

U.S.-China Economic Relations in the Next Ten Years: Towards Deeper Engagement and Mutual Benefit

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An Overview

- ◆ Organization of the Study
- ◆ Economic Growth of the U.S. and China
- ◆ Economic Complementarity between the U.S. and China
- ◆ Growth Potential of Bilateral Trade and Investment
- ◆ Impacts on U.S. and Chinese Employment and GDP
- ◆ Potential Areas of Cooperation
- ◆ Cooperation in the Provision of Global Public Goods
- ◆ Concluding Remarks

Organization of the Study

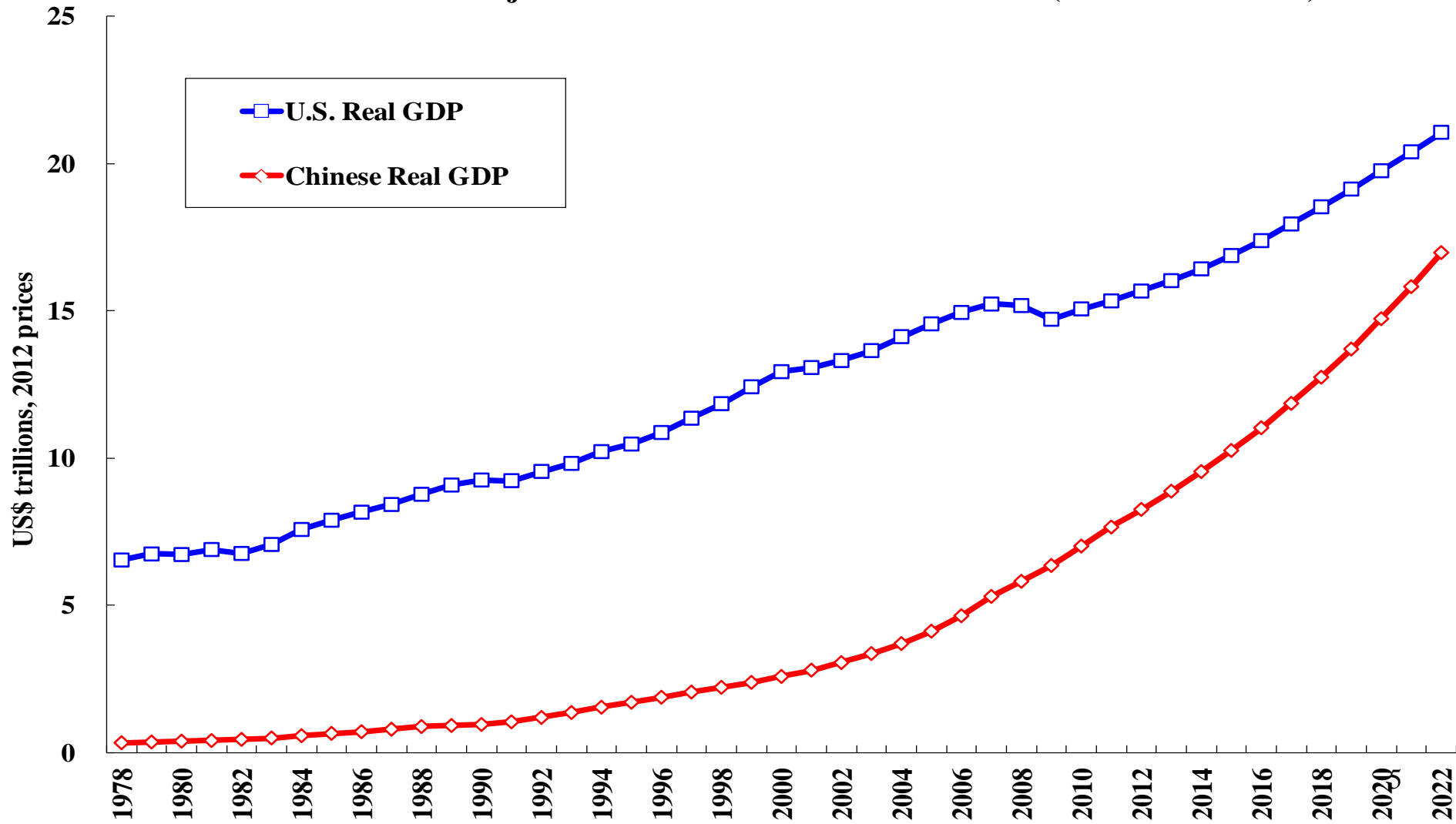
- ◆ The focus is on the future potential of U.S.-China economic cooperation
- ◆ Part I
 - ◆ Seizing the Moment (Introduction)
 - ◆ Stepping Back--how this economic relationship has evolved
 - ◆ Looking Ahead--how the two economies are likely to develop over the next decade
 - ◆ Towards Deeper Engagement—how greater economic benefits can accrue to both through closer cooperation
 - ◆ Recommendations to the Two Governments
 - ◆ Conclusion
- ◆ Part II
 - ◆ 19 Chapters by individual authors

Economic Growth of the U.S. and China

- ◆ In this study, it is projected that the U.S. and Chinese economies will grow at average annual rates of approximately 3% and 7.5% respectively between 2012 and 2022.
- ◆ In 2022, the U.S. GDP is projected to be US\$21 trillion (in 2012 prices), which will still be higher than the projected then Chinese GDP of US\$17 trillion.
- ◆ The projected U.S. GDP per capita in 2022, at US\$63,000 (2012 prices), will be more than 5 times projected Chinese GDP per capita of US\$12,000.

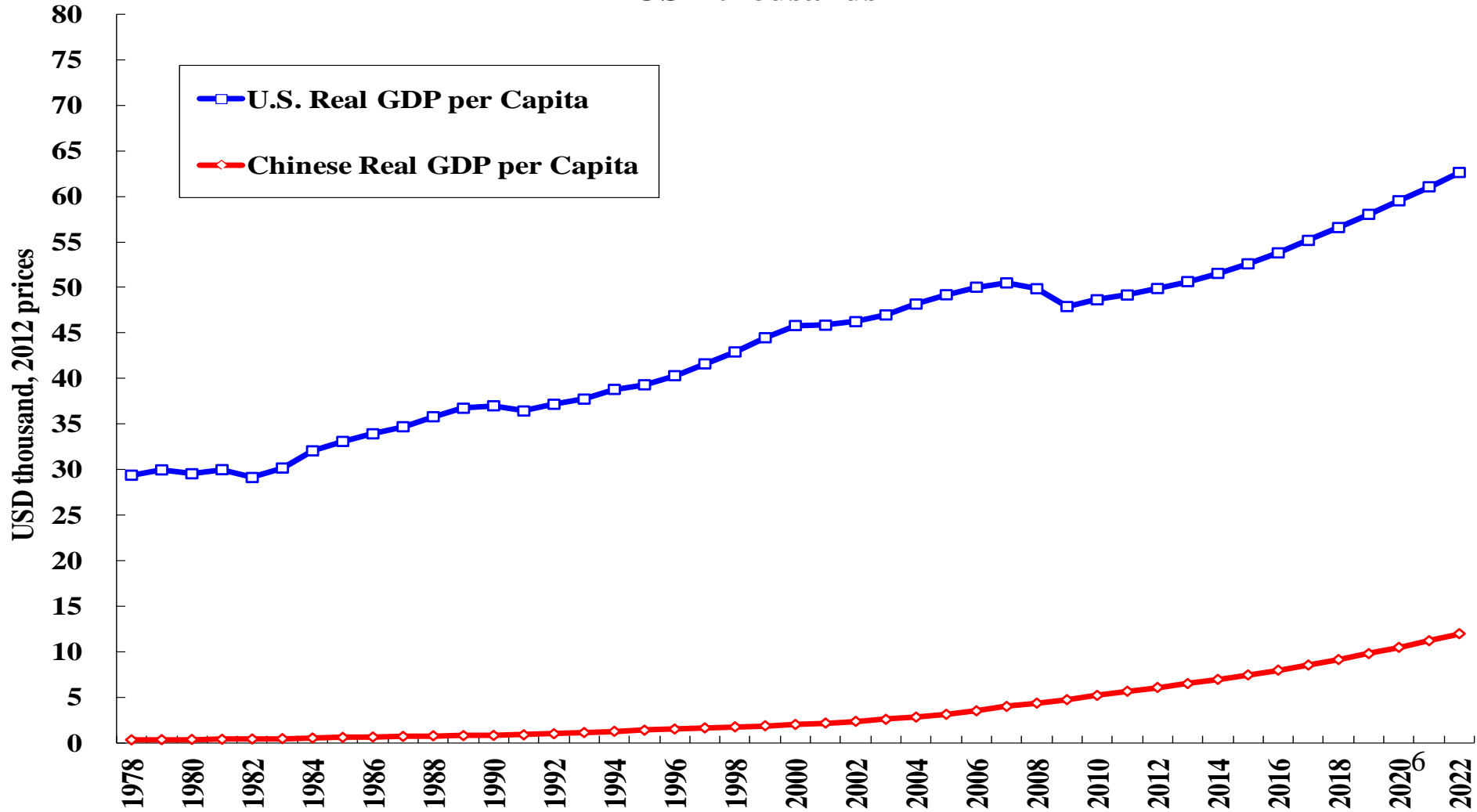
Actual and Projected U.S. and Chinese Real GDP, 2012 US\$

Chart 7: Actual and Projected Real GDP of China and the U.S. (trillions 2012 US\$)



Actual and Projected U.S. and Chinese Real GDP per Capita, 2012 US\$

Actual and Projected Real GDP per Capita of China and the U.S.,
USD thousands



Economic Complementarity between the U.S. and China

- ◆ The benefits of economic exchange and cooperation between the two economies are the greatest when they are the most different, that is, when their comparative advantages have the least overlap.
- ◆ The factor proportions of the U.S. and China are compared in the following chart. It is clear that in terms of tangible capital, arable land and R&D capital per working-age person, the U.S. has been, and still is, way ahead of China.
- ◆ In terms of human capital, the percentage of the working-age population with tertiary education is almost 40% in the U.S., compared to less than 10% in China.
- ◆ U.S. comparative advantages in intangible capital such as human capital and R&D capital is likely to persist for at least a couple of decades or even longer.

A Comparison of Factor Proportions between the U.S. and China, 2010-12

	China			U.S.		
	2010	2011	2012	2010	2011	2012
Tangible capital per working-age population (2011 US\$ thousands)	14.27	16.09	18.02	113.41	112.32	111.43
Arable land per working-age population (Hectares)	0.12	0.12	0.12	0.79	0.78	0.78
R&D capital stock per working-age population (2010 US\$)	382	449		15,731	16,058	
U.S. patents granted annually per thousand working-age population	0.003	0.003	0.004	0.522	0.523	0.580

Economic Complementarity between the U.S. and China

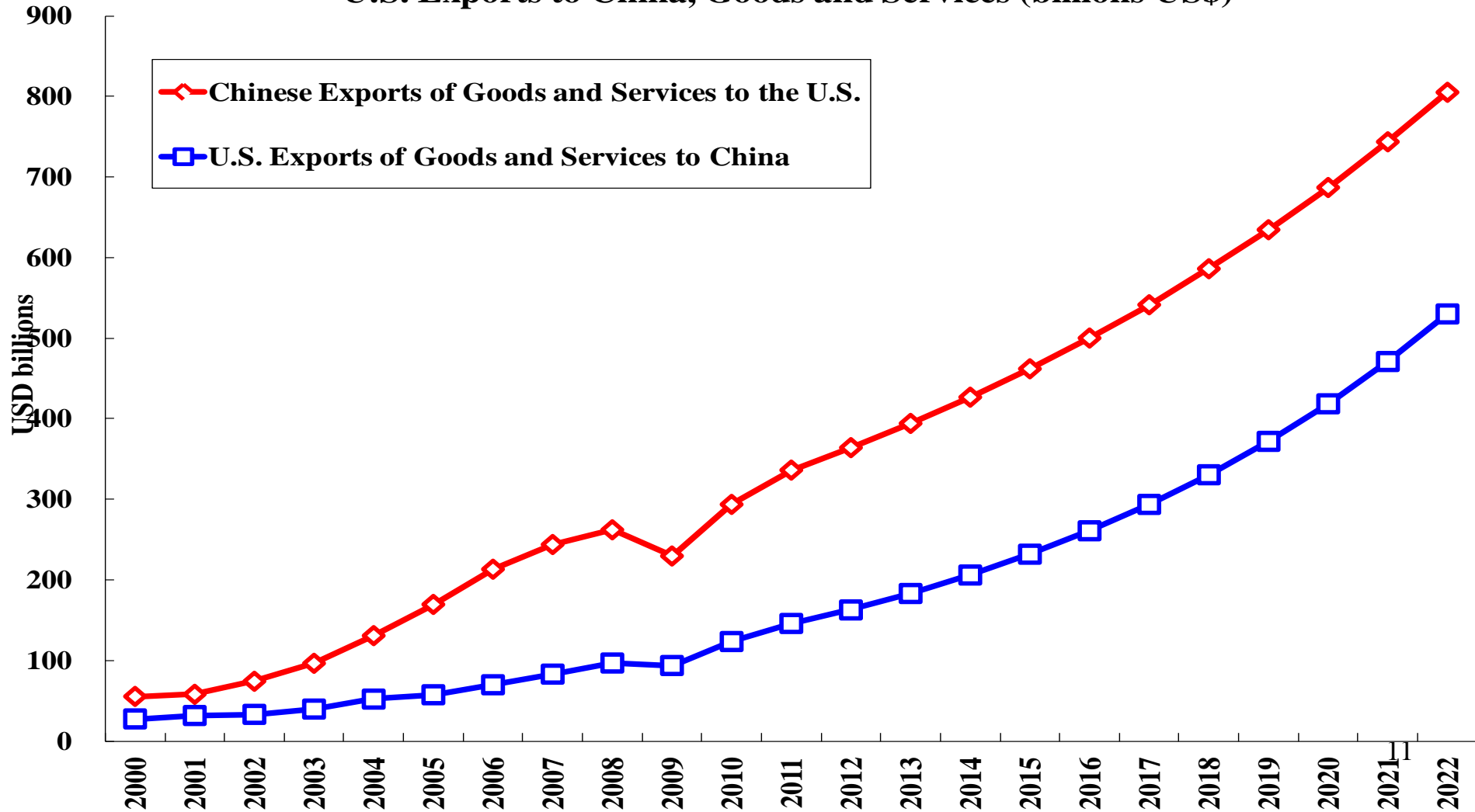
- ◆ Another aspect of the complementarity is the huge difference in the saving rates. The U.S. gross saving rate is about 12%. whereas the Chinese saving rate approaches 50%. China both saves too much and invests too much and the U.S. saves too little.
- ◆ The U.S. and China should conduct feasibility studies and begin early stage discussions of the opportunities and challenges of an eventual bilateral Free Trade Agreement between them.
- ◆ The U.S. and China should also conclude a bilateral investment treaty so as to facilitate two-way investment flows between the countries.

Growth Potential of Bilateral Trade and Investment

- ◆ By 2022, the U.S. and China are likely to be each other's largest trading partner in the world.
- ◆ U.S. exports to China are projected to rise to US\$530 billion, more than three times the current value.
- ◆ By 2022, Chinese exports to the U.S. are projected to reach US\$805 billion.
- ◆ Despite the higher rates of growth of U.S. exports of goods and services to China since 2007, China's trade surplus with the U.S. is likely to remain high in 2022 at US\$275 billion but would only be 1.5% of its GDP.
- ◆ It is expected that China will run a trade deficit with the rest of the World.

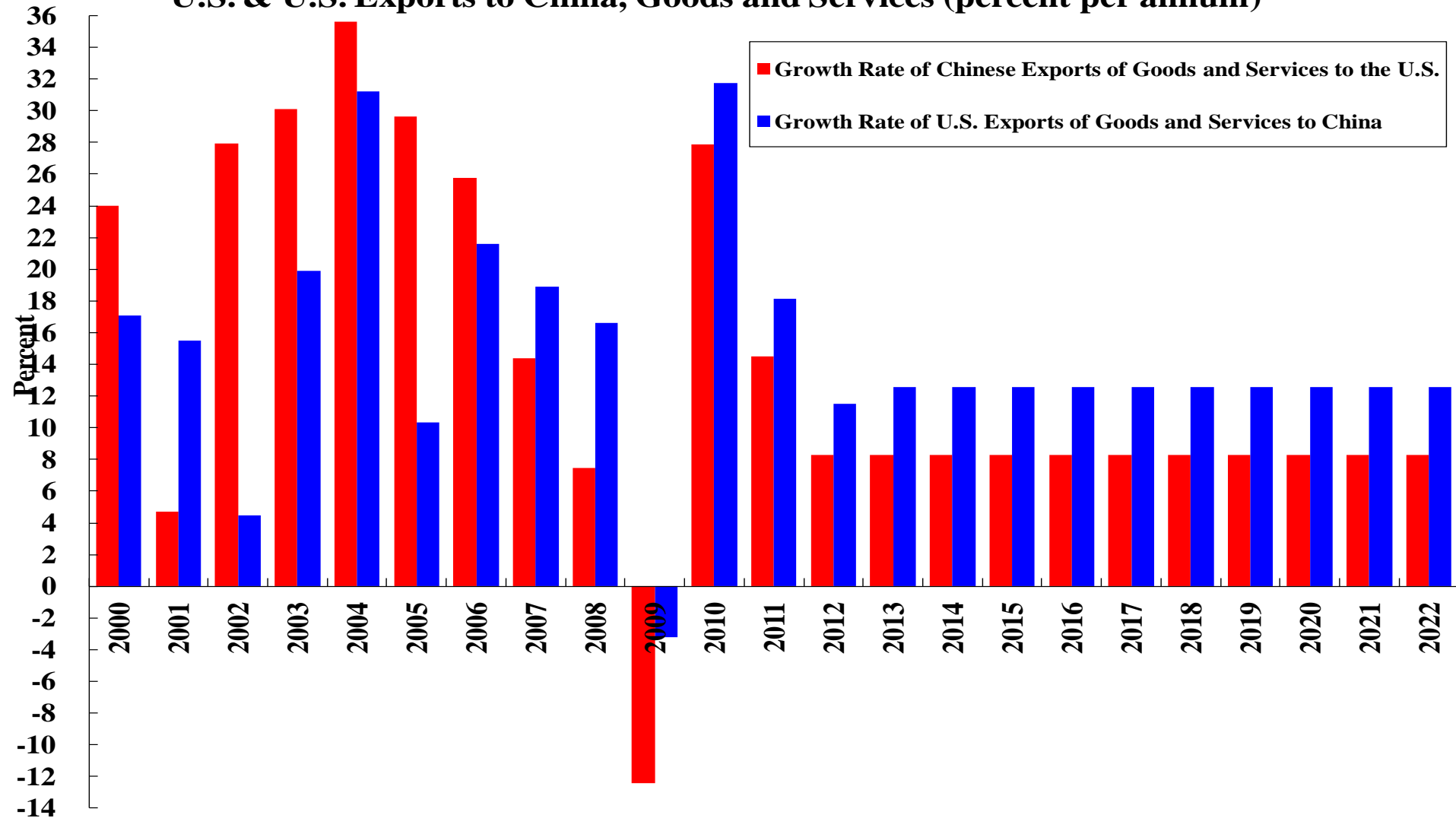
Actual and Projected U.S.-China Bilateral Trade (projections based on 2012 prices)

Chart 9: Actual & Projected Chinese Exports to the U.S. & U.S. Exports to China, Goods and Services (billions US\$)



Actual and Projected Rates of Growth of U.S.-China Bilateral Trade (2012 prices)

Chart 10: Actual & Projected Rates of Growth of Chinese Exports to the U.S. & U.S. Exports to China, Goods and Services (percent per annum)



Growth Potential of Bilateral Trade and Investment

- ◆ The U.S. was an early direct investor in China, with the first investments made in the mid 1980s. U.S. direct investment not only brought in capital, but also technology, access to overseas markets, know-how, business models and management methods.
- ◆ Chinese direct investment into the U.S. began at a very low level in the late 1990s. It is believed that currently it is of the same order of magnitude as the annual flow of U.S. FDI into China of approximately US\$5 billion. However, there is significant growth potential as quite a few Chinese enterprises would like to establish manufacturing bases in the U.S.
- ◆ The stock of U.S. direct investment in China in 2011 was US\$54 billion according to the U.S. and US\$70 billion according to China, compared to the stock of Chinese direct investment in the U.S. of not quite US\$10 billion.

Growth Potential of Bilateral Trade and Investment

- ◆ U.S. direct investment in China has been quite successful, generating almost US\$40 billion of annual profits and also creating 1.8 million jobs in China.
- ◆ China's service sector is relatively immature, while the U.S. has the most sophisticated service sector in the world. China needs to expand its service sector to provide employment opportunities for its people. U.S. firms can help China develop its service sector through exports to and direct investments in China.

Impacts on U.S. and Chinese Employment and GDP

- ◆ For every US\$1 billion of U.S. exports to China, an estimated value-added of US\$0.86 billion and employment of 4,800 person-years are created in the U.S.
- ◆ In 2022, U.S. exports to China of US\$530 billion are projected to generate US\$456 billion worth of value-added (up from US\$100.8 billion in 2010), or 2.2% of the then U.S. GDP, and more than 2.54 million jobs (up from 732,800 in 2010) in the U.S.

Impacts on U.S. and Chinese Employment and GDP

- ◆ For every US\$1 billion of Chinese exports of goods and services to the U.S., an estimated value-added (GDP) of US\$0.641 billion (up from 0.573 billion) and employment of 15,000 (down from 38,930 in 2012) person-years are created in China.
- ◆ In 2022, an estimated value-added of US\$516 billion, or 3% of the then Chinese GDP, and total employment of 12.08 million person-years are generated by Chinese exports to the U.S.
- ◆ These are all very significant numbers and they indicate a high degree of potential economic interdependence.

Potential Areas of Cooperation

- ◆ Seven potential areas of cooperation are specifically discussed in this study. They are trade in goods and services, investment, agriculture, tourism, science and technology, energy, and global sustainability.

Potential Areas of Cooperation: Trade and Investment

- ◆ Given the expected growth of the Chinese economy and its middle class during the coming decade, China is likely to overtake Canada and Mexico as America's largest export market.
- ◆ Moreover, the prospects of U.S. direct investment in China are excellent. General Motors is already the market leader in the Chinese automobile market; Wal-Mart is China's largest retailer; and McDonald's and KFC are already household names. The potential for these and other U.S. businesses yet to invest directly in China is enormous.
- ◆ Chinese direct investment in the U.S. can create new jobs and GDP in the U.S., especially if the investment is in greenfield projects.

Potential Areas of Cooperation: Agriculture

- ◆ Among the major concerns of China and its people are food security and food safety. Is there enough food to feed everyone? Is the food safe and hygienic?
- ◆ The U.S. has the most sophisticated agricultural technology as well as systems to ensure food safety. The abundance of arable land in the U.S. and the high productivity and efficiency of U.S. agriculture mean that the U.S. has the capability to further increase its agricultural production and exports to China significantly and thus help China ensure its food security as well as food safety at the same time. Both countries can benefit greatly through such cooperation.

Potential Areas of Cooperation: Tourism

- ◆ In 2012, about 1.5 million Chinese tourists visited the U.S. This number is projected to exceed five million a year by 2022 if visa administration is further streamlined and to reach 10 million if visa requirement can be waived altogether. A million Chinese tourists a year is estimated to generate a value-added of US\$3.5 billion and 61,352 jobs, so that potentially up to US\$35 billion of GDP and 0.6 million jobs can be created through tourism by 2022.

Potential Areas of Cooperation: Energy

- ◆ China today relies overwhelmingly on coal as a source of energy (approximately 70%), which pollutes the atmosphere as well as emits excess greenhouse gases. China has large deposits of shale oil and gas. The investment and technological cooperation of U.S. firms in China's nascent shale oil and gas industry can help China reduce its dependence on coal as a source of energy. This benefits not only the U.S. and China but also reduces significantly Chinese carbon emissions and hence the risks of global climate change.

Cooperation in the Provision of Global Public Goods

- ◆ The U.S. and China, as the two largest energy producing as well as consuming countries in the World, can cooperate to improve energy efficiency, assure energy security and promote research on renewable sources of energy.
- ◆ The U.S. and China, as the two largest emitters of greenhouse gases, should take common responsibility for the reduction of the risks of climate change and cooperate to forge a global consensus in the forthcoming negotiations relating to the control of global emissions.
- ◆ The U.S. and China, as the two largest trading countries in the world, should also take the lead in re-invigorating the Doha Round of world trade negotiations and enhancing the multilateral trading system, benefiting not just themselves but also the entire World economy.

Concluding Remarks

- ◆ Closer economic cooperation between the U.S. and China can bring significant benefits not only to themselves but also to the rest of the World.
- ◆ In addition, it will enhance mutual economic interdependence which can in turn reduce the mistrust and strengthen the overall relationship between the two countries.