THE US-CHINA BUSINESS COUNCIL
美中贸易全国委员会

Seven Myths about US-China Trade and Investment

1 American companies invest in China to shift jobs there and export back to the United States.

According to Swiss investment bank UBS AG, more than 50 percent of PRC exports by value are produced by foreign firms in China, "but the vast majority of these are Hong Kong, Taiwan and Korean companies...."[1] US-China Business Council (USCBC) survey findings are consistent with this data: USCBC member companies primarily invest in China to serve the Chinese domestic market, not export back to the United States. Fifty-seven percent of the respondents to the 2006 USCBC Member Priorities Survey said that their main investment objective was to access the Chinese market. Twenty-five percent of USCBC members invest in China to export to other markets in Asia or around the globe. Only 18 percent invest in China as an export platform to the US market.[2]

2 China is causing the decline of American manufacturing.

US manufacturing output is at an all-time high. Real value-added manufacturing output has risen every year since 1987, except for brief declines during the 1990–91 and 2000–01 recessions. Manufacturing value-added output has also remained a relatively constant share of US GDP.

Manufacturing *employment* has been declining for four decades—long before China was a major trading partner—as the US economy has shifted from a manufacturing- to a services-based economy.

The United States is still the world's largest manufacturer, and its share of global manufacturing output has stayed the same over the past decade at about 22 percent (it has been hovering around 20 percent since 1982.)[3] China's share is 8 percent, up from 4.2 percent in 1995. China's gain has come not at the expense of American manufacturing but rather primarily at the expense of Japan, which has seen its share of global manufacturing go from 21.1 percent to 17.8 percent over the past decade.

3 China's market is closed to American companies.

In fact, China and Hong Kong combined are our third-largest export market, at $73 billion in 2006. Moreover, China is by far the most rapidly growing market for US goods, having grown nearly four-fold over the last 10 years.[4]

4 China's World Trade Organization (WTO) entry was a bad deal for America.

China's WTO-mandated market openings have clearly benefited American companies. US exports to China have grown 150 percent since China's WTO entry in 2001, which is more than double the rate of the second most rapidly growing market over the same period, the Netherlands. In addition, as US companies take advantage of service sector openings mandated by China's WTO entry agreement, the US services trade surplus is projected to grow from $2 billion to $15 billion by 2015.[5]

5 China doesn't allow American companies operating there to be profitable.

According to the 2006 survey of USCBC member companies, 81 percent of companies say that their Chinese operations are profitable, a significant increase from a US government survey in 1999. And more than half say that profitability rates for their China operations meet or exceed their company's global profit margins.[6]

The latest statistics from the US Bureau of Economic Analysis indicate that in 2006, US affiliates in China repatriated profits of $4.5 billion back to the United States.[7]

6 China's undervalued currency creates the large US trade deficit and prevents American companies from selling more to China.

China does need to move faster with reforms to allow its exchange rate to better reflect market forces.

But Oxford Economics has estimated that even a 25 percent revaluation of the renminbi against the dollar would decrease the total US trade deficit, which was more than $800 billion in 2006, by only $20 billion after two years.[8]

In addition, USCBC member companies generally do not cite the exchange rate as a key business issue affecting their competitiveness in China. Many are concerned, however, about potential repercussions that could impact US exports to China should the political dispute between the two countries over the exchange rate worsen.[9]

7 China forces American companies into joint ventures.

Nearly 75 percent of foreign investment in China now goes into 100 percent foreign-owned enterprises, not joint ventures with Chinese partners.[10]

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These myths distract us from our real economic and commercial problems with China.

The economic and commercial relationship clearly benefits the American economy, but problems do exist. Greater market access, transparency, national treatment, and better intellectual property rights protection would help to level the playing field for US companies. We need to focus on those issues, and on enhancing American competitiveness overall, to ensure we benefit from our trade relationship with what will soon be the second-largest economy in the world.

Notes

1 UBS Investment Research: Asian Focus. *As if China Really Needed Foreign Investment*, November 13, 2006.
2 *US Companies Gain in China, Still Face Hurdles*: USCBC 2006 Member Priorities Survey. August 2006 (www.uschina.org/public/documents/2006/08/member-priorities-survey.pdf).
3 United Nations Industrial Development Organization (UNIDO). See also Gresser, Ed. *Healthy Factories, Anxious Workers Or, Why Lou Dobbs is Wrong*. Progressive Policy Institute, February 9, 2007 (www.ppionline.org/documents/Healthy_Factories_020907.pdf).
4 US International Trade Commission (http://dataweb.usitc.gov/scripts/user_set.asp). Remarks by Treasury Secretary Henry M. Paulson, Jr., before the Economic Club of Washington, March 1, 2007 (www.ustreas.gov/press/speeches.html).
5 Oxford Economics. *The Prospects for US-China Services Trade and Investment*, December 2006. Published by the China Business Forum (www.chinabusinessforum.org/pdf/us-china-services-trade.pdf).
6 USCBC 2006 Member Priorities Survey.
7 US Bureau of Economic Analysis, Table 11. US International Transactions, by Area—China (www.bea.gov/international/bp_web/simple.cfm?anon=242&table_id=10&area_id=35).
8 *The China Effect: Assessing the Impact on the US Economy of Trade and Investment with China*, Oxford Economics. Published by the China Business Forum, January 2006 (www.chinabusinessforum.org/pdf/the-china-effect.pdf).
9 USCBC 2006 Member Priorities Survey.
10 The *China Business Review*, September–October 2006, from PRC Ministry of Commerce data (www.chinabusinessreview.com/public/0609/ChinaData.pdf).

