

*Panel Summary: U.S. Business and Government -  
Responding to the China Challenge*

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The panel “U.S. Business and Government: Responding to the China Challenge” was held on April 28, 2006 as part of the University of Chicago’s two-day *China and the Future of the World* conference. The three panelists were Congressman Mark S. Kirk, representative of the 10th district of Illinois and co-chair of the U.S.-China Working Group in the U.S. House of Representatives; Mr. Tony Lorusso, director of the Minnesota Trade Office; and Mr. Theodore W. Schaffner, Senior Vice President for Corporate Development of Motorola, Inc. The panel was moderated by Professor Anil Kashyap, Edward Eagle Brown Professor of Economics and Finance at the Graduate School of Business at the University of Chicago.

Congressman Kirk began his remarks by noting the historical similarities between the rise of the United States in the nineteenth and twentieth centuries and the rise of China in the present century. In Europe, business leaders had been far ahead of government leaders in grasping the great potential of the United States at the beginning of its rise. Today, he observed, American businesses—particularly those in Illinois, such as Boeing and United Airlines—are leading in U.S. awareness of the growing importance of China. U.S.-China relations will set the tone for the twenty-first century. Congressman Kirk explained that he founded the bipartisan U.S.-China Working Group to try to change the “relentlessly negative” attitude of the House of Representatives towards China.

In discussing areas of potential cooperation between China and the United States, Congressman Kirk mentioned initiatives including establishing a defense telephone link between the Pentagon and the Chinese Defense Ministry and creating a joint rescue capability for the U.S. and Chinese manned space programs. In the long term, he said, the U.S. must work hard to close the cultural and linguistic gap between the two countries, through increased emphasis on Chinese language programs beginning in middle school and high school.

Tony Lorusso’s presentation focused on the role that states can play in advancing the U.S.-China relationship, drawing upon the example of Minnesota, which launched the Minnesota-China Partnership in 2005, including components relating to trade, science, academia, and culture. The most prominent element of the partnership has been the Governor’s November 2005 trip to China, the largest trade mission to China organized by any state, which included 218 delegates and seven high school students.

The objectives of the partnership program are increasing trade for the state, providing training to make Minnesota companies successful in working with the challenges of the Chinese political and economic environment, and increasing mutual understanding between the Chinese and American people. Largely as a result of the state’s new positive and proactive policies towards China, Mr. Lorusso argued, Minnesota’s manufacturers exported 71% more to China this year than last year. “There are tremendous opportunities for U.S. manufacturers to export to China,” he said.

Theodore Schaffner spoke about the business elements of the U.S.-China relationship, beginning with observations about China’s impressive transformation from unwillingness to give immediate

access to U.S. companies, fearing that Chinese companies would be unable to compete, to an openness based in part upon the success of China's manufacturing and training of technologists. Despite this opening, protecting intellectual property rights remains a serious challenge for businesses in China. Intellectual property rights are necessary to ensure foreign companies will benefit from innovations discovered in China and therefore will be willing to engage in investments in research and development there. During the question-and-answer period, Congressman Kirk said that until intellectual property laws begin to protect innovation, "China will simply train these engineers and export them. And for the long-term future of China, that's not good."

Mr. Schaffner cautioned that in his view of the serious trade deficit between the U.S. and China, there will be "some sort of major adjustment" and it would be preferable for that to happen sooner rather than later because it might be quite serious. Increasing consumption in China may be part of the solution, but he cautioned that there is no silver bullet to solve this situation. U.S. manufacturing is disadvantaged not only by labor costs but also by legacy social service costs that limit U.S. competitiveness internationally, Mr. Schaffner pointed out. He concluded by calling upon the leaders of both U.S. and Chinese societies to manage China's economic development to ensure that it takes place in a sustainable manner, particularly with regard to the trade deficit.

In response to a question about potential future domestic unrest in China, Congressman Kirk predicted that it was not the peasantry but rather the middle class that most threatens the Chinese Communist Party leadership, because a failure to deliver 9% annual GDP growth will end the informal alliance between the government and the middle class, in which the government delivers economic growth in exchange for middle class political support. Acknowledging the potential ramifications of future unrest on American companies, Mr. Lorusso cautioned that businesses should not "put all their eggs in one basket."

At the conclusion of the panel, Professor Kashyap asked Congress to get "out of the way" so the U.S.-China business relationship will be able to proceed more smoothly in the future. Mr. Schaffner expressed hope that ongoing high-level cooperation between China and the United States might work towards a resolution of the trade imbalance. The long-term sustainability of the trade deficit, he said, is not assured.