Event
Prospects for China’s Growth and Foreign Relations in an Era of Competition

Keynote Speech: Sean Stein

DATE
Tuesday, December 5, 2023 at 11:00 a.m. ET

FEATURING
Sean Stein
Chair, American Chamber of Commerce in Shanghai; Co-Chair, China Public Policy Practice, Covington & Burling

Scott Rozelle
Co-Director, Stanford Center on China’s Economy and Institutions

CSIS EXPERTS
Scott Kennedy
Senior Adviser and Trustee Chair in Chinese Business and Economics, CSIS

Transcript By
Superior Transcriptions LLC
www.superiortranscriptions.com
Scott Kennedy: Good morning, or good afternoon or good evening. Welcome to the Second Annual Big Data China Conference. The theme of this year’s conference is “Prospects for China’s Growth and Foreign Relations in an Era of Strategic Competition.”

You may have heard that saying, the sun never sets on the British Empire. Well, there’s still no empire, but there’s still some British territories. And so technically that’s still the case. But more importantly, the sun never sets on Big Data China. We are available wherever you are, 24/7, around the world, programming brought to you by CSIS and Stanford University, for your viewing pleasure, whenever and wherever you are.

Before I get even more carried away, I want to turn things over to Scott Rozelle, economics professor at Stanford University, co-director of Stanford’s Center on China’s Economy and Institutions, and our partner for the Big Data China Initiative.

Scott Rozelle: Thank you, Scott. And I’m in part of the – (laughs) – across the water there from my hotel is Gulangyu, one of the parts of the British Empire for a while, but I’m over in China. But it’s good to be here. And Scott and your team, thank you for doing this. We think this is very important. It’s sort of a nice conclusion to a year of Big Data China.

Let me just tell you a second about who we are, Stanford’s Center on China’s Economy and Institutions. We’re sort of the home for empirical, multidisciplinary research on China’s economy. That’s data base, using data to look at China and China’s relationship with the rest of the world.

We also try to create transformative student experiences and advance the public understanding of China’s economy and impact on the world. That’s what we do with CSIS to the business community in the U.S. and to the policy community. And Scott and his team are fantastic.

Part of our impact, we also with CSIS, we leverage data-driven research from scholars around the world. We’re really trying to inform policy debates and drive impact and put us on a foundation that’s based on what’s really going on.

So today Scott and his team put together a fantastic program. I’m looking forward to it. And I’m going to turn it back to you, Scott, and I’m going to watch it from over on this side of the world.
Well, thank you, Scott.

Today’s discussion is divided into four components. First you’ll hear a keynote address from Sean Stein, who is chairman of the American Chamber of Commerce in Shanghai. And then we’ll have three panel discussions on China’s economy, on scholarly exchange between the U.S. and China, and on Chinese foreign policy.

We have an absolutely terrific, stellar, grade-A lineup of experts on each of these three topics. Scott Rozelle, my colleague Ilaria Mazzocco here at CSIS and I will moderate each of these panels.

I want to thank our partners at Stanford for all of their support on this unique collaboration; my colleagues at CSIS, on the Trustee Chair team, Ilaria, Matt Barocas, Nic Rogers and others, who do all of the hard work on Big Data China each day of the year and for this conference; also to today’s speakers for contributing to this conversation, where we take deep analysis about hard hitting scholarly and policy issues and make them understandable to not only the policy community but folks around the world; and to everyone who’s watching. Those who are watching on Live Now can submit questions online via the CSIS Events page for this event. But anyone is welcome to follow up with us with your feedback at any time.

We’re now going to get started with the keynote address featuring Sean Stein. Now, Sean is currently in Shanghai. And if you are looking at your watches, you will see that it is unbelievably late there. And so he and I recorded his keynote speech and a brief Q&A that we had just a couple of hours ago. So we’re now going to play this for you. And once this keynote is complete, we’ll take a brief break and we’ll be back with everyone for the panel on China’s economy at 11:45 a.m. U.S. Eastern time.

Thank you so much for joining us, and we hope you enjoy today’s program.

(Begin recorded segment.)
practice group. Prior to joining Covington Sean served as the U.S. consul general in Shanghai. I have to say he took that job during a very challenging period not only in U.S.-China relations but in where China was headed since that was during the pandemic.

He has over 20 years of diplomatic experience for the U.S. government serving in Asia, China, Washington, and elsewhere, his insights in foreign policymaking at the highest levels in Washington. He’s assisted dozens of American, Chinese, and international firms to develop strategies, manage risk, and identify opportunities for growth in response to changing U.S.-China relations.

Sean is going to offer about 10 minutes of opening remarks and then we’re going to have a brief discussion to dig into some of the topics that he’s going to start off with. This is a really interesting moment in U.S.-China relations, in China’s own economy, politics, and we are delighted and honored to have Sean Stein with us.

So, Sean, let me turn the floor over to you, and look forward to your remarks.

Sean Stein: Great, and thank you very much, Scott. It’s great to see you again and hopefully we’ll see you back in China soon.

And to everyone else, good morning or good afternoon or good evening, whatever it may be. I’m here in Shanghai and so I have a slightly different view on maybe how things are evolving and it looks a little different here than it may in the U.S. or in other places.

But in any case, it’s an honor to be participating in this conference that’s talking about some really important issues that we talk about a lot on the ground here, about the economy, about how do you manage scholar exchanges and one that comes up a lot is, you know, China’s foreign policy and its relationship with Europe and with other countries.

So really important issues. So I look forward to seeing the rest of the conference. But, you know, there’s another issue that we on the ground think about a lot and that we hear about a lot when we listen to U.S. policymakers in particular and that’s strategic competition. You know, we hear constantly this is an era of competition or era of strategic competition, or sometimes we’ll hear U.S. policymakers go even deeper and they’ll say, you know, and there are four aspects of, you know, the U.S. competition with China. There’s military competition, there’s economic competition, there’s technology
competition and, obviously, competition over our values, all of which are sort of self-explanatory.

But, you know, when we’re here on the ground in China many of us in the business community see a fifth aspect of competition and that other aspect of domestic – of competition is one that really drives a lot of – (inaudible) – to the U.S. business community here on the ground and that’s Chinese domestic competition.

You know, 50 years ago when many of the American companies that are in China first came to China there was no domestic competition and so when they came they were often forced to take on a joint venture part, which was essentially a millstone. There was no value added but that was the cost of doing business was bringing along and helping a state-owned enterprise, you know, sort of learn the ropes and develop some skills.

And then maybe a decade ago when we heard about competition what companies were really worried about in competition was that perhaps a state-owned enterprise or a state-owned company wanted a piece of their market or wanted their product and that’s what you really had to be afraid of from local competition.

But for people who haven’t been in China for a few years there’s a new element of this and it’s competition with China’s increasingly vibrant and innovative private sector, and when we have visitors who haven’t been here for a number of years that’s often what they see as being one of the biggest and most important changes and that is just how strong and how nimble the Chinese domestic companies have become and how competitive they’ve become.

You know, recently we had a conversation with a group of our CEOs – with a group of the China-based, you know, CEOs for American firms and one of the topics was, you know, what keeps you up at night, what makes you worry – you know, what are you losing sleep over, and one of them said something really interesting. Everyone, you could see, nodded along in agreement. And that was he said: You know, if I were to listen to my headquarters, what I’d be worried about is various risks like security, or maybe Taiwan, or maybe the U.S.-China relationship. But what I really spend my nights worrying about is all of the little companies that I don’t even know about, that are staying up late, working hard, with smart people trying to figure out how to disrupt one of my products, or how to disrupt one of my business units, or how to disrupt my operations. And you know, for now we’re ahead, but that may not always be the case. And again, as I
said, you know, around the room, that was sort of the nods to, yeah, that's where the real risk is.

So in 2022, a year and a half ago, we asked the thousand members of AmCham Shanghai what they saw as the biggest risk to their business over the next three to five years. And you know, I don't know what you think the answer was. But often, if you'd listened to policymakers, you listen to others talk about it, you would think that maybe it's IP, or maybe it is, you know, other issues like U.S.-China relationship. But what came out as the number-one answer, 52 percent of the companies said their number-one risk over the next three to five years was domestic competition. So this year, we tried to dig a little bit deeper, and we asked our members to identify the factors or the things in China that cause either an impediment or a serious impediment to their ability to operate and be profitable. Well, unsurprisingly, the number-one answer for serious impediment with over 33 percent of our companies is domestic competition. And so we wanted to look a little bit about where is the domestic competition coming from and what does it mean.

And so we then followed up, and we asked a series of other questions, and that was we had companies compare what are we good at, what are American companies good at, where are we strong, and where are Chinese companies strong. Now, obviously, in a survey, it's not going to capture all of the nuance, meaning it's going to vary by industry, and it's going to vary by sector. But in general, there were some interesting trends that I think are worth paying attention to.

The first is the good news: 75-plus percent of our companies believe that their products are superior to that manufactured by local companies. So quality and other aspects of making a good solid product, American companies believe that they're far ahead of the Chinese competition. And similar to that, they believe that they're far ahead and far superior in their ability to do products development, and to develop good products with quality and cost control built in.

But that's really from a competitive point of view where the good news ends. If we look at other important factors, they see in all the other areas we surveyed that the Chinese domestic companies are ahead. So what am I talking about? So just like we had 75 percent of our companies saying their products are better, 75 percent of our companies said that Chinese companies can beat them and have better speed to market. We also had a majority of them that said that Chinese companies are better at adopting digital strategies. They're better at adapting and adopting new technologies. And they're better at marketing, and they're better at getting permits and licenses.
And so we see that while American companies still have some very strong advantages, Chinese companies have also got advantages. And so it’s not surprisingly - it’s not surprising that we’re increasingly seeing that as part of their development and growth strategy, more and more companies are looking for strategic partners, or joint venture partners who are trying to find ways to work closely with Chinese companies to help fill in some of the gaps.

And so what do I mean when I say speed to market? Again, just today we had a conversation with the CEO of a major manufacturing company. And he gave an example. He said, in the past, when we've bid on a - to supply a component to a Chinese company, we would build in three months to do our design and our prototyping. Well, that now has to change, he said, because the Chinese competition is often doing their design and prototyping, kind of promising delivery of the sample product within seven days. So it’s requiring a fundamental rethink of the way they operate.

So, you know, in September I was back in Washington with some colleagues from AmCham and we had a question that we got quite repeatedly was: Why do American companies need to be in China? What are they even doing there? Why is that good?

Well, this is part of the answer, because if our companies are not on the ground in China they’re not seeing the incredible innovation that’s taking place. They don’t see what’s coming down the pipeline. And they also don’t have the opportunity to get tough and strong in what is, in many areas, one of the most competitive, if not the most competitive, markets on the planet. They’re also learning new skills and learning and developing technologies and approaches that they're taking around the world. And so if our companies aren't here, then they’re not going to be competitive around the world for very long.

And then finally, one of the points we raised is that if American companies weren’t here and weren’t active in China, then what’s the alternative? And increasingly, what that alternative is, it isn’t the Chinese market will go without. It’s that the American companies and the niche they fill in the industrial ecosystem will be backfield by the Europeans, by the Japanese, or, increasingly likely, by Chinese companies themselves, who will then become stronger to compete with them around the globe and undermining the competitiveness of the American companies. And so what we’ve seen what we believe is that in an era of strategic competition, the United States can’t compete economically with China if our companies can’t compete
effectively in China. So that’s a challenge for all of us, to boost and maintain our advantages and our competitiveness in China. Thank you.

Dr. Kennedy: Well, Sean, that was really powerful remarks, because it’s super helpful to have perspective from on the ground from a seasoned veteran, as well as from your companies who face these challenges every day. And this really gets the conference off to an excellent start. Let me see if I could follow up with a couple questions to try and dig in. First of all, you are joining us from Shanghai. I’ve traveled back and forth to China several times recently, as have others. But there are still folks who haven’t. Can you talk a little bit about just sort of the feel of going back and forth, and to what extent things feel normalized through the travel process and just being on the ground?

Mr. Stein: Yeah. You know, I just – I’ve been – since China reopened, I think on January 8th or January 9th, I’ve been in and out 11 times. And as recently as two days ago, I came back into China. And so now the process of coming in through immigration and all of that is very normal. It feels very much like it did pre-COVID. But that’s relatively – that’s relatively new. Even a month ago, when I would come back in, when I came back in from the United States, I was – I felt like I was the only foreigner in line. I was the only, you know, sort of American passport waiting to go through immigration. So the Chinese side, the Chinese passport holders, they faced long lines and I had – could walk right up to the – up to immigration.

But now it’s about half and half. And we’re seeing people from all over the world – from Europe, from Asia, from Southeast Asia, from Africa, and the Middle East. So it’s largely coming back. And I think that’s a good sign. Business is also feeling much more – much more normal. It’s no longer unusual to see visiting delegations, visiting CEOs, et cetera. So it’s certainly back to normal, which I think is enormously positive.

Dr. Kennedy: I think we’ve seen that on the academic side. There’s still a little challenge, partly because for logistics tickets are still expensive. Partly, there’s still concerns about, you know, access to doing field work or certain kinds of data, and things like that. But compared to where it was several months ago, I think the trajectory is relatively similar.

Since you focused on the economy, let me ask a little bit about that. Because – and this may be a difference of going to Beijing versus going to Shanghai. But in Beijing, you hear a lot about low business confidence, about the policy environment in China, about politics. And
you also hear about debt, you hear about demography, you hear about real estate, Evergrande, et cetera. But you just described an environment in which there should be high confidence because the Chinese private sector is innovating, growing, becoming much more competitive. How do you balance or deal with the potential contradiction between that macro environment that we read about and that you hear amongst the policymakers in Beijing and others there, and what you just described?

Mr. Stein: Yeah, I would describe it in a couple of different ways. First thing I’d point out is that one thing that strikes me and that we talk about a lot on the ground here is that the perception of what’s happening in China in the United States is the ultimate lagged indicator; that often what people feel like is happening in China, back in the States or back outside of China, is often six months, a year, or even farther behind. And so I think that would be the first thing.

The second thing I would point out is that, in Shanghai in particular, what we’re seeing in sort of the – (inaudible) – is that where you are and what sector you’re in really is going to define a little bit or a lot how positive and how optimistic you are. And so – (audio break) – if your area and in consumer goods, what people are seeing is the numbers show that consumers have the money to spend but that they’re reluctant to do so. So expenditures are lower.

They’re buying, you know premiumization goods. They’re going to cheaper goods, but in a more premium sort of way. So instead of buying the cognac, they’re buying a premium beer, or they’re going to nicer restaurants instead of doing other things. And so there are sectors where they’re really feeling this crunch on consumer spending and there’s not any end in sight where people think that – where people can say here’s where the consumers get more confidence. They’re worried about debt. They’re worried about their housing value. And they’re worried about their job security.

But what we are seeing also, though, is we’re seeing, compared with six months ago, companies who were manufacturing and supplying to China’s export machine, to the companies that were really sort of pushing exports around the world, those companies were in real bad shape and they were all reporting that exports are way down, and so therefore their business is down.

What we’re hearing now is the companies and the sectors that are involved in exports are starting to pick back up and they’re starting to see some light at the end of the tunnel. We’re seeing in other sectors, so industrial, in services and investment, we’re also seeing a pickup
on the Chinese side that seems to make us think that the worst of the economic malaise is over.

So while we don’t think we’ll ever get back to the years of 7, 8 percent growth, or maybe even 5, 6 percent growth, I think people are now sort of resigned to we’re in the era of 1 to 3 percent growth, which, in an economy this large, still creates an awful lot of opportunity for foreign companies in the right niche.

Dr. Kennedy: Just a couple of weeks ago, Presidents Biden and Xi met in San Francisco after 13 months prior they had met in Bali. And this meeting had as much attention on it as the APEC summit that brought together 20-plus leaders.

What’s your reading of the results of their meeting in San Francisco? What’s it mean for American businesses in China?

Mr. Stein: Yeah. You know, it’s interesting, because the headlines that we saw here was Xi Jinping’s speech and the fact that the dinner happened. But then when we talk to business leaders here, what they thought was even more interesting was Gina Raimondo’s speech, because, you know, what’s happened over the last couple of years is there’s been a lot of hesitancy at headquarters about potential risk, reputational risk, to deepening investment in China or deepening trade relations with China, et cetera.

And a big part of that was is this really where the administration wants this to go? They’ve heard countless times high fences, small yards; everything else is OK. And we’ve heard that from, you know, the ambassador, Ambassador Burns, here in China. And you heard it when Gina Raimondo was here. But that hadn’t really been screamed from the rooftops in the United States in the way that Secretary Raimondo did at that dinner.

And so when I saw what got passed around on social media by U.S. businesses and U.S. business leaders, it wasn’t the Xi speech. It wasn’t other things. It was snippets of Secretary Raimondo’s speech, which basically said to American companies, as long as you’re not in a sector that’s threatening our values or that’s threatening our security, go out there, do business, succeed, and go forth. And so that was seen as giving a green light that I think was heard back in boardrooms in the U.S.

So, frankly, that is what generated more buzz here on the ground in Shanghai almost than anything else. People were glad to see the agreement on fentanyl. People were very glad to see resumption of
People were very happy to see the scaffolding being built to, once they had a floor under the relationship, to create paths that maybe it could get better by cooperating on, you know, climate change. But the buzz was the U.S. government was no longer being ambiguous about whether American companies should be in China and should be competing in China. They should be, but they just need to be careful about what sectors they’re in.

Dr. Kennedy:
I want to focus my final question on one element of your speech, which is about the need to be in China to learn how to compete at Chinese speed. In Washington, D.C., you know, the conversation is no longer about decoupling, managed decoupling, partial decoupling; it’s about de-risking, about limiting exposure to the negative elements of the Chinese economic model that could be disruptive to the American economy or the rules-based order. But you’re raising the idea of an alternative way to think about de-risking, which is if you’re not in China you are potentially facing more challenges and problems because you’re not in that environment, not just because there’s a large market or inexpensive labor but because of the innovation that you describe. Is there – how would you redefine the boundaries of an appropriate de-risking strategy, given all that?

Mr. Stein:
Yeah. Well, that’s a great question. It’s a really important point that really hit home when I was in D.C. a couple of weeks ago.

And that was often, when I spoke to people, they felt like the only people who learned the lessons of COVID and the lessons of the supply chain disruptions were us, the people in the United States. It was our supply chains that were disrupted, you know, whether it’s, you know, our auto factories that couldn’t get, you know, semiconductors, that couldn’t get chips, et cetera. And you know, those lessons were learned in China, too, and they were learned in Southeast Asia. And you know who learned them first was the companies that were disrupted who couldn’t continue with their operations. And so no one really needs to tell most of the American companies here that they need to diversify their sources of supply if they’ve got a global manufacturing sort of operation.

Almost no companies I know are investing in new capacity in China to serve the U.S. market and to serve foreign markets. Instead, they’re investing to serve the China market and they’re investing elsewhere to ensure they’ve got alternate sources of supply for Europe or for the United States and for other markets. And so I think that the private sector, who are the ones who felt the challenges first, are doing a really good job of de-risking, but they’re doing it, you know, with their
own sort of calculus on where is their biggest risk and how quickly can they – can they move this.

So while I think if you’re the U.S. government you have to look at things like critical materials and you look at APIs and you look at other things that the U.S. needs to de-risk or that Europe needs to de-risk, well, the companies are looking at that too, but they’re also looking much deeper about what is it that they really need to be able to get to keep their operations running around the globe, and how can they ensure that those supplies continue to move. So they may be less concerned about whether it’s Mexico or Canada or Colombia or Thailand, but the companies are taking it very seriously and moving forward on this quite, quite rapidly.

So last thing I would say on that is – and we just had a conversation with the U.S. – with the China-based CEO of a large U.S. manufacturing company, and he put it very bluntly. He said it’s inconceivable that we would start another project today in China to serve our supply chain in Europe or the United States. But the opposite is also true: It’s inconceivable that we would start a new factory in the United States or Europe that’s going to serve into our supply chain in China. And so companies realize that they need to be able to offer secure sources of supply, and each of them are doing it in their own way, and I think they’re making very good progress.

Dr. Kennedy: Sean, you’ve helped prove two iron rules about China through your speech today. The first is that China’s a big place and there’s variation across the country, whether in Shanghai or someplace else, one sector or another. The other iron rule that you proved is that China doesn’t move in a straight line; that there’s always changes and you can’t expect them. And what we’ve seen 10 years ago, 10 months ago, maybe even 10 days ago – (laughs) – doesn’t necessarily tell where China is going, which means that we need wise analysts and observers following this country from abroad as well as on the ground.

And I want to thank you for your service to the American people, to AmCham Shanghai, and helping us all understand and figure out how to not only manage this relationship to deal with the risks, but to look for the opportunities as well that help Americans and Chinese and others around the world. So really want to say thank you so much for your contributions today and every day.

Mr. Stein: Great. Well, thanks for having me. It’s an honor to be part of this conference.
Dr. Kennedy: Terrific.

Mr. Stein: And hope that people come and see us in Shanghai soon.

Dr. Kennedy: Super. We certainly will.

We’ll be back in just a few moments to start the first panel looking at China’s economy. Again, Sean, thank you so much.

(END.)