SAN FRANCISCO BUSINESS TIMES

Viewpoint: Can the 'San Francisco Vision' Reset U.S.-China Relations?

Sean Randolph – March 4, 2024

At APEC's Biden-Xi summit President Xi hailed "the San Francisco Vision" as a reset in the relationship. As 2024 gets underway businesses are asking what that vision is and can it hold.

The answer like everything in U.S.-China relations is complex. Business leaders welcomed the meeting, hoping that the downward spiral in U.S.-China relations would stop. By that measure it was a success, with agreements to restore military-to-military talks, address the fentanyl crisis and encourage educational exchanges.

The agreement is modest but also fragile. In 2022 the two leaders also tried to turn down the heat, an effort stalled by 2023's spy-balloon incident. The list of issues that could disrupt this new detente is large. None of the systemic challenges besetting U.S.-China relations have gone away and the underlying policies on both sides haven't changed. What supports the vision is a shared desire to reduce tensions.

How should businesses read the environment? Xi's pitch to investors reflects Beijing's concern with a slumping economy and the flight of capital. Today outward investment flows exceed inward flows, with net disinvestment taking place across stocks, bonds and private equity, but most significantly by foreign-owned entities with operations in China.

Confidence is falling in the aftermath of Covid shutdowns and government moves to tighten security and more directly control the economy. Property markets are under stress, dropping 9.6% in both 2022 and 2023. Youth unemployment in cities is as high as 20%. Unemployment in rural areas may be twice that. The government says the economy grew 5% last year, but the real figure is closer to 2%.

Reading the economy has become more difficult for foreign businesses, with less access to information and consultancies that provide due diligence being prosecuted. Official statements speak of China "opening up" but it's difficult to see where this is happening.

Businesses should welcome these efforts to reassure investors but also understand that the shift in tone is tactical. A recent poll by the US-China Business Council found that geopolitics and Chinese policies are weighing on business sentiment. While few plan to exit China, many are adjusting their supply chains and taking a cautious approach to long-term investment. With patterns shifting, last year Mexico overtook China as the United States' top trading partner.

There are risks on the U.S. side as well, most of them political. Pressure from Congress to decouple will continue. Semiconductor sales, biotech and venture investment are all under pressure. Facing scrutiny, several leading Silicon Valley venture firms have spun off their China operations. In 2024 venture investment with U.S. participation will be the lowest in a decade.

Does this mean that U.S. business should walk away? No. Most U.S. companies in China are profitable and though facing strong competition some such as Apple and Tesla are highly successful.

While advanced technology is largely off the table, that leaves other opportunities for trade and investment in fields such as consumer goods, automobiles, agriculture, climate and environmental technology and health. Despite national-level differences, provincial and city governments in China welcome and support U.S. investors.

The San Francisco Vision provides a setting where these investments and exchanges can grow. U.S. businesses looking for opportunity, however, will need to do so with their eyes wide open.

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