains and China-U.S. commerce as having considerable staying power, although some predicted that there could be important shifts in at least some product areas.

Economic Logic of China-U.S. Commerce and Supply Chains

Several participants remarked on the staying power of China-U.S. commerce and supply chains, as well as the continuing strength of China in global trade. Starting with China's role in global trade, it was noted that Chinese global exports had continued to grow throughout 2019, despite a fall in exports to the U.S. as a result of the Trump administration's tariffs and the overall slowdown in global trade. By all measures, Chinese export growth was continuing to exceed that of the U.S. and the rest of the world prior to the pandemic. Moreover, China had bounced back in terms of both exports and economic growth in the third quarter of 2020, after its pandemic lockdowns ended. In particular, post-lockdown Chinese export growth had been very strong in several categories, including home goods, electronics, medical devices, and PPE.

Participants agreed that the current strength of Chinese exports was the result of China's relatively quick recovery from the pandemic recession, its continued comparative advantages in manufacturing, and a commitment to stay engaged in global commerce. Moreover, China's openness to FDI and component trade had made it a central player in global supply chains. Financial liberalization, discussed in Topic 3, further supported the integration of China into the global economy. Regional integration efforts like the Belt and Road Initiative added to the opportunities for China to expand its global footprint. Several participants argued that these advantages were likely to keep China as a central player in global trade.

Panelists noted that both the Chinese and U.S. economies had become highly reliant on each other. The U.S. remained China's largest export market, reflecting both comparative advantage and the shape of Asia-Pacific supply chains. U.S. firms and consumers continued to rely on Chinese production, including industrial commodities such as chemicals, machinery, and consumer electronics assembled in China from components from around the region. Meanwhile, U.S. firms, including their Chinese subsidiaries, were important players in component trade, supplying high value-added goods and services in which they had an advantage. The trans-Pacific commerce and supply chains that had developed over decades thus offered benefit for many Chinese and U.S. firms, as well as for consumers.

Challenges to China-U.S. Commerce and Supply Chains

Despite the apparent economic logic of China-U.S. commerce and supply chains, participants discussed two challenges. First was the political challenge of decoupling. Participants noted the rise of arguments in the U.S. and other Western countries in favor of reducing dependence on China. This had gone the furthest in the U.S., where the Trump administration had expressed considerable hostility both to trade with China and even to the notion of regional or global supply chains. With regard to supply chains, participants pointed to trade policies that were meant to bring manufacturing back onshore to the U.S. Although those efforts had not been seen to have large effects to date, they had raised the costs for importers of foreign products.

Trump administration trade negotiations with China had focused not only on perceived unfair trade practices and lack of intellectual property protection, but also on bilateral trade balances. However, participants noted that efforts to reduce bilateral trade deficits with China, by imposing tariffs and negotiating managed trade deals like the Phase 1 deal agreed in 2019, had not contributed to higher U.S. exports to China, although they had succeeded in reducing Chinese exports to the U.S.

An important rationale for decoupling from China was based on security, and particularly technological and cyber security. Actions such as the sanctioning of Huawei and efforts to prevent transfer of intellectual property from the U.S. to China were among the steps taken to reduce U.S. dependence on China for tech manufacturing. As of 2020, concerns about access to life-saving medications and medical equipment had also become an important consideration for policymakers in a variety of countries, including the U.S.

Some participants observed that Chinese leaders were quietly moving in the direction of decoupling from dependence on trade with the U.S. One goal was to reduce reliance on exports to the U.S. by building domestic demand, following the logic of longstanding economic rebalancing plans. The other goal was to reduce reliance on foreign technology through an ambitious technology development program. Not all participants agreed that Chinese sought to decouple, however. They pointed out that China was committing to global economic involvement across multiple axes, including trade, investment, financial liberalization, and the Belt and Road Initiative.

An important challenge for many firms and countries was to make supply chains more resilient. It was noted that companies were increasingly worried about overreliance on linear supply chains, despite their efficiency. Rather, experiences of disruption, such as the COVID-19 pandemic or the 2011 Japanese tsunami and nuclear plant disaster, had caused firms to reconsider existing supply chains in the light of their lack of resilience to disruption. Participants noted three main strategies for improving supply chain resilience: diversification, regionalization, and redundancy. Efforts to increase diversification and redundancy could be seen, for example, in so-called “China plus one” strategies, in which China would continue to be a central location in supply chains, but companies would seek to develop sources in other countries as well. Regionalization was another possibility—by shortening supply chains and working with countries that were politically closer, it was argued, firms in the U.S. and Europe could improve their resiliency.

Looking to the Future

Looking to the future, many participants suggested that the basic dynamics of China-U.S. commerce and supply chains would not change fundamentally. Instead, they predicted more limited changes. The biggest impact, they argued, would be in a limited set of sectors, where national security imperatives would drive U.S. firms to seek out non-Chinese partners and production locations, and Chinese firms to seek out domestic or regional partners. For example, it was predicted that the U.S. would push for more self-sufficiency in some areas, such as medicine. Similarly, China was seen as likely to prioritize self-sufficiency in computer chips as a result of both domestic aspirations and the aggressive sanctioning of Chinese tech companies such as Huawei by the U.S. and other developed economies. Regionalization of supply chains would be supported by the proliferation of regional free trade agreements, such as the U.S.-Mexico-Canada Free Trade Agreement as well as by regional Chinese initiatives like the Belt and Road Initiative.

Topic 3: Expanding or Restricting US-China Financial Market Access? CFIUS, Delisting, and the Opening of Chinese Markets

Topic 3 was discussed by both a panel of experts (Zhao Haiying, Bill Hinman, Simon Gleave, Huang Zhaohui, and Ryan VanGrack) and in breakout groups in which all Symposium participants participated. This section draws on the discussions in both the panel and breakout groups.

Participants agreed that there were considerable benefits to both China and the U.S. of access to each other's financial markets. However, they also recognized that political tensions between the two countries could derail prospects for greater financial integration. The question that pervaded discussion was whether financial integration could continue to increase in spite of strategic tensions and increasing calls for economic decoupling.

Participants saw benefits to both China and the U.S. from advancing financial integration. For Chinese firms, access to U.S. financial markets helped to raise funds and foreign financial institutions in China were seen as contributing to the quality of financial markets and intermediation—for example, by promoting fundamental investing and risk management tools. For the U.S., capital inflows from China helped to provide needed investment and contribute to interest rate stability, while U.S. financial institutions saw attractive opportunities in the Chinese financial markets.

Despite the many mutual benefits from financial integration, a number of participants worried whether further inegration would be possible. While positive trends in capital flows, FDI, and transnational listings showed the economic benefits, they saw political tensions as potentially derailing financial integration. Participants pointed to growing suspicions and hostility in both the U.S. and China. The stridency of Chinese "wolf warrior diplomacy" paralleled warnings among U.S. policy makers of a new Cold War between the two countries. Meanwhile, a growing list of strategic flashpoints and issues of contention were growing. And in economic policy, a number of participants pointed to the growth of technonationalism in the form of intellectual property protection, entity restrictions, competition and disputes over AI and cybersecurity, and even competition over medicine and vaccine development. Thus, participants asked whether financial integration could continue to grow despite strategic tensions and calls for decoupling.

U.S. Politics

Participants discussed U.S. perceptions of China at length. They agreed that there was a growing mistrust of China and the Chinese government at both popular and elite levels, as seen in political discourse, public opinion surveys, legislative proposals, and executive orders targeted at China, Chinese entities, and Chinese individuals. Many were particularly struck by the resentment voiced by some politicians and commentators about China's role in the global spread of COVID-19, including the use of terms such as "China virus."

Participants noted that U.S. concerns about China as a strategic and economic competitor had been growing for several years. While most clearly enunciated by Trump administration officials, many agreed that growing mistrust spanned the political spectrum. It also was seen as increasingly comprehensive in nature, ranging across strategic competition in the security realm to resentment over perceived unfair economic competition to fears that the U.S. and China were in an all-out competition for global technological dominance, and to renewed concerns over human rights and the autonomy of Hong Kong.

A number of participants pointed to the ongoing presidential election season as exacerbating anti-Chinese sentiments. Recent strong rhetoric by Trump administration officials had gone beyond long-standing critiques by President Trump and his economic team about unfair competition. However, some participants interpreted these speeches as being less about a new U.S. national security strategy than about electoral politics, as both Republicans and Democrats found it useful to paint their opponents as soft on China. While this suggested to many that there might be new opportunities for China-U.S. cooperation after the election, several participants cautioned that this might not be the case whatever the outcome of the U.S. election.

Participants discussed whether a Biden administration would differ significantly from a second Trump administration. While participants agreed that a Biden administration would be more likely to use measured rhetoric and to try to engage China more through multilateral mechanisms such as the WTO, about which the Trump administration had shown deep suspicion, many pointed out that both teams shared concerns about strategic and technological competition between the two countries. Thus, while some suggested that a Biden administration would be more likely to search for areas of win-win cooperation, such as in climate change policy, global public health, or finance, others cautioned that it was likely that the U.S. would continue to pursue a harder line regarding China issues than had been seen in the Obama or Bush administrations. A number of participants also predicted that a Biden administration would be more critical on human rights issues than had been the case under the Trump administration

In contrast to political discourse, many U.S. firms, financial institutions, and investors were seen as more open to liberalized trade and capital flows. The complementary nature of Chinese and U.S. comparative advantage, as well as the deeply-intertwined supply chains and mutual dependence on each other's markets were seen as inspiring many U.S. firms and business associations to oppose actions that could hurt economic interdependence. This was particularly true in finance, where U.S. financial institutions typically saw considerable opportunities in economic cooperation and had benefited from China's commitment to financial liberalization. In contrast, firms in some other sectors were far more likely to support a hard line on China. For example, technology firms often felt that they faced unfair competition in the form of Chinese intellectual property theft, market restrictions, and industrial policy support.

U.S. Policy

Participants discussed several possibilities for how U.S. government actions could affect China-U.S. financial transactions, focusing in particular on threats to delist Chinese firms from U.S. exchanges, inward FDI restrictions, and sanctioning of Chinese entities.

The question of whether Chinese firms would be delisted from U.S. exchanges was discussed at length. Several participants referred to this as a "nuclear option" in financial policy, and argued that it must be avoided. The key underlying issue was whether the U.S. Public Company Accounting Oversight Board (PCAOB) could inspect audits of Chinese companies listing on U.S. exchanges, as U.S. law required. While many participants agreed that the CSRC was sincere in its desire to resolve the issue, a number of them also pointed to the idiosyncratic and often ambiguous nature of China's state security laws that prevented the PCAOB from reviewing the accounts of listed Chinese companies. Thus, they echoed the frustrations of U.S. regulators, who had been unable ascertain the accuracy of those accounts. A number of participants pointed to hopeful signs that the CSRC and PBAOC were working productively on procedures that would respect the needs of both sides. Chinese authorities had proposed that the PBAOC start with non-state-owned enterprises as a confidence-building measures, as well as allowing for redaction of items such as military contracts. If the PBAOC inspectors had questions on redacted materials, they could ask the CSRC for further information. It was noted that this had been tried in 2017, and according to some accounts had worked well for both sides.

There was considerable discussion of whether delisting, if it were to occur, would hurt the U.S. or China more. Many participants suggested that the effect on Chinese companies of delisting would be minor. They noted that most U.S.-listed Chinese companies were either state-owned enterprises (SOEs) or large private companies that could easily raise funds in China. For these companies, there was likely to be little to no impact on the ability to raise necessary funds; however, it was noted that there could be reputational effects, especially for non-SOEs that desired international recognition. Participants agreed that the largest effects would be on small and medium-sized enterprises (SMEs) that might otherwise have trouble raising sufficient capital locally, although it was noted that Chinese exchanges were increasing access for SMEs, as seen for example in the recent revisions to listing rules on the Shenzhen Chi-Next board. Even for SMEs, however, several participants argued that listing in Hong Kong would be a satisfactory substitute, as U.S. and other international investors would still have easy access to shares. Moreover, they argued, the negative reputational effect of delisting in the U.S. would be minor for companies, since they could demonstrate compliance with high standards by listing in Hong Kong or London. Other participants felt that the negative repercussions of delisting could be much more important for Chinese firms than the first view. They pointed out that Chinese firms had been eager to list in the U.S., so that listing must have some real value to them as brands or in terms of access to funds. Also, they argued that the requirements for U.S. listing forced Chinese companies to improve their accounting and disclosure standards, contributing to better governance.

With regard to the effects on U.S. markets and investors, participants were also divided. Among those who saw the likely effects on Chinese companies as minor, there was an expectation that delisting would hurt the U.S. more. They argued that a shift of Chinese foreign listings away from the U.S. would bring more business to Hong Kong, Shanghai, and other Chinese markets, accelerating their development while depriving U.S. markets of lucrative opportunities. Moreover, they argued that U.S. investors would continue to want to invest in those companies, but would now have to do so without the assurance of compliance with U.S. regulations. Other participants disagreed with this assessment. They argued that the integrity of U.S. markets depended on consistent rules for all listed companies, and that allowing Chinese firms to list in the U.S. despite questions about the quality of accounting and information was a disservice to U.S. investors and to other listed companies. They also expressed doubts that shifting such listings to Chinese exchanges would actually make those exchanges more attractive to foreign investors; rather, it could call into question their commitment to transparency and high standards, making them less attractive.

Restrictions on Chinese investment in the U.S. had been an ongoing matter of discussion, and Chinese frustration, at the Symposium over at least the last decade. Discussion at the 2020 Symposium focused on the interagency process known as CFIUS (Committee on Foreign Investment in the United States) that reviews foreign acquisitions with potential national security implications. While Chinese firms had long expressed concerns over the sometimes vague and apparently arbitrary deliberations and judgments, participants agreed that CFIUS had become significantly more stringent since 2017, due to both Trump administration enforcement practices and the 2018 revision of the enabling law (Foreign Investment Risk Review Modernization Act). A number of participants argued that this had significantly dampened Chinese investment in the U.S. There was some disagreement about the extent to which a Biden administration might enforce investment rules differently. Several participants argued that the CFIUS revision and continuing political suspicion of China would mean that any changes would be minor. Others argued that a Biden administration would be more welcoming of Chinese investment, focusing CFIUS only on technology company acquisitions and being more willing to consider mitigation agreements even for tech deals. They hoped that this might reopen the investment pipeline from China to the U.S.

Participants also addressed the use of entity sanctions and export controls by the U.S. government. The Trump administration had imposed such sanctions for a variety of reasons related to security and human rights. Concerns about information security had led to bans on Huawei 5G equipment and pressure on other countries to do the same; more recently, concerns about the ability of Chinese authorities to collect sensitive data on individuals had led to actions against WeChat and TikTok that were still under dispute. Sanctions on individuals had also become more common in response to allegations of human rights abuses. A number of participants argued that the sanctioning of Chinese firms and individuals had had a chilling effect both on Chinese firms and on China-U.S. economic and political relations. Moreover, they pointed out that the Trump administration had recently been increasing the use of such sanctions, and predicted that this would continue. Several participants questioned whether sanctions on Chinese firms were meant to address actual security issues. Rather, they expressed suspicion that they were meant either to provide U.S. firms with competitive advantages in technology competition or as an element of a new Cold War. Many participants expressed concern about the implications of such sanctions, which they saw as exacerbating tensions and creating negative secondary effects on other U.S. firms or the global economy.

A final point that was made with regard to U.S. actions against Chinese firms such as FDI restrictions, the threat of delisting, and entity sanctions was that they could have the effect of accelerating Chinese efforts to decouple from the U.S. economy. For example, several participants suggested that the push by the PBOC to introduce digital currency might be a reaction to U.S. sanctions and threats, as a step toward creating financial structures that would not rely on U.S. clearing. Some even suggested that overuse of financial sanctions could lead, over time, to a displacement of the U.S. dollar as the key currency in the global financial system.

Chinese Financial Liberalization

Perhaps surprisingly, participants agreed that Chinese financial liberalization had continued to advance despite the deterioration in China-U.S. political relations and the increasingly restrictive stance of the U.S. in terms of both trade and investment. They noted that China was continuing to open multiple areas of financial services to foreign firms, and increasingly allowing full foreign ownership with national treatment. Most recently, this had included licenses to foreign financial institutions to open domestic securities firms, mutual fund management firms, and credit card operations, as well as permission to operate as futures brokers. Similarly, equity and bond investment had been significantly liberalized, with greater foreign access to risk management tools such as future and options.

Many participants voiced the opinion that the drive toward financial liberalization was likely to persist, regardless of China-U.S. political tensions. They argued that the Chinese government, including the top leadership, was strongly committed to financial liberalization not only because of previous pledges or agreements, but fundamentally because there was a consensus that financial liberalization was necessary to serve national interests. Opening and liberalization were seen as mechanisms to upgrade the financial system, by improving pricing of equities, debt, and commodities; improving risk management for investors and financial institutions; expanding financial options for Chinese households (e.g., mutual funds, life insurance); and improving returns on investment as the Chinese economy slowed as a result of economic maturity and declining labor force.

In addition to growing liberalization of instruments and openness to foreign financial institutions and investors, participants also noted a new Chinese commitment to full capital convertibility by 2030. While some participants were skeptical that full convertibility could be achieved by then, others argued that the rationale was compelling, even if the timeline were uncertain. In particular, they noted that China was a capital surplus country that needed to recycle those capital surpluses as efficiently as possible to maximize the benefits to a population that was aging rapidly; this would be impeded by continuing controls on capital outflows or inflows. Moreover, some participants argued that Chinese authorities were concerned about whether they would continue to have access to U.S. financial markets. They therefore wanted to expand opportunities for Chinese financial institutions and investors globally, as well as make Chinese financial market centers more attractive and easily usable for investors around the world, particularly including Asian economies.

The Path Forward

In view of growing bilateral tensions, participants called for leaders in China and the U.S. to find areas of cooperation. Above all, they agreed, the two countries should not allow themselves to enter into a new Cold War, which would be disastrous not only for the U.S. and China, but also for the world.

Given the complexity and interdependence of the China-U.S. relationship, participants agreed that a wholesale decoupling of the sort that some commentators were calling for would be extraordinarily painful. Moreover, the complementarities of the Chinese and U.S. economies including comparative advantage and capital position were seen as making them natural economic partners. Thus, participants saw many opportunities for mutual economic benefit, including through financial integration and mutual openness. At the same time, however, many participants agreed that there were some major, fundamental disagreements. Of particular economic concern to the U.S. side was what they saw as Chinese appropriation of U.S. intellectual property.

Stepping away from economics, participants also saw a mixed picture. On the security front, many participants expected that there would be continued, perhaps growing contestation on issues including the South China Sea, U.S. alliances in Asia, and Taiwan. They argued that this would necessarily make economic and other cooperation much more difficult, as policy makers would inevitably see economic and functional issues through the lens of security competition. Others were more sanguine. They argued that there were many issues of common interest on which China and the U.S. could cooperate independent of security concerns, including global health and climate change. Some also suggested that even security competition could be managed if the two countries were able to come to a common agreement about each other's core interests and respect them.

Overall, there was a strong sense that cooperation should be possible in important areas by building processes for communication and negotiation and using them on an ongoing basis. This would include not only new bilateral processes, but also effective use of existing multilateral forums and organizations. Participants suggested several specific processes that could help to manage common problems and avoid recriminations. For example, several argued that a cooperative dialogue between Chinese and U.S. regulators should allow a practical fix to the problem of PCAOB auditing of U.S.-listed Chinese that could prevent a political showdown. Some also pointed to the Phase 1 Trump-Xi trade agreement as a model that demonstrated that even profound differences could be managed by negotiation. Other participants were skeptical, arguing that a managed trade solution negotiated in the midst of a tariff war would not be a politically sustainable approach for the two countries.

Finally, a number of participants called for the establishment of a joint, impartial investigation to better understand the origins of COVID-19 and public health responses to it. They argued that such an investigation would cool the accusatory rhetoric about the pandemic on both sides, which made cooperation on economic issues much more difficult. It was hoped that constructive dialogue on a matter of common interest could contribute to greater trust and cooperation between the two countries. There were some participants who expressed skepticism about such an investigation, out of fear that it would be impossible to remove politics from the work of the investigators. However, many considered the idea an attractive one if it could be managed by experts with a forward-looking agenda, perhaps by involving third countries or the World Health Organization.

Program on International Financial Systems (PIFS)
134 Mount Auburn Street, Cambridge, MA 02138
www.pifsinternational.org