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## Some Friendly Advice for China's Leaders

**You can't expect to keep receiving favorable trade and investment terms unless you reciprocate.**



C.V. Starr at his desk in Shanghai in 1919. Photo: C.V. Starr & Co.

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By

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The trade dispute between the U.S. and China threatens to destabilize arguably the world's most important bilateral relationship. A better understanding of the countries' shared history may encourage wiser negotiations.

There is a great deal of pride in China for the country's remarkable success. Compared with our population of roughly 300 million, China has a population of 1.4 billion. It should be no surprise that China is now the world's second-largest economy. Since its economic opening in the 1970s, many Chinese citizens have been educated in the U.S. and then returned to China to become leaders in government and industry. The China of today is fully capable of competing with foreigners in its domestic markets on a level playing field, as its firms have proven overseas.

The contributions the U.S. has made to China are worth noting. Starting in 1900, the Open Door policy, advanced by the U.S., spared China from European colonization. Prior to World War II, the U.S. imposed an embargo on Japan and deployed military assets to the Pacific in defense of that policy. Before the U.S. entered the war, the Flying Tigers, an American volunteer group, were recruited from the U.S. military and mobilized to assist China's defense against Japan. The U.S. provided extensive additional support throughout the war to the Chinese and ultimately spilled considerable blood on their behalf. At war's end, the U.S. ensured that China was included as one of the five permanent members of the United Nations Security Council.

After the Chinese Revolution in 1949, Mao Zedong established the People's Republic, sending the Chinese into international isolation for two decades. Then in 1972, President Nixon and national security adviser Henry Kissinger re-established bilateral ties by signing the Shanghai Communiqué during the president's historic visit to China. It was in the national interest of both countries to foster a more constructive relationship. Both viewed the Soviet Union as a strategic threat.

China was populous and rich in natural resources, but its economy was minuscule and in shambles from a decade of internal conflict. After Mao's death, Deng Xiaoping sought stronger ties with the U.S. He understood that China's future political stability would hinge on its economic success.

When bilateral trade resumed, the U.S. extended favorable trade terms to foster China's economic growth. Tariffs on Chinese imports into the U.S. were low—on average a third of those on U.S. exports to China. Bilateral trade grew from zero to several billion dollars within a few years. In 1979 President Carter re-established

formal diplomatic relations, and China was given most favored nation trading status. In 1981 the Reagan administration created a separate trade category for China to exempt it from restrictions on trade with every other communist country.

Notwithstanding contentious issues such as textile quotas, intellectual property rights, market access and the growing trade imbalance, bilateral trade continued to grow, allowing China's economy to achieve success beyond what Deng envisioned. By 1986 the U.S. had become China's third-largest trading partner, behind only Hong Kong and Japan. In 2000 China was given permanent normal trade relations with the U.S. In 2001 it joined the World Trade Organization—something that never would have happened without the active support of the U.S. government and business community. I was proud to lead that effort as chairman of the U.S.-China Business Council.



C.V. Starr (in dark suit, left center) and the staff of what was then known as American Asiatic Underwriters in Wuxi, China, July 4, 1924.

My company, Starr Insurance, started in Shanghai in 1919, the first American insurance company to operate in China. Its operations there ended after the revolution. As head of Starr, I started to visit China in 1975. I met and established a relationship with the state-owned [People's Insurance Company of China](#), the country's only insurer. We signed a memorandum of understanding with the PICC and began training many of their people as well as arranging reinsurance of their business to expand their capacity.

Our relationships in China grew, and we helped in every way possible, believing we would eventually be able to re-establish our business in the country. In 1992 we did, when AIG and its subsidiaries, which had been founded by Starr and were already operating throughout Asia, received eight regional licenses. The first was in Shanghai. We were the only wholly foreign-owned life insurer to be awarded

operating licenses. We introduced the agency system in China, which caught on and created about a million jobs across the country.

Through my many years of doing business in China and involvement in U.S.-China relations, it seems to me the solution to the current trade dispute is rather clear. When Nixon visited in 1972, China's economy was marginal to world trade. Today it is poised to become the global leader. As an emerging market, China erected trade barriers to build its nascent industries. This was acceptable to foreign countries like the U.S. for strategic reasons. Foreign companies endured it because of China's vast potential. Now discriminatory treatment of foreigners is embedded in the Chinese bureaucracy—in government policies, in regulatory procedures laden with obstacles and delays, in structural impediments such as turnover in government agencies resulting from forced early retirements, and in the mindset of Chinese officials.

This all needs to change. China cannot expect to continue receiving favorable trade and investment terms in foreign markets when it is unwilling to reciprocate. It is in China's interest to reform, and the U.S. is right to press to level the playing field. China no longer needs the same accommodations as in its initial stages of economic development. It makes sense to reassess the terms of bilateral trade and make them more fair and equitable, with each trading partner securing equal and unhindered market access across all sectors.

This is about more than trade, and the stakes are high for the U.S. and China and globally. I hope American and Chinese leaders recognize the critical importance of maintaining a constructive and open relationship. It should not be viewed as a zero-sum game. Increased and mutually beneficial bilateral cooperation should be pursued in earnest. That would be a stabilizing force, capable of nurturing both peace and prosperity, while providing a much needed source of comfort to countless people in an increasingly uncertain world.

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