

## Trade in Services: Opportunity for Growth

Though overshadowed by issues surrounding trade in manufactured goods, the dramatic expansion of trade and investment in services between China and United States has benefited both economies substantially and will continue to do so for the foreseeable future. While trade in manufactured goods is often viewed, rightly or wrongly, as benefiting one or the other in terms of jobs and balance of payments impact, trade and investment in the services sector is overwhelmingly positive for both countries, with the United States enjoying an advantage.

In 2007, the United States exported more than \$14 billion in services to China while importing about \$9 billion, for a surplus of \$5.4 billion.

Who are these services providers? They include major US banks and financial institutions, law firms, insurance companies, and providers of tourism, business advisory, computer, express delivery, and medical and healthcare services, and others. Increasingly, these companies are being allowed to set up operations in China for sales in China. It is a major area of opportunity for the US service providers.

For the United States, the world's largest exporter of services, trade and investment in services with China translates directly into high-wage jobs and increased profits from investments in China that lead to further investment and job creation in the United States. The United States has a rapidly growing services trade surplus with China; the more the Chinese market opens to US service providers, the more US services can be sold in China. These

exports of services will contribute positively to the US balance of payments.

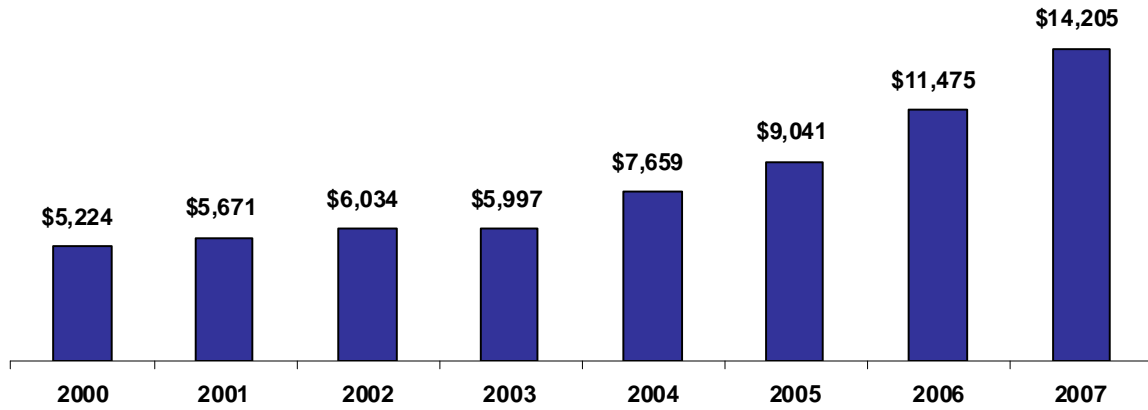
From a broader perspective, the expansion of China's services infrastructure, especially in financial services, is essential to China's integration into the global economy. For example, China's ability to provide pension and healthcare insurance to its citizens, and its establishment of a modern capital market, will help China move toward a market-driven exchange rate and will help level the playing field for US and other companies. The current financial market turmoil may lead some in China to advocate a suspension of their financial system reforms. However, China's financial system is in need of basic transformations that have nothing to do with the current global challenges – and that could do much to help address some of the imbalances that are required to be part of the solution.

In a 2006 study, Oxford Economics estimated that if the outstanding impediments to services sector growth in China were fully removed, the bilateral services trade surplus with China would increase to around \$60 billion by 2015, supplemented by extra income derived from US investments in China worth \$7 billion – boosting US GDP in the short term by about 0.3 percent and creating up to 240,000 US services-sector jobs.

### Action Plan

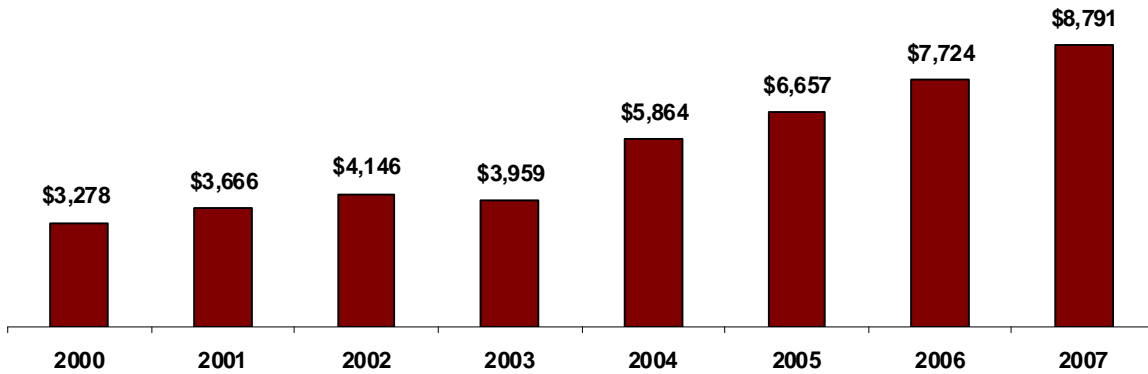
- Press for continued openings for US service companies to operate in the Chinese economy.

### US Services Exports to China (\$ million)



Source: US Bureau of Economic Analysis

### US Services Imports from China (\$ million)



Source: US Bureau of Economic Analysis