

Reciprocal Trade and Investment

A Refreshed Business Model for Balanced Commerce Between the United States and China

*Memo from Galaxy Trade and Technology
9-19-19*

Galaxy Trade and Technology is an international joint venture, a private company approved by China's government to further the export of magnesium to global markets. Jointly funded by Chinese and American investors, Galaxy is located in the heartland of China's magnesium mining region, Shaanxi Province.

The Galaxy business model is different from most companies involving America commercial investment in China. Galaxy is not exclusively oriented either to imports or to exports. It is both, and more.

Galaxy calls its new type of business model Reciprocal Trade and Investment.

The company is jointly owned, operated, invested, banked, accounted and managed with a group of executives and engineers in China and the United States. Ownership is 51-49, China and United States, but unanimous approval is required for major corporate decisions. The Chief Executive Officer is from China, the Chairman of the Board is from America.

The company deliberately seeks to solve some of the imbalances in trade relationships that have led to recent issues between the US and China.

That means, in practical terms, that Galaxy practices fully balanced commercial relationships between US and Chinese ownership companies. Its international contracts ideally feature both an import and an export orientation, simultaneously and interdependently, framed by careful control of intellectual property.

For example, a company in Michigan makes parts for the Big Three automakers, that utilize specialized magnesium alloys. Galaxy can offer these magnesium alloys at a lower price than their current supplier, because of its large guaranteed supply and long-term fixed low price contracts, with complete delivery cost and logistics.

This benefits the Michigan company and the Chinese company right away; but there's much more. That's the old model, but it's a beginning.

At the same time, the Michigan company has technology and equipment, proprietary knowhow that Galaxy in China would like to use for new products; and the Michigan company, for its part, would like efficient access, through a US-friendly company, to the massive growing future markets in China and greater Asia.

In this situation, Galaxy may cut a deal that sets up an American affiliated manufacturing facility in China, selling the Michigan company's American equipment and support, directly from one of Galaxy's established manufacturing floors in Shaanxi, where all the infrastructure is already in place.

The American company can open up quickly and economically, to make their specialized products in China; they can provide supervision, training, unique expertise. Galaxy China provides the raw materials, the space, the industrial infrastructure, engineering and manufacturing capability and logistics, trained and motivated people, organizational setup, work status in China and more, for the Michigan company.

In some instances, Galaxy may provide capital as well; that will be dependent on deal specifics and there are several options. Galaxy already retains expert international legal, tax and accounting expertise in China, through top-tier American firms with offices there, to provide responsible oversight. It would take many months, substantial cost and senior management oversight from the U.S., in order to independently establish all this infrastructure, in the challenging environment of a new language and culture. Galaxy aims to make it plug-and-play, to the maximum extent possible.

The company also has strong local, provincial and national government support, with personal involvement by the vice-mayor of Yulin City and the Governor of Shaanxi (who attended, with Galaxy executives, the recent Trade Summit at the National Governors Association event in Lexington, Kentucky in May, 2019). On the U.S. side, the Lieutenant-Governor of Michigan has offered his support, to bring all parties together promote new business in Michigan, through new trade with China. Executives from other States, including Kentucky and Washington State, are also ready to support such fully bilateral business development, that benefits employment and economic development on both sides.

So there is a Reciprocal aspect to the government side of this equation as well.

Existing intellectual property from the U.S. will be protected by strict, application-focused IP licenses and prohibitions on reverse-engineering, with third-party monitoring. In addition, agreements can provide that the US company shares in all profit from sales outside the agreement, in the same percentage as sales by the China company; thereby creating a clear and enforceable remedy for violations. As the relationship develops, new intellectual property, created by either US or Chinese resources, will be jointly owned and controlled, with reciprocal licenses to participants.

All the elements fit and move together, forming a whole that is more valuable to all than the sum of its parts.

Some elements of the Reciprocal Trade and Investment model have already been shown effective, in the long modern history of joint economic development between the US and China, stretching back to 1979, when President Carter and Deng Xiaoping re-established diplomatic relations at a Rose Garden ceremony. As this document is written, the 50th anniversary of that event is being marked, and the 70th Anniversary of the founding of China itself is being celebrated.

Actually, roots began to grow even before ambassadors were exchanged, with special trade office activities following soon after the historic handshake between Premier Zhou Enlai and President Richard Nixon in 1972. So there is a set of precedents to draw upon, supported by bodies of law, regulation and trade practices in both countries and in international bodies. So nothing new needs to be invented.

Energetic and creative people have fashioned countless successful business ventures that rest on some of the individual principles proposed here. So there is a long tradition to draw upon. Having studied these examples, Galaxy simply proposes a consolidation of several successful approaches, and their recognition as a new, integrated body of business practices.

Despite current difficult tariff discussions, China and America may be on the verge of setting valuable new precedents. A reboot of relationships will benefit bilateral business between China and Europe, the United Kingdom, Canada, the Middle East and Asia, Central and South America, Africa -- and all across the broad Belt and Road Initiative. Business investors are keenly aware of the advantages of this new type of reciprocal arrangement -- living in a deeper cooperation than ever. The current model has been holding back creative development. We are a globally connected world. Our actions today will influence the actions of others, and will

facilitate growing international trust, with a strong foundation for international peace, for years to come.

Galaxy is practicing this new business model with the deliberate intent of sharing it with other American and Chinese firms, to provide a documented demonstration model that will benefit many companies in both nations, and support long-term beneficial commercial, social and cultural relationships between America and China.

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