When Xi Jinping was China’s vice president visiting the United States in 2012, he declared that U.S.-China economic relations provide the ballast and the propeller for the entire bilateral relationship. President Xi is in the United States again this week. The ballast needs adjustment, and the propeller needs oil.

Given the realities of our globalized economy, we are rowing in the same river with China, if not in the same boat. And both countries exert a major influence on how quickly and effectively the global economic flotilla moves forward. As Commerce Secretary Penny Pritzker noted earlier this year, our two markets together account for nearly 35 percent of global GDP, and combined U.S.-China trade in goods and services represents about one-fifth of all international trade. China is our third-largest export market, and its imports of U.S. services have doubled since 2010. Expanding these U.S. exports would help rebalance our economic relationship to the benefit of both our countries. That means it really matters to us how well China is doing in growing and reforming its economy.

Of course, no one cares more about China’s healthy economic growth than China. President Xi has underlined his agreement with the view expressed by China’s great leader of reform and opening up, Deng Xiaoping, who said: “not developing the economy and not improving the people’s livelihoods can only be a dead-end road.” Xi has emphasized the need to reform the economy comprehensively, including having the market play the decisive role. He also has warned
U.S.-CHINA ECONOMIC RELATIONS:
THE PROPELLER NEEDS OIL (continued)

his compatriots that it will not be sufficient to mouth the words of economic reform. Real measures must be taken; “actions are the most persuasive.”

While China has been roiling global markets with what it says are progressive policy changes on exchange rates and efforts at financial system reform, China’s real economy—including trade and investment—cries out for comprehensive action. China’s prospects for future economic growth require opening its market to competition. But this is no easy task, given the many vested interests in China’s bureaucracy and state sector that do not want this and the misplaced nationalist appeal of protecting domestic champions. It is also difficult to let the market work out issues, whether deciding economic winners and losers or allocating resources to new ventures, when leaders have relied for decades on government intervention to address industry development challenges.

But China’s work in the past year to help expand the global Information Technology Agreement and remove tariffs on more than $1 trillion of trade in technology products demonstrated that China could act in its broader interest and overcome the parochial resistance found in many ministries and industries. President Xi’s attention to this effort seems to have been critical to breaking the bureaucratic logjam.

President Xi’s leadership seems equally necessary to overcome the longstanding resistance from the same quarters to truly opening China’s services sector to competition. China’s services economy is significantly undersized, and experts agree that increasing its role will be critical to China’s healthy economic development. To accomplish this, experts say that China should comprehensively open its markets to competitors from abroad, tearing down a thicket of regulatory barriers that thwart foreign competition.

In the News

“There’s no fighting the market forces…and it’s been costing them a ridiculous amount of money.”
—Christopher Johnson on CNBC

“It strikes me that nobody knows entirely what’s on the mind of Xi Jinping. I think he likes it that way.”
—Christopher Johnson in the New York Times

“We are definitely seeing the visible hand of the state right now, and that’s never going to disappear. The goal isn’t just to get the state out of the way, but to make it more nimble.”
—Scott Kennedy on CNBC

“We don’t know where the bottom is in China and I don’t think we’re there yet. Their economy has slowed, even though their slow is our fast.”
—Scott Kennedy in Foreign Policy

“Xi played a very good hand,” Kennedy said. “He gave comprehensive verbal reassurance combined with limited actual concessions. This will avoid full-blown reaction from the U.S. government and the business community.”
—Scott Kennedy in Reuters

“Theyir position is always, ‘We don’t want to be a political football in U.S. political contests,’ so the fact that they are something of an issue is obviously a concern.”
—Christopher Johnson in Financial Times
The list of Chinese service sectors with significant barriers to foreigners’ market entry and/or operation is shockingly long, including insurance, logistics, value-added telecommunications, Internet-mediated services, banking, express delivery, construction, infrastructure, health care, asset management, airlines, and professional services. China’s consumers would benefit greatly from better services, and so would China’s economy.

To be effective, the opening has to be bold and widespread, not just in one locale or one industry. Being able to offer pension services, insurance, or express delivery of documents only within a free trade area of a few square kilometers would not create the desired competition. Only allowing foreigners into the hospital industry does not move the needle for the economy as a whole. But, for example, fully opening the insurance sector, logistics, express delivery, and pension services to foreign competition by eradicating the strangling web of excess regulation along with investment restrictions would increase the consumer safety net and significantly help business grow and develop throughout China. Similar benefits would flow from breaking down decades-old regulations that stifle foreign investment in value-added telecommunications industries and the range of Internet-related services.

President Xi’s visit offers an important opportunity for him to break open this critical area. Imagine a message that China will take all actions needed by a date certain to open its services sector with almost no exceptions and will do so completely, including a list of specific services sectors to be opened and a timetable for each. This would lay a strong foundation for the market to play a decisive role in China and would adjust the ballast in our trade relationship and oil the propeller for energetic growth of China’s economy to the benefit of both of our countries.

Multimedia

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Recent Publications


Thoughts from the Chairman: How to Pragmatically Respond to Greater Chinese Activism on the Global Stage by Scott Kennedy, *CSIS Newsletter*, February 13, 2015.


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