

# China

## The Case for Engagement

March 2015

## China's Economic Emergence is an Historic Opportunity for America



The world's 7th largest economy in 1999, China surpassed Japan to become the world's 2nd largest economy in 2010.

Over the past three decades, the Chinese economy has grown by nearly 10 percent annually.

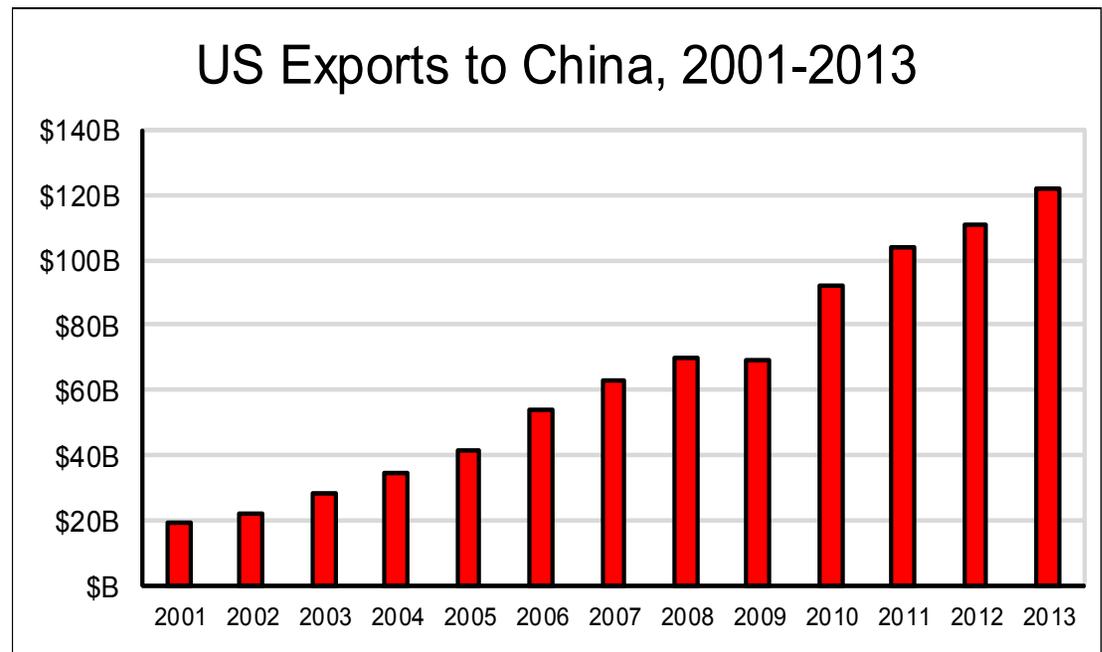
Fair and competitive access to China's fast-growing middle class consumers and business sector represents an enormous commercial opportunity for American manufacturers (large and small), services providers, and farmers.

**Market Access** is Key to U.S. Job Creation and Economic Growth

## China is a critical market for U.S. exports

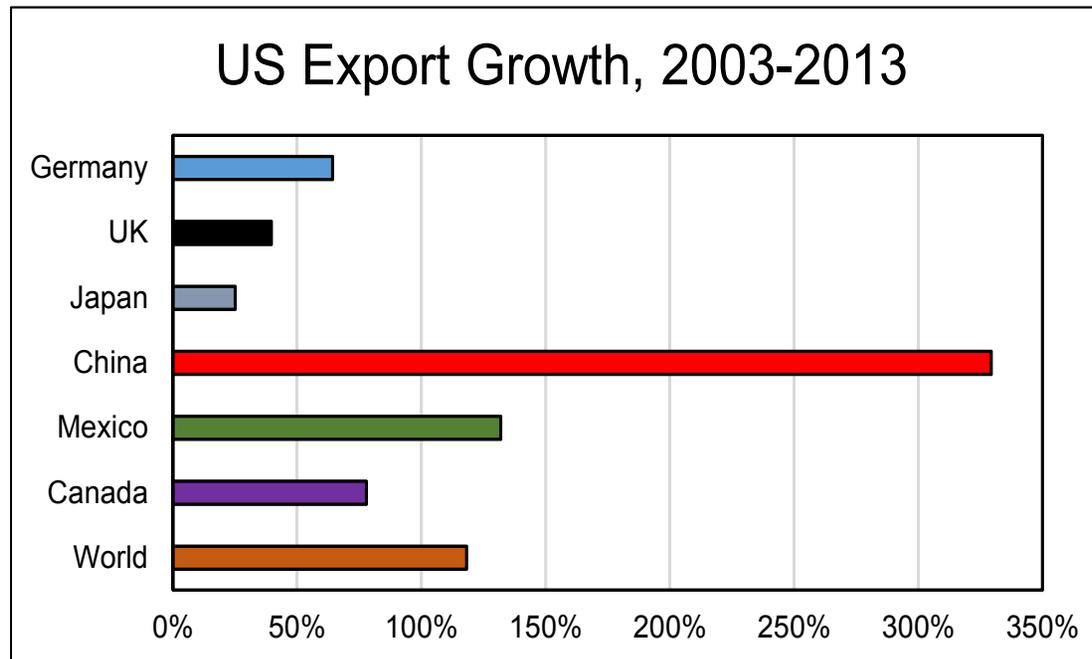
China is now America's **third largest** export market – and the largest market for U.S. products outside of North America.

From 2001 to 2013, U.S. exports increased more than **sixfold**, from **\$19 billion to \$121 billion**.



## China is *by far* the fastest growing major market for U.S. exports

Between 2003 and 2013, U.S. exports to China grew at almost **three times** the rate of U.S. exports to the rest of the world.



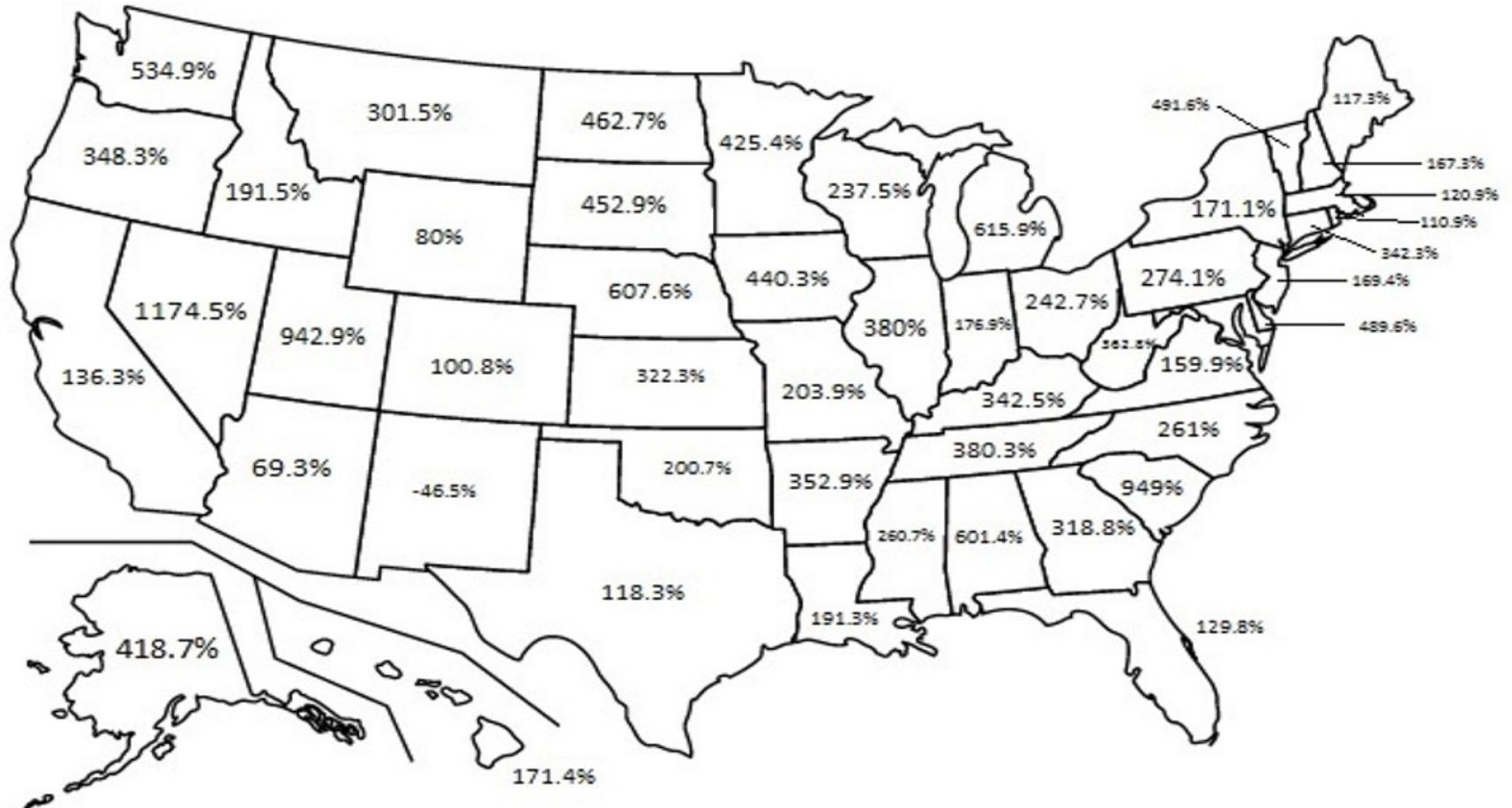
## Every U.S. State Has Experienced Dramatic Growth in Exports to China

U.S. exports to China surpassed \$120 billion for the first time in 2013, with 42 states now counting China as one of their top three export markets. Additionally, 32 states exported more than \$1 billion to China in 2013.

According to the U.S.-China Business Council, **47 states** experienced at least **triple-digit export growth** to China since 2004. Seven states—Nevada, South Carolina, Utah, Michigan, Nebraska, Alabama and Washington—saw **export growth of more than 500%**.



## Growth in Exports to China by State, 2004-2013



## U.S. Exports to China = New American Jobs

According to the Commerce Department, every additional **\$1 billion in exports** creates approximately **5,000 new American jobs**.

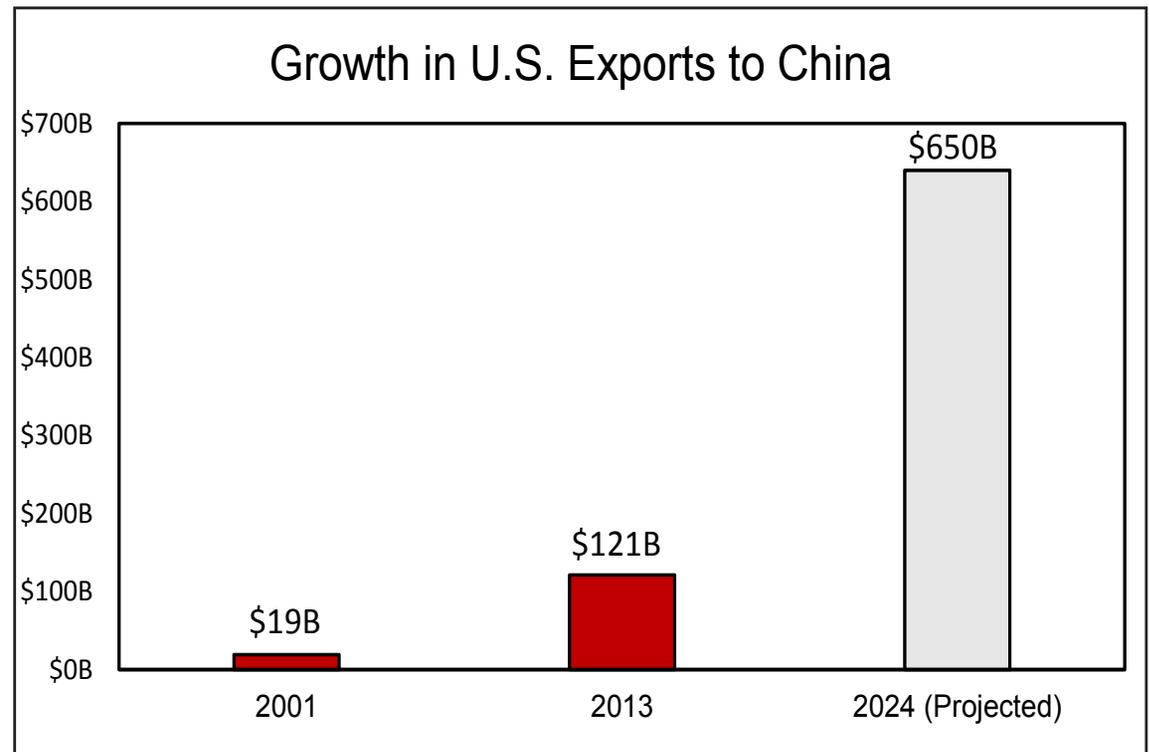
In fact, an International Trade Administration report states that in 2013 **11.3 million American jobs** were supported by exports, and that the export of U.S. goods and services to China supported **796,000 of those jobs**.



## Why market access matters:

If China's citizens were to eventually consume American made goods and services at the same rate as the Japanese did in 2013, the United States would export about **\$650 billion to China.**

That's **more than five times** what America exported to China last year, an amount equivalent to nearly 4 percent of America's GDP, turning a \$300 billion trade deficit into a **\$210 billion surplus** – creating nearly **3 million new American jobs.**



## America's Export Opportunity Depends on Financial Reform in China

The world's second largest and fastest growing economy is home to **more than 300 million middle class consumers** and currently supported by one of the world's most under-developed financial systems.

Simply stated, China's **under-developed** financial sector represents **a clear and present danger** to its continued growth and development – and, therefore, to the historic exporting opportunity for U.S. manufacturers, services providers, and farmers.

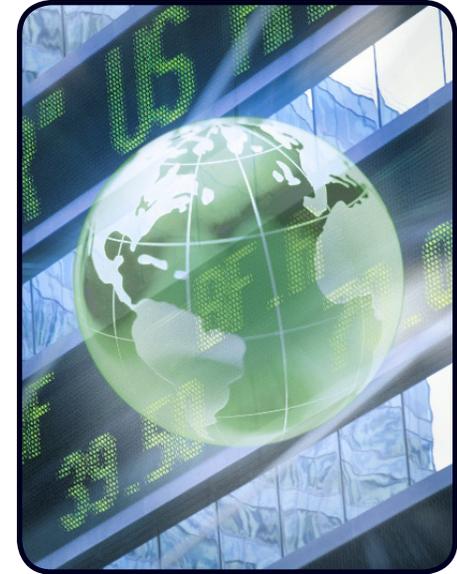


## Fastest Way for China to Get the Financial System it Needs – Import it

U.S. financial institutions bring world-class expertise and best practices with regard to products and services, credit analysis, risk management, internal controls, and corporate governance.

By helping to provide the financial products and services that China's citizens and businesses need to save, invest, insure against risk, and consume at higher levels, U.S. financial institutions can help China develop an economy that is **less dependent on exports**, and **more services-based** and **consumption-driven**.

In so doing, U.S. financial institutions can help open an **enormous commercial market** for U.S. producers, accelerating economic growth and creating millions of American jobs.



## A Successful BIT Helps U.S. Companies Achieve Market Access

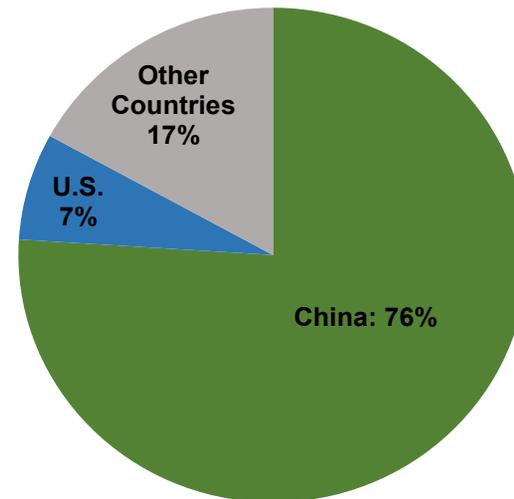
A U.S.-China bilateral investment treaty (BIT) provides “rules of the road” for foreign investment in each country.

A high-quality BIT can be an important tool for achieving financial reforms in China as it offers a unique opportunity to address market access impediments and equity cap limitations the industry currently faces when operating in China.

Overwhelmingly, the goods U.S. companies produce in China either remain in China or Southeast Asia. Most U.S. companies are in China for China.

A BIT would also facilitate Chinese foreign direct investment in the U.S., supporting faster economic growth and job creation in America.

U.S. Destination of Sales by U.S. Majority-Owned Affiliates in China

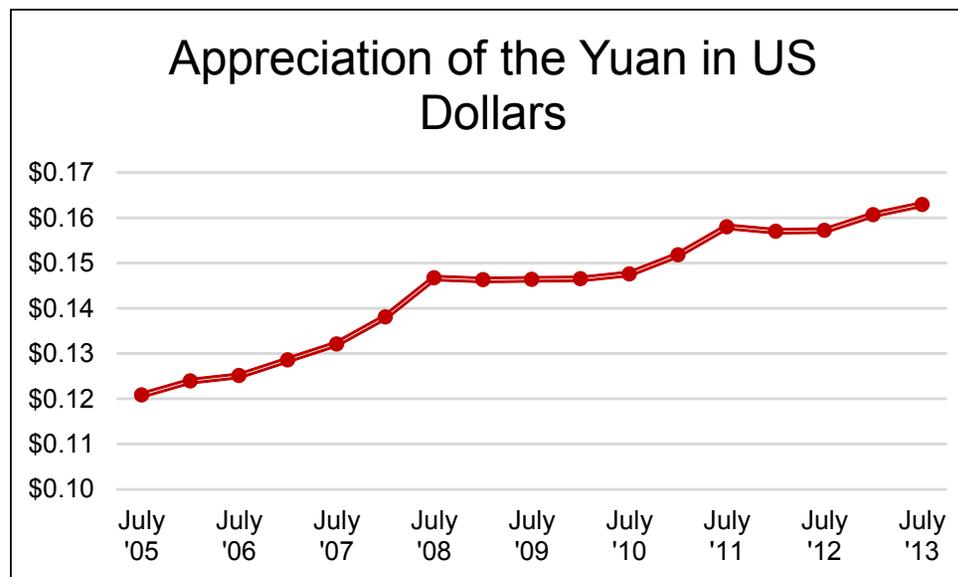


Source: BEA, for 2011

## It's not all about the currency:

While China should continue to liberalize its currency, greater access to the Chinese market holds far greater promise for long-term economic growth and job creation in the United States.

Since July 2005, the Yuan has appreciated more than **34%**. Despite this appreciation, the US trade deficit with China has continued to widen.





## **CONCLUSION**

Given the importance of our trade relationship with China to economic growth and job creation in the United States, policymakers should devote the same, or even greater, focus to expanding market access and continued financial modernization in China, through important dialogues such as the S&ED and the BIT, as they have to other aspects of the bilateral relationship.

Capitalizing on the enormous commercial opportunity that China represents requires a stable and growing Chinese economy, and access to that rapidly expanding market for American manufacturers, service providers, and farmers.