OPINION

How to Ride the Next Wave of Chinese Growth

*Negotiate a Bilateral Investment Treaty to exploit China's coming boom in services.*

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China's gross-domestic-product growth has fallen below its target of 7.5% for 2014. With a glut of new construction and a mounting overhang of debt, Beijing's new "mini-stimulus" program is aimed at weaning China from past excesses by pumping up domestic consumption and the services sector.

In 2013, China's services sector jumped to 46% of GDP—up three percentage points in two years and a larger share of GDP than construction and manufacturing combined. Consistent with the structure of other modern economies, China's still nascent services sector could rise to 55%-60% of its GDP by 2025.

With the U.S. having the world's largest and most competitive services sector—accounting for 14% of global services exports, twice the share of the next largest competitor—American companies are well positioned to capture a significant share of the coming bonanza in Chinese services. From retail chains (Wal-Mart) and leisure (Disney) to domestic transportation (United Airlines) and an array of insurance and hospital systems, U.S. multinational services companies have what China is lacking in strategy, experience and quality control.

The timing is ideal. With the U.S. economy mired in a sluggish postcrisis recovery, America's growth agenda needs to tilt away from overstretched consumer demand toward exports and foreign demand. The continuing boom in China's services sector provides such an opportunity.

Of course, it's one thing to see the opportunity. It's another to seize it. The key in this regard is "market access"—especially problematic due to caps on minority ownership stakes in joint ventures that nations typically impose on one another in efforts to protect their most sacrosanct industries such as services.

Both China and the U.S. have a long history of putting such limits on each other's cross-border investments. That's especially the case in finance but also true of most nonfinancial services.

The good news is that at the 2013 Strategic and Economic Dialogue both the U.S. and China entered into negotiations over a Bilateral Investment Treaty, or BIT. Such treaties are common in today's global economy. There are some 3,000 BITs currently in effect around the world that, among other things, allow for significant liberalization of heretofore stringent requirements on foreign ownership of domestic companies.
Typically, BIT negotiations are framed in terms of a "negative list"—industries or sectors that one nation views as off-limits to foreign control. China currently has a very long negative list when compared with America's. That should not be discouraging. China started out with an equally long negative list when it began negotiating in the 1990s for entry into the World Trade Organization—a list that was subsequently pruned down dramatically before formal accession in 2001. The negative list construct is helpful in framing the debate and the agenda for subsequent negotiations.

The upside of a breakthrough on a U.S.-China BIT is huge. It would not only open up services investment and trade between the two nations, but it could also set the stage for China's participation in broader multilateral trade arrangements, such as the Trans-Pacific Partnership. That would be a big plus for the global economy.

Further progress on a Bilateral Investment Treaty should be a focal point of the coming Strategic and Economic Dialogue between the U.S. and China set for early July in Beijing. But that progress will require a more constructive tone in the broader relationship between the two nations. The recent flare-ups over cyberhacking, territory disputes in the South China Sea, and currency policy all risk sidetracking the agenda. These issues are all important and should not be ignored—but they need to be set in context.

The Strategic and Economic Dialogue was established five years ago for one reason: to provide just such a context and develop a coherent framework for shaping what could be the world's most important bilateral dialogue on economic and security issues. It is critical for leaders of both governments to act strategically and seize the extraordinary opportunity of China's coming wave of consumer- and services-led economic development.

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