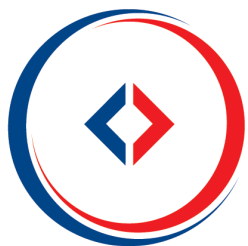


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**THE US-CHINA BUSINESS COUNCIL**

美 中 贸 易 全 国 委 员 会

1818 N Street, NW, Suite 200, Washington, DC 20036

TEL: 202-429-0340 | FAX: 202-775-2476 | E-MAIL: [info@uschina.org](mailto:info@uschina.org) | [www.uschina.org](http://www.uschina.org)

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# CHINA AND THE U.S. ECONOMY:

## ADVANCING A WINNING TRADE AGENDA

What Americans Should Know  
about the US-China Commercial Relationship

*January 2013*

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*The US-China Business Council ([www.uschina.org](http://www.uschina.org)) is the leading organization of US companies engaged in business with the People's Republic of China. Founded in 1973, USCBC provides extensive non-partisan China-focused information, advisory, program, and advocacy services to roughly 240 US corporations.*



## EXECUTIVE SUMMARY: CHINA AND THE US ECONOMY

- **Defining a 21st Century agenda.** Few issues loom large on America's economic and foreign policy agendas as our relationship with China. This is a defining global strategic issue for the United States. China is a \$250 billion market for American companies—and should be more.

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- **US exports to China continue to grow.** China is the United States' third-largest export market, behind only Canada and Mexico. We need to build on our success by pushing for further market openings for American companies doing business with China.

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- **China's currency: Time to move on.** Yes, an exchange rate that better reflects trade flows is important. Yes, a multi-lateral, comprehensive look at global imbalances is necessary. But China's exchange rate is not the significant factor in the US trade deficit or US employment that many make it out to be. The renminbi (RMB) has appreciated over 30 percent against the dollar since 2005. Let's move on to issues that do matter.

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- **The US economy is far larger than China's.** In the past two decades alone, the US economy grew by the equivalent of the entire Chinese economy. China is rapidly developing, but the United States has a much stronger foundation upon which to build. In fact, the US and Chinese economies are greatly interdependent and need each other to succeed. Further, with a population of more than 1.3 billion and increasing consumer wealth, it is only natural that the Chinese economy will one day be larger than ours. Rather than being viewed as a threat, this should be viewed as an opportunity for US companies to participate, and benefit, from that growth.

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- **US manufacturing faces an array of challenges, but our competitive future mainly depends on us, not China.** Despite the headlines, the United States remains the world's largest manufacturer. But steps need to be taken, especially here at home, to ensure that the US retains its competitive edge.

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- **Investment from China supports jobs in America.** US governors and mayors know this better than anyone, which is why they actively seek Chinese companies to invest in their communities.

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- **China's ownership of US government debt is a non-issue.** China owns about 7 percent of the federal government debt. Concerns about China's leverage are misplaced. If anything, China's holdings of US debt give them a vested interest in our economic success.

(PAGE 17)

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- **US services exports to China are growing and hold the potential to get even stronger.** The United States has a services trade surplus with China, and services industries account for 80 percent of private sector jobs in America. These include high-quality, high-wage jobs in the financial, logistics, and legal sectors, to name a few.

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- **US companies in China: In it to win...market share.** Most American companies do business in China, including manufacturing goods there, to access its local market—and those operations strengthen US companies here at home.

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- **We have options when China doesn't play fair.** Direct negotiation with China is the best first approach to deal with problems American companies have with China. But we also can use other sound legal tools—such as anti-dumping investigations and World Trade Organization (WTO) cases—and have done so successfully.

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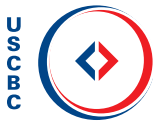
- **US companies are a positive influence in China.** From human resources practices to environmental issues, the impact of US companies has been beneficial. The US business presence will continue to positively affect the development of the rule of law, civic institutions, and specific issues such as food and product safety in China.

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- **Most of the answers are here at home.** To succeed in the years ahead, we need smart policies on taxation, energy, education, infrastructure, trade, investment, and innovation to maintain the competitive leadership of American companies and workers.

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## DEFINING A 21ST CENTURY AGENDA

Few issues loom as large on America's economic and foreign policy agendas as our relationship with China. The current global environment may offer more immediate crises clamoring for attention, but China is the enduring challenge—and opportunity—for the United States during this century. There is much to be gained, in both economic and strategic terms, if we get the relationship right—but economic and strategic difficulties lie ahead if we don't.

A careful look at the facts shows that while China is rapidly making its way up the ladder of global economic and political importance, it is still at a stage where its domestic and international practices are being shaped. China's once-a-decade transition to a new leadership, now underway, underscores this point and the need to expand our engagement with China across all facets of the relationship.

China is a \$250 billion market for American companies—and should be more. China is now the third-largest buyer of US exports. US companies exported \$140 billion in goods to China and Hong Kong in 2011. American companies with operations in China sold another \$169 billion. Add it all up, eliminate the overlaps, and it's easy to see why getting the China relationship right is important to our economy and workers. We need to reduce market access and other barriers in China so US companies can compete on an equal playing field.

US companies are establishing roots in China to sell to the Chinese market, and in the process they are bringing high-quality global standards and business practices to China's still-evolving social order. Though much is made of China's rise, realizing that America's per capita GDP is still nearly nine times larger than China's puts things in perspective.

And though many focus on the US trade deficit with China, the proportion of our global deficit coming from Asia, including China, is about the same as it was 10 years ago and largely reflects a change in our pattern of trade with the region. The current economic challenges may cause temporary shifts, but the long-term trends are clear—and the need for a clear-headed, stable approach to China is more important than ever.

### USCBC Members' Top 10 Commercial Issues in China

1. **Human resources: Talent recruitment and retention**
2. **Administrative licensing, business and product approvals**
3. **Competition with Chinese enterprises (state-owned or private)**
4. **Cost increases**
5. **Intellectual property rights enforcement**
6. **Uneven local enforcement and implementation of laws and policies**
7. **Investment restrictions**
8. **Competition with foreign companies in China**
9. **Competition with foreign or Chinese companies not subject to US Foreign Corrupt Practices Act**
10. **Standards and conformity assessment**

*For USCBC's full report on company priorities in China, see <https://www.uschina.org/info/members-survey/>*

We're not in this alone. China is in the same place—their economic and strategic success requires working with America on major issues such as global economic and financial policies, energy, the environment, consumer safety, and regional security issues.

The United States has an opportunity to build an enduring and constructive relationship with China. To reach that goal, we need policies that are based on facts, not fears; that foster and follow rule of law; and that bolster and then build upon the deeply rooted strengths of US industrial and technological innovation.

The US-China Business Council looks forward to working with the administration and Congress as they develop policies that will achieve our nation's goals.



## Action Plan

### In our contacts with Beijing, we should

- Ensure the continued opening of China's economy to accelerate the rapid growth of US exports to China and enhance the role of US companies selling goods and services in the Chinese market. This helps US companies and workers by bolstering the job base in the United States. It also brings US business standards and practices to China.
- Work to bring China into a constructive and more participative role as a global stakeholder on international economic issues. This is a long-term, step-by-step process.
- Size the government-to-government dialogue to fit today's larger and more complex commercial relationship. There is no substitute for regular, high-level, well-coordinated, and forward-looking engagement between top-level economic, trade, and other officials on major issues such as market access, intellectual property protection, energy, the environment, food and product safety, financial and currency policies, global economics, and open investment environments. We should build on the successful mix of the US-China Strategic and Economic Dialogue, the US-China Joint Commission on Commerce and Trade and other channels, while taking steps to make it easier for American companies—including our small and medium-size companies—to sell to China.
- Coordinate with our allies to more effectively engage with China on economic and commercial issues of common concern.
- When good-faith dialogue with China fails to resolve problems with China, the United States should use legally sound trade remedies and dispute settlement mechanisms such as WTO cases when well-defined, winnable, and supported by industry.

### And on the home front, we should

- Support executive branch agencies and state governments in their efforts to promote US exports abroad and bring needed, job-creating investments into the United States.
- Further strengthen the leadership role of US companies in the international economy, especially in technologies and in sectors that will become global 21st century leaders.
- Take steps to bolster the long-term competitiveness of the US economy by adopting smart policies on taxation, energy, education, infrastructure, trade, investment, and innovation.
- Help displaced workers transition to growth sectors of the US economy with cost-effective programs that provide the tools to succeed in the international economy.



# US EXPORTS TO CHINA CONTINUE TO GROW

Boosting US exports is everyone's goal. Selling more manufactured goods, farm products, and services creates much needed jobs for Americans.

China is a big part of reaching that goal.

US exports to China have been a bright spot in the American economy over the last decade, reaching \$140 billion in 2011 when Hong Kong is included—nearly one-tenth of total US exports. China is now the United States' third-largest export market. US exports to China have grown about 542 percent since 2000. Top American exports in 2011, the latest full year of data available, included agricultural products, computers and electronics, chemicals, and transportation equipment, primarily aerospace and autos.

Forty-eight states have registered at least triple-digit export growth to China since 2000, far outpacing growth in their exports to the rest of the world. Twenty of those states have experienced quadruple-digit growth. For information on exports from all 50 states and 435 congressional districts, including links to local news stories on US companies doing business with China, see [https://www.uschina.org/public/exports/2000\\_2011/](https://www.uschina.org/public/exports/2000_2011/).

While China has become a top market for US manufacturers, America's farmers are benefitting, too. In 2011, China bought 60 percent of total US soybean exports and 30 percent of total US cotton exports. Farm exports to China will continue to grow as Chinese incomes increase.

US exports to China help a broad range of US businesses, from large multi-nationals to small, niche companies. According to the US Department of Commerce, in 2010, small and medium-sized enterprises (SMEs) accounted for nearly 35 percent of all goods exports to China, which is better than their 33 percent share of US goods exports to the rest of the world.

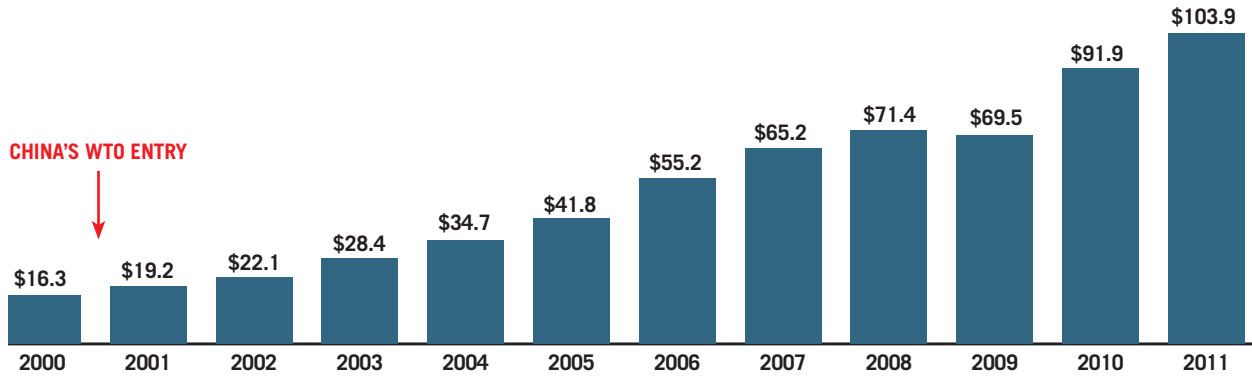
We also export services, such as tourism—Chinese tourists visiting America counts in our export column. Chinese tourists on average spend \$6,000 on each visit to the US, directly supporting jobs in top destinations such as California, New York, Florida, and Nevada. We also export engineering services, as well as provide express delivery and health care in China, supporting thousands of additional jobs here in the United States.

## Action Plan

- Further open China's economy to US exports. Lowering China's import tariffs on luxury and consumer goods and further increasing market access and increasing the number of revenue-sharing foreign films imported into China are just two examples of how to help US companies grow their business in China's market.
- Help US exporters become more competitive in China.
  - Direct the US Export-Import Bank to make support of US exports to China one of its top priorities.
  - Increase the Department of Commerce's Foreign Commercial Service resources in China to support US company exports, especially small- and medium-sized companies' exports.
- Continue to add capacity and implement more efficient processes at our consular posts in China to reduce wait times and facilitate Chinese tourism visits to the United States.
- Work with China to adopt reciprocal five-year, multiple-entry business visas to facilitate trade and investment between the United States and China.
- Expedite and fully implement the APEC Environmental Goods Agreement to ensure greater access to China's market for US clean energy sector manufacturers.

American services providers are world leaders in their fields, so much so that we have a services surplus with China—we sell them more services than they sell us. At a time of economic challenge, encouraging and supporting export expansion to the fastest growing market for US products makes sense—for manufacturers, service providers, farmers, and workers.

fig. 1 US EXPORTS TO CHINA (IN US\$ BILLIONS)

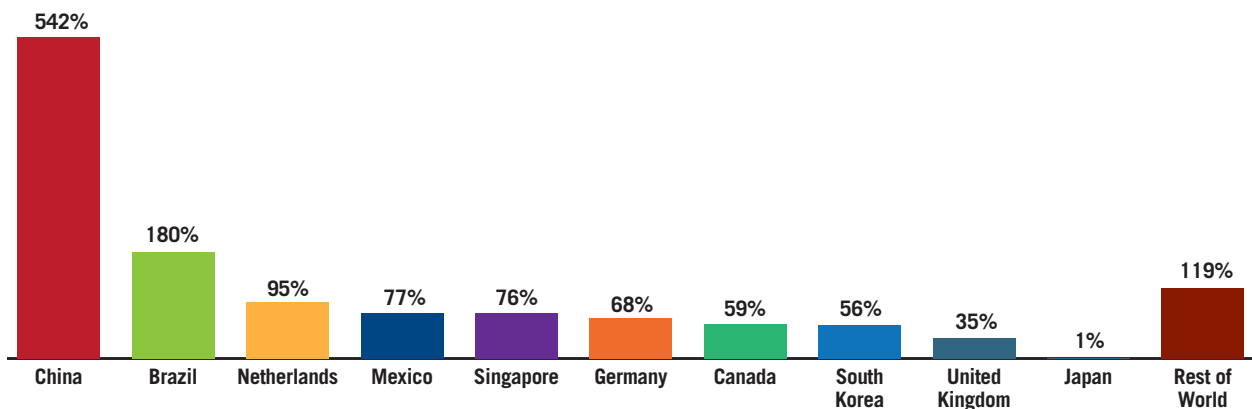


Growth in US Exports to China: **542%**  
Growth in US Exports to Rest of World: **80%**

China is the **3rd largest** export market for US goods.

Source: US Department of Commerce

fig. 2 GROWTH IN US EXPORTS TO TOP 10 MARKETS, 2000-2011



US exports to China **significantly outperformed** export growth to the United States' top trading partners.

Source: US International Trade Commission

fig. 3 TOP US EXPORT MARKETS, 2011 (IN US\$ BILLIONS)

CHINA & HONG KONG LISTED SEPARATELY

1. Canada	\$280.9
2. Mexico	\$198.4
3. China	\$103.9
4. Japan	\$65.7
5. United Kingdom	\$55.8
6. Germany	\$49.1
7. South Korea	\$43.4
8. Brazil	\$42.9
9. The Netherlands	\$42.4
10. Hong Kong	\$36.4

CHINA & HONG KONG COMBINED

1. Canada	\$280.9
2. Mexico	\$198.4
3. China & Hong Kong	\$140.4
4. Japan	\$ 65.7
5. United Kingdom	\$55.8
6. Germany	\$49.1
7. South Korea	\$43.4
8. Brazil	\$42.9
9. The Netherlands	\$42.4
10. Singapore	\$31.2

China is the United States' 3rd largest US export market.

Source: US Department of Commerce

fig. 4 US IMPORTS FROM CHINA OFTEN HAVE US CONTENT

WHAT THE US BUYS FROM CHINA

1. Electrical Machinery
2. Nuclear Reactors, Boilers and Machinery
3. Toys, Games, and Sport Equipment
4. Furniture, Bedding, Lamps
5. Footwear and Related Materials
6. Apparel Articles and Accessories (Knit)
7. Apparel Articles and Accessories (Not Knit)
8. Plastics and Related Materials
9. Iron and Steel Articles
10. Vehicles and Parts (Excluding Rail)

WHAT THE US SELLS TO CHINA

1. Nuclear Reactors, Boilers and Machinery
2. Oil Seeds, Misc. Grain, Fruit, Plants
3. Electrical Machinery
4. Vehicles and Parts (Excluding Rail)
5. Aircraft, Spacecraft, and Parts
6. Optics, Medical Instruments
7. Plastics and Related Materials
8. Wood Pulp, Paper
9. Copper and Related Materials
10. Organic Chemicals

US and China have an integrated bilateral trading relationship.

Source: US International Trade Commission

Note: Order based on the Harmonized System classification for 2011.

# CHINA'S EXCHANGE RATE: JOBS, THE TRADE DEFICIT, AND THE US ECONOMY

“Currency manipulation” is a term we heard often in the 2012 presidential campaign — and that if we cited China as a “manipulator” it would somehow help reduce the US trade deficit and create jobs. But what does currency manipulation mean? More importantly, what does it mean for the United States, jobs, and the economy?

Some observers argue that China is manipulating its exchange rate to lower the cost of Chinese goods and services and increase the cost of American goods and services. They argue that this makes American goods less competitive globally, increases the US trade deficit, and ships US jobs—specifically jobs manufacturing goods that were once made in the United States—to China.

While China does control the exchange rate of its currency, the renminbi (RMB), there is little evidence that it has much of an impact on the US trade balance or jobs. And even some of the harshest critics in past years now agree that the RMB is not significantly undervalued.

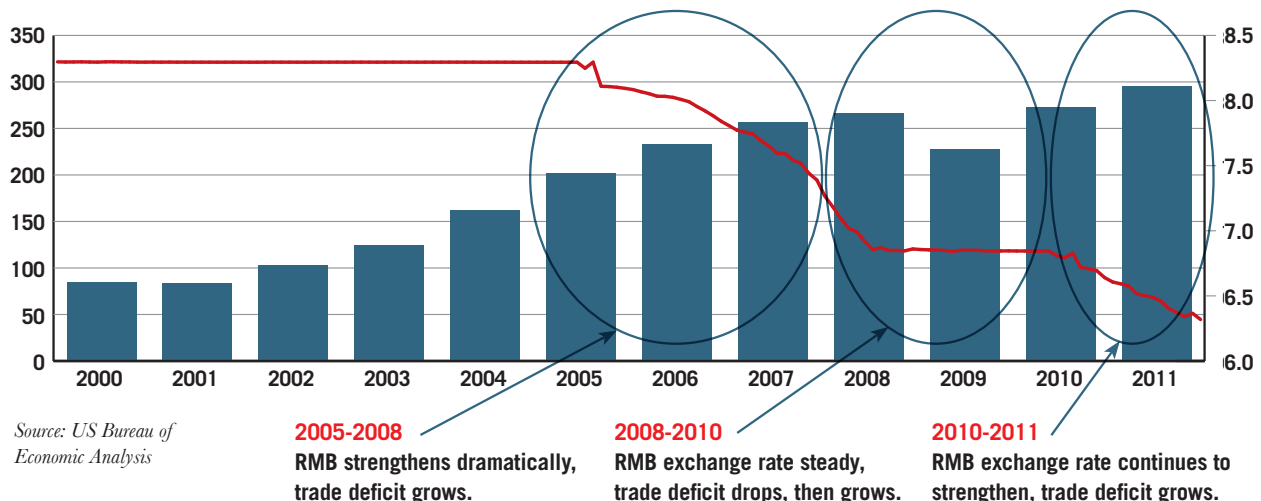
The exchange rate’s impact on the US trade balance is minimal because many of the goods the United States imports from China used to be imported from Japan, Taiwan, and other Asian economies. Over the past two decades, Asian companies have shifted their export manufacturing base to China. As China’s share of the US trade

## Action Plan

- Increase emphasis on multilateral discussions to enhance progress already made toward bringing the RMB’s value in line with the global marketplace.
- Use bilateral trade remedy tools consistent with international rules, such as anti-dumping investigations, and multilateral dispute settlement mechanisms such as WTO cases when well defined, winnable, and supported by industry, to eliminate unfair advantages and level the playing field for US companies.
- Continue to focus on China’s financial reforms (including market openings to US financial services providers) as the ultimate solution to achieving a fully convertible currency and a truly market-driven RMB exchange rate.

deficit has risen with this shift, the share of the US deficit from the rest of East Asia has declined. The figure on page 10 clearly shows this trend.

**fig. 5 THE RMB-USD EXCHANGE RATE SHOWS LITTLE CORRELATION WITH THE BILATERAL TRADE DEFICIT**





Think of it this way: 10 or 15 years ago when you bought a TV, the label probably read “Made in Japan” and was an import. Today, that TV now says “Made in China”—and is still an import. To suggest, as some have, that if an item were not imported from China, it would be made in the United States is misleading, at best.

Assertions about the impact of China’s exchange rate on US employment are misleading as well. The RMB appreciated over 30 percent since 2005 as a result of steady engagement and negotiation. During this period of significant RMB appreciation, the US trade deficit continued to grow—underscoring our point about the limited relationship between the exchange rate and the trade deficit. US unemployment has also gone up as the RMB strengthened, not down, showing there is little link between US jobs and China’s exchange rate. The reason is clear: US employment rates have more to do with the state of the US economy than it does with the value of another country’s currency.

US companies selling to China also do not cite the exchange rate as a competitive barrier—and our 542 percent growth in exports to China since 2000 underscores that. Every year, the US-China Business Council (USCBC) surveys its members on the barriers that impact their business with China. The exchange rate never ranks as a top issue

harming their sales, and in 2012 again ranked low on the list at number 27.

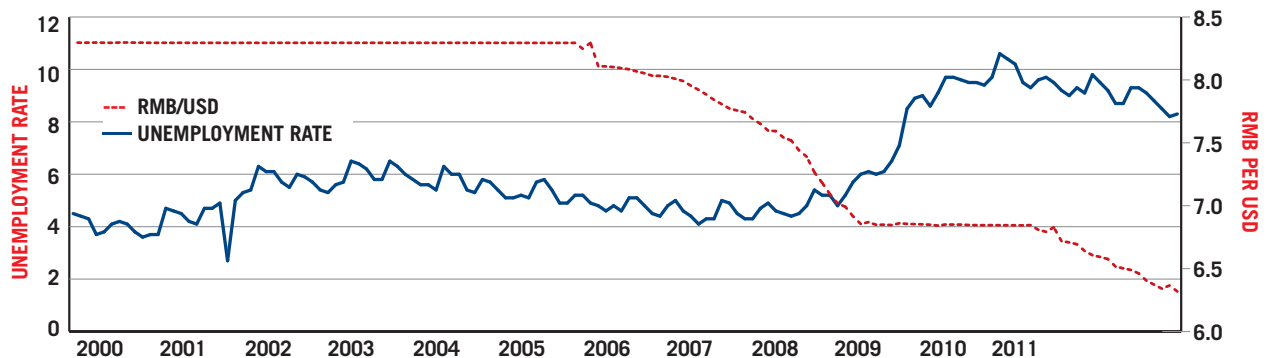
Clearly, there are factors that make China’s exports to the United States cheaper than those produced in other countries or, in some cases, domestic products. If those factors are due to unfair trade advantages, we should go after them with the appropriate trade tools. But focusing on the exchange rate to solve the trade deficit or create jobs is the wrong approach.

Legislation that imposes a tariff on imports from China to offset currency undervaluation will violate World Trade Organization (WTO) rules and tax US consumers without getting us any closer to the objective of moving China toward a market-driven exchange rate. It’s hard to find a winner in this type of action, but the clear loser would be American households.

So, what should be done?

USCBC supports an exchange rate that better responds to China’s global trade flows. A multilateral approach to global imbalances, including exchange rate issues, has been pursued by the last two administrations. This approach has shown the results we want—that 30 percent appreciation. We should continue this successful approach, in coordination with other countries.

*fig. 6* **US ECONOMY IS THE PRIMARY DRIVER OF US UNEMPLOYMENT RATE**



**Overall RMB appreciation of over 30 percent since 2005—but US unemployment rate remains high.**

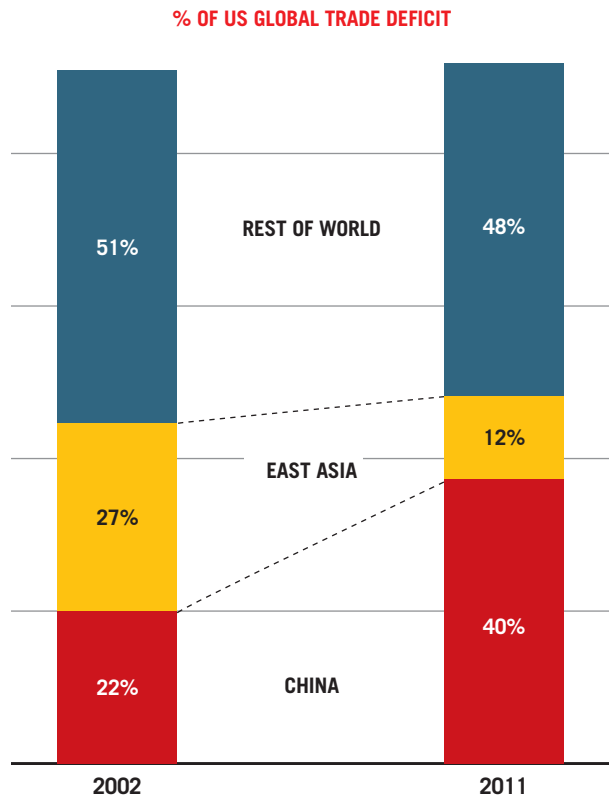
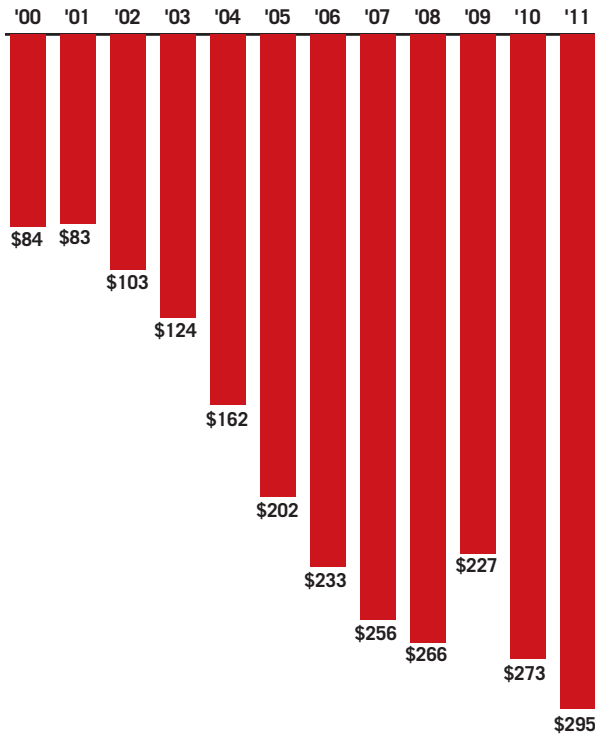
Source: US International Trade Commission and International Monetary Fund

When China is found to be flouting international trade rules, we should seek direct negotiations to resolve the issue. If good-faith dialogue fails, we should use rules-based trade tools—such as anti-dumping investigations and WTO cases, when well-defined, winnable, and supported by industry—to seek redress. The US government has done this with WTO cases on China's export subsidies,

auto parts import barriers, financial news services market access barriers, and intellectual property rights.

But we are deceiving ourselves if we think that fixing China's exchange rate will significantly affect the US trade deficit, or the decades-long decline in manufacturing jobs due to productivity increases.

fig. 7 US TRADE DEFICIT WITH CHINA (IN US\$ BILLIONS)



**Bilateral trade deficit is steadily growing, in part reflecting shift from Asia to China.**

Source: US International Trade Commission

# IS CHINA'S ECONOMY REALLY BIGGER THAN THE US ECONOMY?

Surveys show many Americans think so. But the US economy is well over three times the size of China's. On a per capita basis, the US economy is nearly nine times bigger. China's population has a per capita GDP—the average Chinese citizen's share of the country's overall economy—of about \$5,400, compared to \$48,100 for the average American. The longer-term trend shows that the United States grew by the equivalent of the entire Chinese economy in the past two decades.

The United States has a significant stake in seeing China's economy continue to prosper. US manufacturing, agricultural, and services exports will grow as China's economy develops and more Chinese move into the middle class. China's consumer class is projected to grow to nearly 600 billion people by 2020—that's about twice the entire US population of today and clearly a significant opportunity for American companies.

There is much to be gained from a trade policy that encourages China to be more open to US companies, especially when the US domestic economy is seeking to gain sounder footing.

In fact, the US and Chinese economies are greatly interdependent. For instance, the United States is China's second-largest export market; China is our third-largest export market. US companies across every industry have invested in China, primarily to reach China's domestic market; Chinese companies in turn are beginning to invest in the United States, with the prospect of creating jobs here at home.

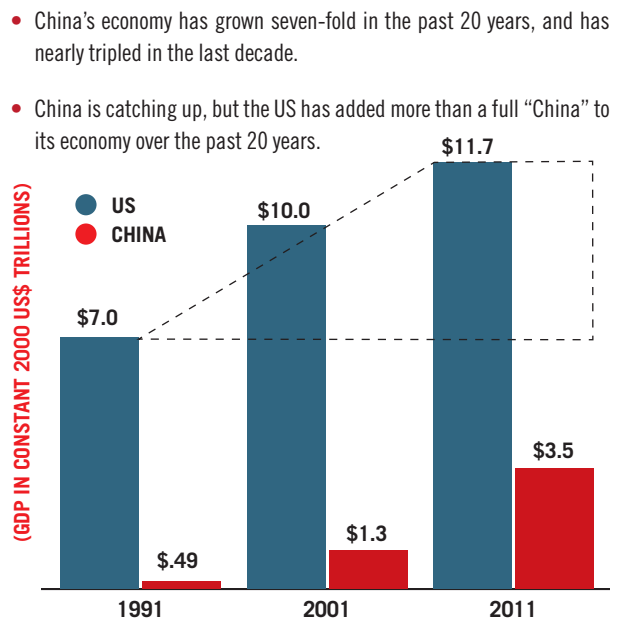
We should make it easier for China to buy from us. Streamlining the entry visa process for Chinese customers of US goods and services not only will help increase sales for US companies, it also will provide additional sales for US airlines, restaurants, and other service sector companies that cater to business travelers. The US Export-Import Bank should make lending support for US exports to China a top priority, for both large and small enterprises.

The growth of China's domestic market opens up a major new avenue for US companies to gain strength by selling goods and services in China. Many of these goods may be made in China, because distance and lead times mean some companies cannot serve customers in China from a US base. But even these product and service sales require

## Action Plan

- Continue efforts to further open China's economy to US exports and reduce ownership barriers in China for US companies seeking to invest there.
- Encourage China's constructive involvement in global economic policy issues.
- Introduce reciprocal five year, multiple-entry visas for US and Chinese business travelers, to make it easier for our companies to sell products and services.
- Prioritize US Ex-Im Bank support for US exports to China, including those of small and medium-sized enterprises (SMEs).

fig. 8 WHICH ECONOMY IS BIGGER?



Source: World Bank Group

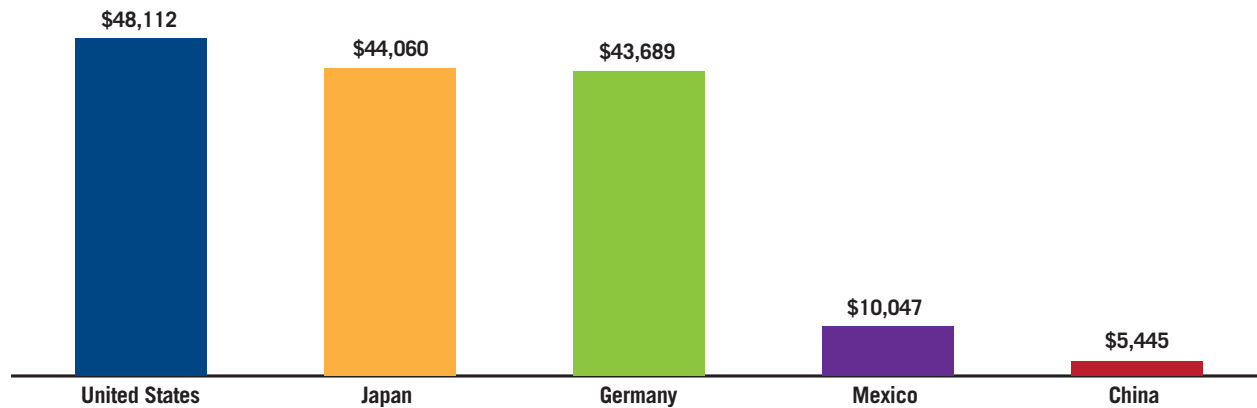
The US economy is more than **3x** the size of China's.

design or service support, or component supply, from US facilities; these sales strengthen companies' core operations—and job bases—in the United States.

China's economy one day will be bigger than America's, simply because China's population of 1.3 billion people is four times bigger than ours. That day is still far in the future.

However, the conclusion should be obvious: Our economic success in the years and decades ahead is mutually dependent. We need more engagement and cooperation with China, not less.

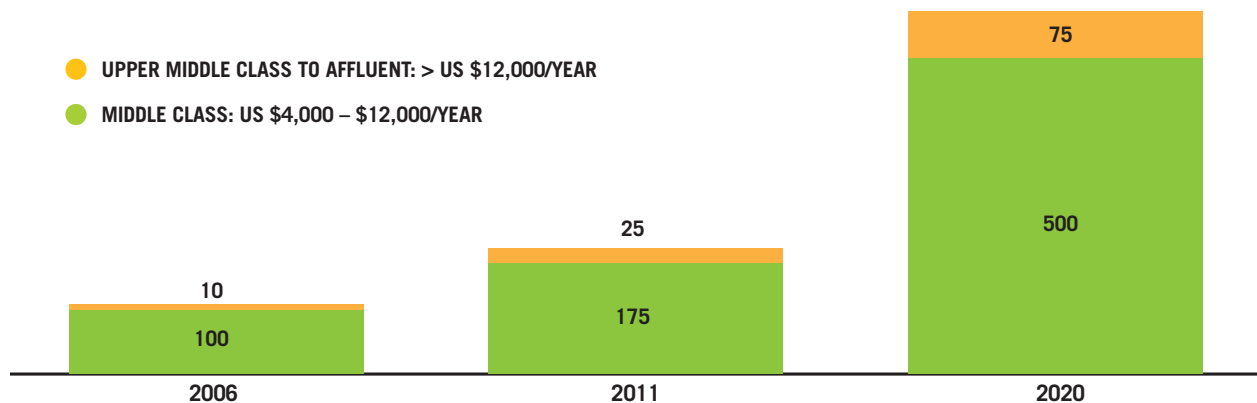
fig. 9 GDP PER CAPITA, 2011 (IN CURRENT US\$)



Per capita, America's economy is nearly 9x the size of China's economy.

Source: World Bank Group

fig. 10 CHINA'S GROWING CONSUMER CLASS (IN MILLIONS)



China's consumer class is expected to nearly triple by 2020.

Source: InterChina Consulting

# US MANUFACTURING, CHINA, AND JOBS

*US manufacturing has lost more than 2.7 million jobs to China since 2001.*

How many times have you seen that statement? So many times that a lot of people think it is true. But the simple fact is that it's not.

This “job loss” calculation assumes that every product imported from China would have otherwise been made in the United States, which is clearly wrong—several decades wrong, in fact.

Go back to the TV example. They used to be made in Japan—and were an import. Look at the label on your TV now. It is likely made in China—and it is still an import.

Much of what we import from China is replacing imports from other countries, not products we make in the United States today. Undoubtedly, some jobs have gone to China, but studies that ignore the facts and make wildly exaggerated claims undermine their own credibility.

And is it true, as some choose to portray the issue, that US manufacturing is being killed off by China?

While there have been estimates suggesting otherwise, the United Nations Industrial Development Organization (UNIDO) reports that that America's value-added manufacturing reached \$1.7 trillion in 2011, the latest data available. China's output was significantly less, at \$1.2 trillion in value-added output, when using constant dollars to account for inflation and changes in the exchange rate. Yes, China's output is growing quickly, as you'd expect from a rapidly industrializing economy of 1.3 billion people. But the United States makes more than ever before, we just do it with fewer people on the assembly line—and that reflects productivity here at home, not the rise of China.

This is an issue where perceptions matter, however. Most Americans don't look at the “tag” on airplanes or check to see where the semiconductors in their electronic products were manufactured to see “made in USA.” Americans do often see that their clothes, plastic containers, or boxes of screws were “made in China,” or that their computer or iPod was “assembled in China.”

Based on US import statistics, China accounted for roughly one-third of all US consumer goods imports in 2011—the kinds of products you see on the shelf when you go into a convenience or electronics store—and those consumer goods made up well over half of all US imports from China. The result is that US consumers have a mis-

## Action Plan

- Bolster the long-term competitiveness of the US economy and US enterprises by adopting a comprehensive advanced manufacturing plan including smart policies on energy, tax, education, infrastructure, trade, investment, and innovation.
- Develop jobs by encouraging innovation and growth by US companies in industries that will become global 21st century leaders, such as technology, energy, and related sectors.
- Strengthen cost-effective programs to help workers transition to growth sectors of the US economy to help them succeed in the international economy.

leading picture of America's competitiveness based on reading the labels on the clothing, toys, or TVs they buy.

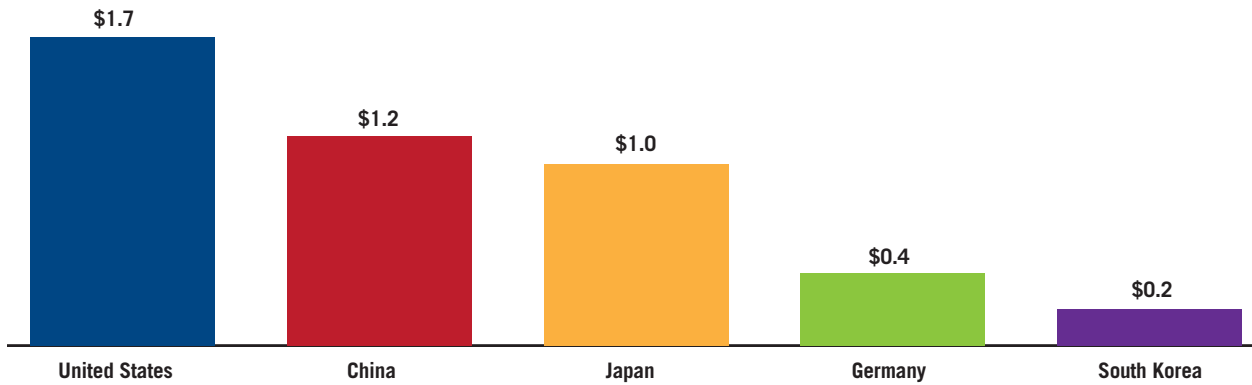
There is a complimentary relationship between US manufacturers of components and manufacturing machinery that Chinese companies use to make products. Our two economies make different things well and benefit by trading with each other.

In fact, the San Francisco Federal Reserve Bank has estimated that Chinese made goods and services account for only 2.7 percent of Americans' consumer spending. Based on their calculations, the US content of products sold in America that are listed as “made in China” accounts for about 55 cents of every dollar spent.

It is true that some US companies have closed because they could no longer compete, and it is true that US companies face daunting tasks competing internationally even with their distinct advantage in productivity. And when viewed from the perspective of jobs, productivity gains can mean that it takes fewer people to make the same product. But as noted above, we make more than ever, we just do it with fewer people. In fact, US manufacturing jobs have been in a steady, decades-long decline that reflects these productivity gains—and far predates China's entry into the global economy.

Maintaining America's manufacturing strength has more to do with our policies and actions here at home than what happens in China.

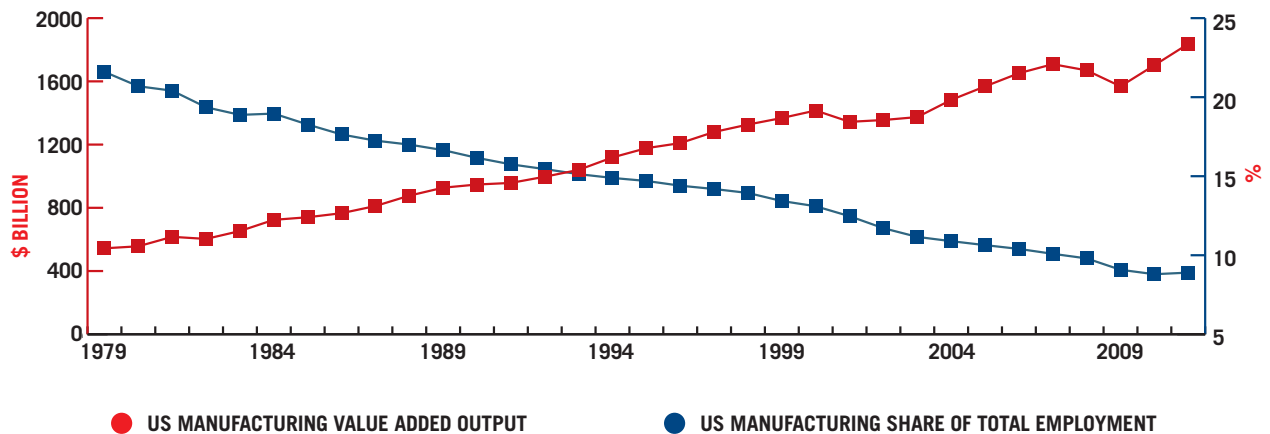
fig. 11 **MANUFACTURING OUTPUT (VALUE ADDED) (IN CONSTANT 2000 US\$ TRILLIONS)**



The United States remains the **world's largest manufacturer**, but China is catching up.

Source: UNIDO

fig. 12 **US MANUFACTURING OUTPUT AND EMPLOYMENT**



Productivity gains have led to greater output but with fewer workers.

Source: US Bureau of Labor Statistics



# SHOULD WE BE CONCERNED ABOUT CHINESE INVESTMENT IN THE UNITED STATES?

We hear a lot about American companies doing business in China, but what about the flip side—Chinese companies coming to the United States to set up shop?

For the moment, Chinese investment in America is low compared to investments from other foreign companies here. According to Rhodium Group, which has done extensive research into inbound Chinese investment, Chinese companies invested \$6.5 billion in America in 2012. By comparison, US government data indicates that British companies invested \$442 billion here in 2011, German companies invested almost \$216 billion and Dutch companies invested over \$240 billion.

But more and more Chinese companies are beginning to look to the United States as a place that they'd like to have operations—which means new jobs for Americans wherever they decide to open a business.

Foreign investment is a critical part of the US economy, especially given our current economic difficulties. One economist has estimated that we need an additional \$3 billion in new investment each day to maintain current levels of economic growth. Foreign investment in the US recycles the money we pay out for purchases abroad back into our economy in the form of investments that make us richer, stronger and better positioned to compete more aggressively in trade markets.

Foreign direct investment (FDI) in America supports about 2 million manufacturing jobs. Jobs supported by FDI often pay more—in 2008, these jobs paid approximately 30 percent more than other companies in the US.

Governors and mayors from across the country understand better than anyone the importance of foreign investment and have been actively courting Chinese investors for their states. In the past year, governors from Michigan, Iowa, Maine and many others have travelled to China with the goal not only of increasing sales for their states' companies, but also attracting new manufacturing facilities to be based here in the US—creating good jobs for Americans at a time when we truly need them.

It goes without saying that Chinese companies investing in the United States or listing on American stock exchanges must fully comply with US accounting and disclosure rules. In addition, companies operating here, regardless of own-

## Action Plan

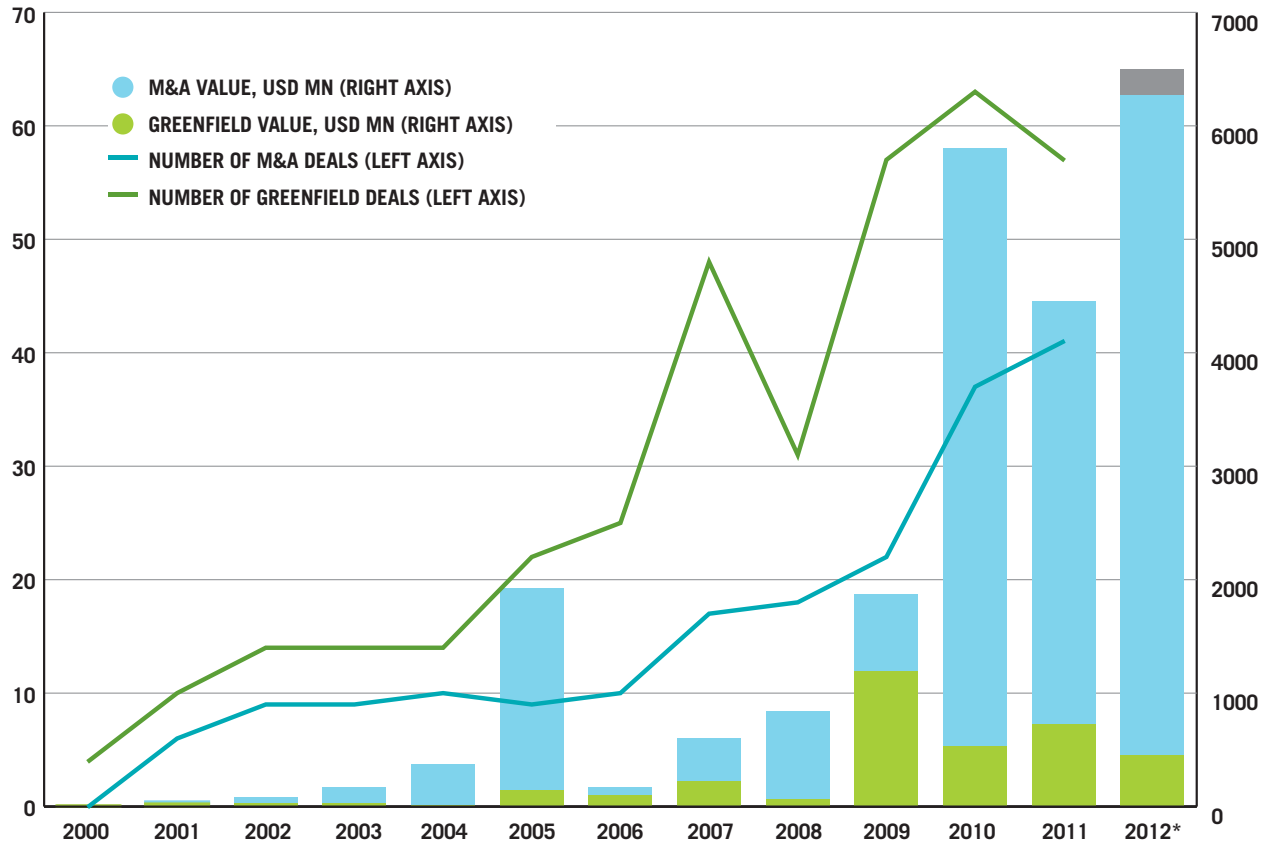
- Support “sub-national” dialogues bringing together state and municipal governments with their counterparts in China to attract job-creating investments here in the United States.
- Set clearer and more transparent guidelines for national security concerns related to Chinese investment in the United States, to de-politicize the investment review process and reduce uncertainty for Chinese investors.
- Encourage Chinese investors to consult relevant US government departments early in the process for potential mergers and acquisitions, in order to avoid negative outcomes.
- Ensure that Chinese companies listing on American stock exchanges fully comply with US accounting and disclosure rules.
- Press China to reduce ownership restrictions on American companies seeking to invest in China.
- Prioritize negotiations of a meaningful Bilateral Investment Treaty with China.

ership, should maintain the highest standards of corporate governance. And, we need to be sure that foreign companies investing here are doing so without unfair advantages.

There are of course some industries in which the US limits foreign investment for national security concerns, such as telecommunications. For these sectors, the US has a process in place to review foreign acquisitions for potential national security concerns. These reviews ensure that foreign direct investments in the US do not threaten our broader national security interests.

We should also keep in mind that having a global level playing field is important, too. If Chinese companies can invest in America without ownership limitations in almost every sector, then US companies should be able to do the same there. Companies' global operations support jobs here at home and strengthen companies' bottom lines. That makes foreign investment a win-win for Americans.

fig. 13 CHINESE DIRECT INVESTMENT IN THE UNITED STATES, 2000–2012\*



Source: Rhodium Group.

\*For 2012, Q1–Q3 figures are displayed, along with the estimated total value of pending acquisitions in gray. A detailed explanation of sources and methodology can be found at: <http://rhgroup.net/interactive/china-investment-monitor>



# IS CHINA'S OWNERSHIP OF US DEBT A NATIONAL SECURITY RISK?

If you believe what you hear from political campaigns, China's government owns so much of the United States' government debt that it has leverage over us—and is waiting for the right moment to sell it and undermine the US economy.

Relax. China doesn't own as much of our debt as you might think. To the extent that it does, the problem is China's, not ours. The bigger issue for America is the size of our fiscal deficit and its long term implications for our economy, not the level of China's debt holdings.

Consider the facts: as of September 2012, the United States had over \$16 trillion in debt—that is, how much the United States owes to creditors for overspending in budgets over the years.

US government debt is financed in a variety of ways, including through the sale of Treasury bills, notes and bonds, US savings bonds, and other government-backed securities. All of these are essentially promissory notes with pre-determined payment due dates.

Who buys these promissory notes? A wide variety of people and entities. About two-thirds of US debt is owned by Americans—local and state governments, institutional investors like banks and mutual funds, and individual investors. The remaining debt—about one third—is owned by foreign governments and investors. China is the largest foreign debt holder, with about 21 percent of the foreign-owned debt. However, this amounts to only about 7.2 percent of total US debt, worth around \$1 trillion.

What does all of this mean? Most importantly, it means the United States has a large fiscal deficit that continues to contribute to our debt. This is an issue that affects the US economy in a variety of ways, few of them positively, and it is something that we as a nation must address.

Beyond that, it also means that China is a stakeholder in the economic success of the United States. Like any investor, China wants its assets to gain value, not lose it. In other words, it wants the US economy to get stronger and continue to prosper, because that means China will be guaranteed a good return on its investments here. A decision by China to sell off its shares of US debt would do just the opposite: send the American economy into a downward spiral, harming not only the value of China's investments,

## Action Plan

- The United States needs to effectively address its long term fiscal challenges.

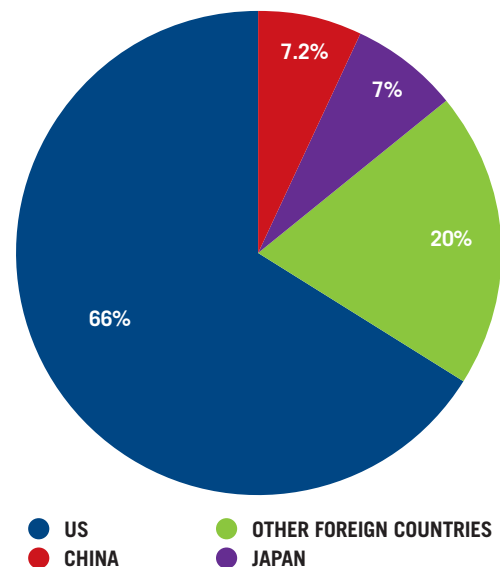
but also China's sales of products to the United States as the economy faltered.

The Pentagon did its own evaluation of the risks posed by China's ownership of US debt and came to the same conclusion: "Attempting to use US Treasury securities as a coercive tool would have limited effect and likely would do more harm to China than to the United States."

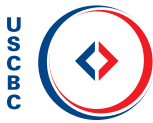
Ultimately, China has become proof of an old adage: When you owe your bank thousands of dollars, it's your problem, but when you owe your bank millions of dollars, it's your bank's problem. We owe China around \$1 trillion dollars, so until we come to terms with balancing the US budget and paying down our debt, China will continue to have a vested interest in America's prosperity.

fig. 14 OWNERSHIP OF US TREASURY SECURITIES (SEPTEMBER 2012)

Total US Securities: \$16.06 Trillion



Source: US Department of the Treasury



## SERVICES: OPPORTUNITY FOR GROWTH

Americans tend to fixate on our trade deficit with China, usually just on the goods side. But no one talks about our more than \$15 billion surplus in services exports. In 2011, the United States exported more than \$26 billion in services to China and imported just \$11 billion.

And there is room for substantial growth.

The United States is the world's largest services economy, and trade and investment in services with China translates directly into high-wage US jobs. US companies' increased profits from investments in China also lead to further investment and job creation in the United States.

But for companies to continue this expansion, the Chinese market for US service providers must become more open. China maintains market access barriers in services sectors including caps on foreign ownership and licensing restrictions in industries ranging from banking, securities, and insurance to express delivery, healthcare, and product testing. For China to meet its stated goal of increasing the services sector share of its economy, these barriers need to come down.

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. Trade in manufactured goods is often viewed, rightly or wrongly, as benefiting one or the other country in terms of jobs and balance of payments impact. Trade and investment in the services sector is overwhelmingly positive for both countries.

Who are these service providers? They include major US banks and financial institutions, law firms, insurance companies, engineering firms, and providers of tourism, business advisory, computer, express delivery, and medical and healthcare services, among others. Collectively, services industries account for 80 percent of private sector jobs in the United States. Increasingly, these companies are being allowed to set up operations in China for sales in China. Expanding US services provided to customers in China creates or supports jobs here at home.

### Action Plan

- Press for continued openings for US service companies to operate in the Chinese economy.
- Continue to expand the capacity of US consular posts in China to issue visas to Chinese tourists.

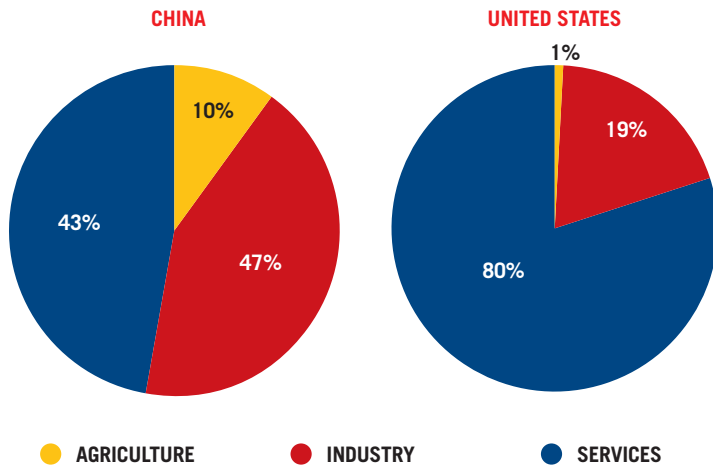
For instance, when a US engineering firm builds a power plant or manufacturing facility in China, much of the high-value conceptual design and engineering—which is considered a services export—is done in its American offices, and the detailed design might be developed in its offices in China. In addition, the firm will send project managers and support personnel from the United States to manage the project's construction, without which the engineering might not be exported.

UPS, the global logistics and shipping company, notes that for every 22 packages imported or exported per day, one new job is created or sustained at UPS. This is just one example of a US company benefiting from their services exports—there are countless more.

But it's not only services exports that help grow America's economy; it's also services provided here in the US. As one example, Chinese tourists spend nearly \$6,000 on each visit to America. That spending directly supports jobs in top destinations like California, New York, Florida, and Nevada.

The United States has a rapidly expanding services trade surplus with China; the more the Chinese market opens to US service providers, the more US services can be sold in China.

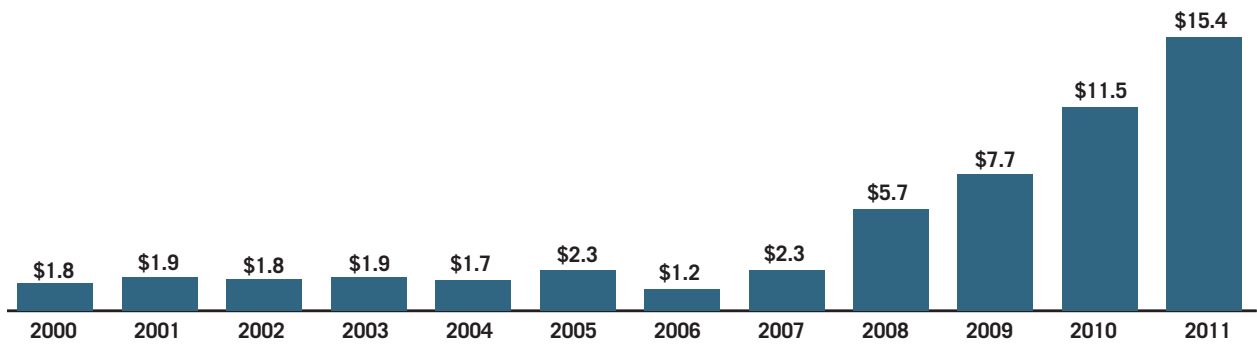
fig. 15 ECONOMIES BY SECTOR, 2012



**Over half** of China's economy is in industry and agriculture; growth in the services sector share is expected over time.

Source: CIA World Fact Book 2012

fig. 16 US-CHINA SERVICES TRADE BALANCE WITH CHINA (IN US\$ BILLIONS)



**The US runs a rapidly growing services trade surplus with China.**

Source: US Bureau of Economic Analysis



# US COMPANIES IN CHINA: IN IT TO WIN... MARKET SHARE

Business opportunities in China for US companies exploded during the last decade, with tremendous growth in both exports to and local sales in China that have brought real value back to the United States.

While exports to China are growing rapidly, there also is much to gain from US companies setting up operations in China to sell goods to the Chinese market. Without operations in China, companies might not be able to sell some goods there at all due to higher transportation costs and longer lead times for delivery. Companies that are in China to sell to the Chinese market not only benefit US companies and their investors—they also support jobs at home that are part of a company's global operating system.

First, some context.

At a cumulative \$21 billion, China was the fifth-largest foreign location of US manufacturing fixed assets (property, plants and equipment). That's compared to \$907 billion in fixed asset investments owned by US companies in the United States. In other words, only a fraction of US manufacturing investments are made in China.

That doesn't mean that the growth of US manufacturing operations in China is not important—it is, and mostly in a positive sense.

What is driving manufacturing and other investment growth in China? Put simply, it's a huge market that is rapidly growing in wealth. The Chinese people want to buy things and are increasingly able to do so.

Though some claim that US companies only produce goods in China for export back to the United States, displacing manufacturing here at home, the facts say otherwise. In 2010, the latest year of available statistics, only 8 percent of total product sales by China-based US facilities were exported back to America. That's right—8 percent. By contrast, the vast majority of sales of US companies in China—74 percent—were within China's local market. So where do all those “made in China” goods come from on American shelves? A lot come from Asian suppliers who have moved their export manufacturing to China.

## Action Plan

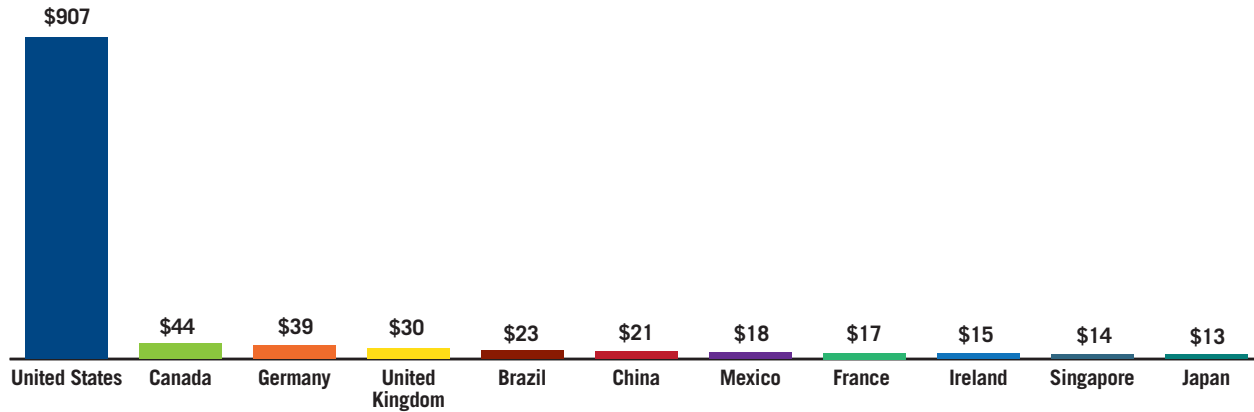
- Ensure the continued opening of China's economy to accelerate the rapid growth of US exports to China and enhance the role of US companies selling goods and services in the Chinese market.
- Further strengthen the leadership role of US companies in the international economy, especially in technologies and sectors that will become global 21st century leaders.
- Press China to reduce ownership and other barriers that prevent US companies from setting up operations to reach the China market.

US companies in China sold nearly \$125 billion worth of goods and services in China in 2010. Those sales support jobs in the United States, because of exports of components that are incorporated in goods finished in China, and the technical, marketing, legal, design, and other jobs required to support operations in China.

Furthermore, there is enormous potential for growth—some estimates indicate that China's annual consumption will increase more than six times by 2027 to as much as \$10 trillion annually. Another estimate predicts China's consumer class will grow from 200 million persons in 2011 to 575 million persons in 2020—nearly twice as big as the entire US population today.

In summary, all of the data indicates that little of US companies' manufacturing in China is shipped back to the United States and instead is sold in the local Chinese market. In many cases, manufacturing in China to serve the local market makes the most business sense—as in the case of consumer goods, where shipping costs make manufacturing in the United States and sending to China unrealistic. In the end, US companies go to China to fight for market share in the world's fastest-growing market.

fig. 17 LOCATION OF US MANUFACTURING ASSETS (CUMULATIVE, IN US\$ BILLIONS)

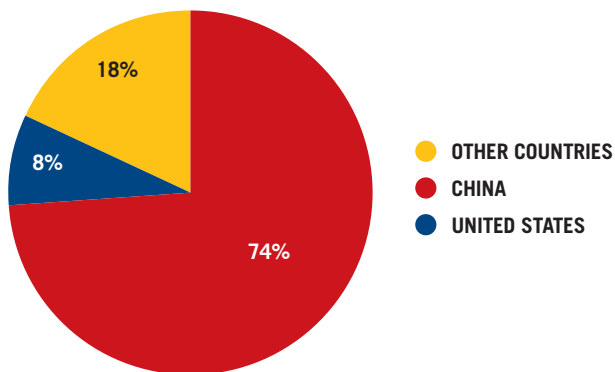


US companies' manufacturing fixed assets are overwhelmingly in the United States.

Source: US Bureau of Economic Analysis

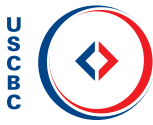
Note: Total fixed asset investments includes net property, plant, and equipment assets, 2009 data

fig. 18 DESTINATION OF PRODUCT SALES BY US AFFILIATES IN CHINA, 2010



Over 90% of what US companies make in China is sold in China or elsewhere—**not** exported back to the United States.

Source: US Bureau of Economic Analysis



# WE HAVE OPTIONS WHEN CHINA DOESN'T PLAY FAIR

Despite the benefits of our commercial relationship with China, there are plenty of issues, too. The US-China Business Council's 2012 member survey found that despite market growth, company optimism about business operations in China was tempered by domestic competition, continuing regulatory and market access barriers, as well as rising costs. Issues related to favoritism toward Chinese companies appear in five of companies' top 10 challenges identified in the survey. Those issues include administrative licensing, competition with Chinese enterprises, uneven enforcement and implementation of laws and policies, investment restrictions, and standards and conformity assessment.

What can the United States do when China unfairly competes with or discriminates against American companies?

When good-faith dialogue fails to resolve these kinds of issues, countries can take effective steps short of jumping to strident trade retaliation measures that often can be counter-productive. The United States has a variety of legally sound trade remedies and dispute-settlement mechanisms that it can use to level the playing field.

US anti-dumping investigations are one proven method to deal with below-market pricing. Because China is a "non-market economy" under US trade rules, we use third-country, market-based pricing to assess tariff remedies on unfairly traded Chinese products—which also addresses any exchange rate distortions that may be present.

In addition, membership in the World Trade Organization provides countries with recourse when they believe other trading partners have treated them unfairly. These cases can be very effective when well-defined, winnable, and supported by industry. Legal precedents set by these cases benefit US companies in the sectors covered by the cases and more broadly.

As of September 2012, the United States has taken 15 cases to the WTO against China and has won six; five others were resolved by China before WTO action was required and four others are ongoing. It is clear the WTO has provided an important avenue for the United States to seek measurable changes when China violates its trade rules.

Success in these cases demonstrates the usefulness of the rules-based approach to engaging Chinese leadership on international trade issues. China is also getting more comfortable filing its own cases at the WTO. This is also

## Action Plan

- Build upon the successful and expanded structure of engagement of the last two US administrations.
- Seek dialogue and negotiations on commercial and economic issues.
- When direct negotiations fail to resolve problems, the United States should use legally sound trade remedies, such as anti-dumping investigations, and dispute-settlement mechanisms, such as WTO cases, when well-defined, winnable, and supported by industry.
- Coordinate with allies on issues of mutual concern.

## USCBC Members' Top 10 Commercial Issues in China

1. **Human resources: Talent recruitment and retention**
2. **Administrative licensing, business and product approvals**
3. **Competition with Chinese enterprises (state-owned or private)**
4. **Cost increases**
5. **Intellectual property rights enforcement**
6. **Uneven local enforcement and implementation of laws and policies**
7. **Investment restrictions**
8. **Competition with foreign companies in China**
9. **Competition with foreign or Chinese companies not subject to US Foreign Corrupt Practices Act**
10. **Standards and conformity assessment**

*For USCBC's full report on company priorities in China, see <https://www.uschina.org/info/members-survey/>*

a positive step—the use of neutral, third-party dispute settlement mechanisms is preferable to seeing China take retaliatory trade actions outside of the WTO.



## HOW DIALOGUE HELPS RESOLVE ISSUES WITH CHINA

For many Americans, the US-China commercial relationship appears frustrating, marked by ongoing disputes that require undue time and effort. Some friction is to be expected in a relationship that involves the world's two largest economies. While dialogue is viewed by some as an ineffective way to resolve issues, direct engagement with China and close coordination with other trading partners is producing meaningful results on issues that impact US workers and businesses.

In the past two and half years, US President Barack Obama and PRC President Hu Jintao have visited each other's countries to discuss political, strategic, and economic issues. These visits help set the overall tone in the US-China relationship. They also provide a chance to raise primary trade and economic concerns, since the two sides begin working months in advance on the results announced at the conclusion of these meetings. Vice presidential and cabinet-level visits serve a similarly important purpose. US secretaries and PRC ministers also make frequent trips to each other's countries to supplement the international meetings at other times of the year.

Among the other ways that the United States has used dialogue to effectively address problems in our trading relationship with China:

- The US-China Strategic and Economic Dialogue (S&ED) brings together top economic and foreign policy officials across both governments to address the larger issues in bilateral relations. The US Secretary of State and the PRC State Councilor overseeing foreign affairs co-chair the strategic track, which discusses issues ranging from military relations to climate change. The US Secretary of the Treasury and the PRC Vice Premier overseeing trade and financial issues co-chair the economic track.
- The Joint Commission on Commerce and Trade (JCCT) is an expansive dialogue that is co-chaired on the US side by the US Secretary of Commerce and the US Trade Representative. It is chaired on the PRC side by the Vice Premier responsible for trade and investment policy. Given the scope of the

commercial relationship, other agencies not under the direct jurisdiction of the chairs frequently participate. The agenda for the JCCT reflects feedback from American companies and trade associations on their top concerns on doing business in China.

- Investment issues are particularly important to US companies. As a consequence, the US-China Investment Forum provides an essential opportunity to discuss reductions in these limits and other investment-related concerns. The forum is chaired by the US Department of the Treasury and the PRC National Development and Reform Commission. Other investment-related discussions occur during negotiations for a US-China Bilateral Investment Treaty (BIT). A high quality BIT with China would help reduce barriers for US companies doing business in China and would encourage Chinese companies to invest here in the United States—creating jobs for American workers.
- The United States is not alone in the challenges it faces with China. Many discriminatory PRC government policies create an uneven playing field for all foreign companies. The European Union, Japan, Brazil, and other nations frequently share US concerns about commercial barriers in China. Effective multilateral options are available to confront China on issues seeing insufficient progress through bilateral efforts. The United States also has used regional and international forums such as the Asia-Pacific Economic Cooperation (APEC) and the Group of 20 (G-20) as opportunities for high-level bilateral exchange with China at the margins of their annual meetings, as well as with other trading partners that share US concerns.

With such an array of quality tools available, the United States should avoid employing unilateral sanctions that are inconsistent with international obligations and undermine the credibility of US efforts to promote a rules-based trading system. By strategically engaging with China and other trading partners, the United States has a better chance of making progress on issues impacting its economic interests.

# US COMPANIES: A POSITIVE INFLUENCE IN CHINA

American companies do not go to China to be role models or missionaries of change, but by their very presence they do offer a model for Chinese enterprises that are new to the world of modern global commerce.

By simply being there, American companies and employees bring new ideas, new ways of doing things, and new experiences, and the best of a company’s human resource practices and proper environmental practices. They bring day-to-day, working-level, unplanned, uncontrolled but pervasive examples of better ways to do things. It is not always perfect, and there are always anecdotes to the contrary, but the American company presence in China has been overwhelmingly positive.

American companies pay better wages to their Chinese employees than Chinese companies do. American companies bring better working conditions to their facilities in China—global class worker safety and environmental programs.

In general, the experiences of US-China Business Council member companies have shown that the more China becomes integrated into the international economy, the more likely China will continue to move along a path of reform and development. That is good for the Chinese people and good for us.

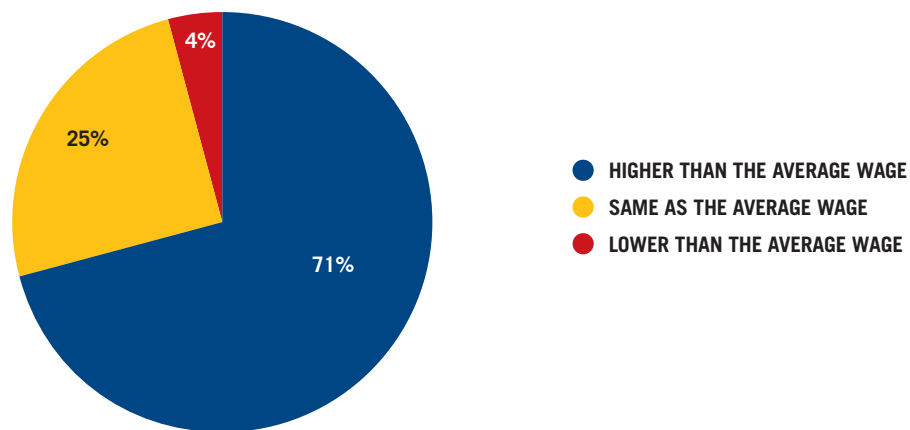
## Action Plan

- Support China’s efforts to evenly enforce its own laws and regulations, so that domestic companies adhere to the same labor and environmental rules as American companies do.
- Continue top-level and working-level government programs to increase China’s food and product safety capabilities.
- Encourage the PRC government to view US companies as part of the solution on food and product safety issues through education, training, and best practices programs.

We should support a greater presence by US companies in China for more than the benefit that flows to the US economy. They also help bring improvements to Chinese workplace labor and environmental practices and improve consumer safety in both countries.

fig. 19

## AVERAGE WAGES AT FOREIGN COMPANIES COMPARED TO DOMESTIC CHINESE ENTERPRISES

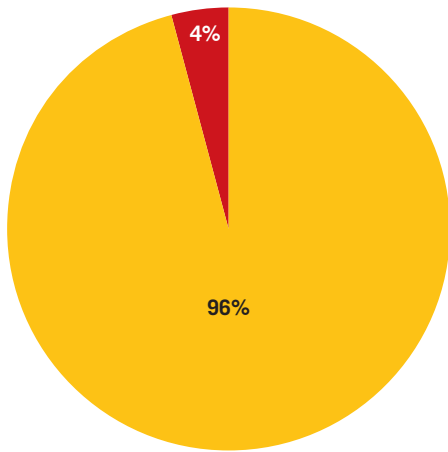


Source: USCBC 2012 Annual Member Survey



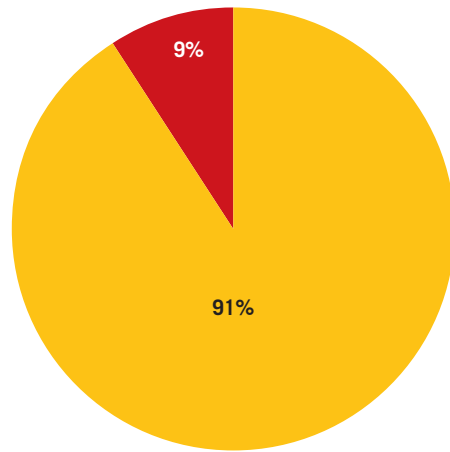
fig. 20 ENVIRONMENTAL, HEALTH AND SAFETY (EHS) STANDARDS

COMPANY BRINGS GLOBAL ENVIRONMENTAL, HEALTH AND SAFETY (EHS) STANDARDS TO CHINA



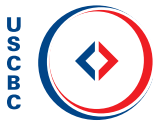
- YES
- NO

GLOBAL EHS STANDARDS VS. LOCAL EHS STANDARDS



- EXCEED CHINA'S STANDARDS
- SIMILAR TO CHINA'S STANDARDS

Source: USCBC 2012 Annual Member Survey



## STAYING ATOP THE GLOBAL COMPETITIVE PYRAMID

Maintaining the record of the United States as a strong manufacturing and services economy won't be easy. The costs of energy can put a significant strain on even the healthiest US manufacturers. The extra burdens in the areas of pensions and healthcare carried by US companies are well documented. The need to bolster the education system to maintain the technical superiority of US workers is also no secret, as is the necessity to strengthen the country's transportation infrastructure.

Smart trade and investment policies are necessary to foster job creation here at home. Incentives for innovation in new and challenging areas are also important to maintain international leadership.

The future will belong to the country whose companies invent and develop the next great breakthrough.

Where will the great breakthroughs in environmental technology, energy efficiency, and safe extraction of minerals and natural gas come from? Who will develop the springboard for nanotechnology, build the more advanced robotics, or gain the upper hand in creating more sophisticated biotechnology products? How can we capitalize and expand upon the US lead in computer technologies and information processing, as well as build upon the US edge in aerospace manufacturing to dominate the space exploration industries of the future?

These are not China's problems, however. They are America's problems.

A smart China policy in the coming decade will continue to focus on opening markets, ensuring transparency, and building rule of law. A smart policy for America will focus on getting our own house in order so that US companies can continue to be great.

Instead of misguided policies based not on the facts but the fears of trade, US policymakers need to pursue well-thought out solutions that take into account the complexities of the global economy.

To this end, the US government should increase resources for US trade agencies, such as the Office of the US

Trade Representative and the International Trade Administration. Doing so would increase the ability of US officials to pursue US rights under global trade agreements and through bilateral mechanisms such as the US-China Joint Commission on Commerce and Trade (JCCT). It would also expand the ability of US Foreign Commercial Service officers to help US companies understand the Chinese market and build connections with Chinese business partners.

The best way to achieve US objectives on lingering commercial problems in China is through a combination of high-level, comprehensive engagement such as the US-China Strategic and Economic Dialogue; good-faith negotiation on specific issues through existing vehicles such as the JCCT; and, when negotiations fail, the use of rules-based trade tools such as WTO cases when they are well-defined, supported by industry, and winnable.

The federal government should also better coordinate with state and local governments to support their efforts to boost job creation through exports abroad and foreign investment in the United States. Congress should seek input from governors' and mayors' offices that are on the front lines of dealing with trade, investment, and employment issues in their home states.

American workers need the skills to keep pace with this rapidly changing workplace environment. We should help them access training programs or enroll in vocational schools to improve or develop skills that are needed in the industries that will lead our economy in the future. When American workers lose their jobs—because of trade, technology, or any other reason—we should focus on retraining them to hold jobs in those growth industries as well.

Though there are certainly challenges posed by the actions of our global competitors, many of the answers to maintaining America's global economic leadership are right here at home.