China: A Leading Growth Market for U.S. Services Exports and Investment

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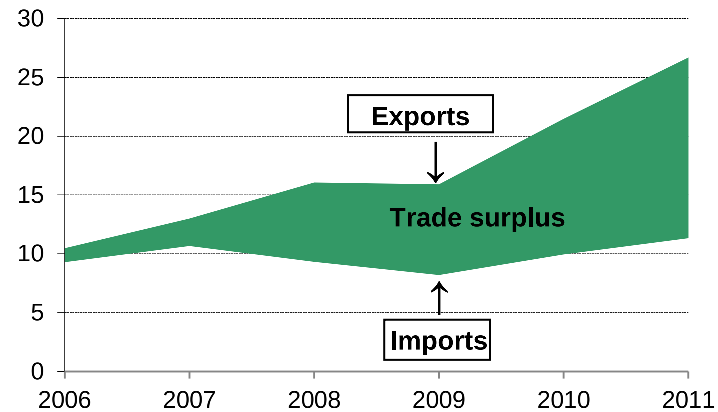
From 2006 to 2011, U.S. cross-border exports of private services (hereafter services) to China more than doubled, growing more rapidly than exports to all other leading U.S. services markets except Brazil. In 2011, U.S. exports of services to China were nearly $27 billion, which ranked China as the fifth-largest services export market, up from ninth in 2006. Export growth was spread among a broad array of services industries. Sales of services by affiliates of U.S. firms operating in China also more than doubled during the period. China's recent focus on stimulating domestic demand through service sector growth, as well as the relatively small current share of services in its economy suggests future growth of U.S. services trade in the market.

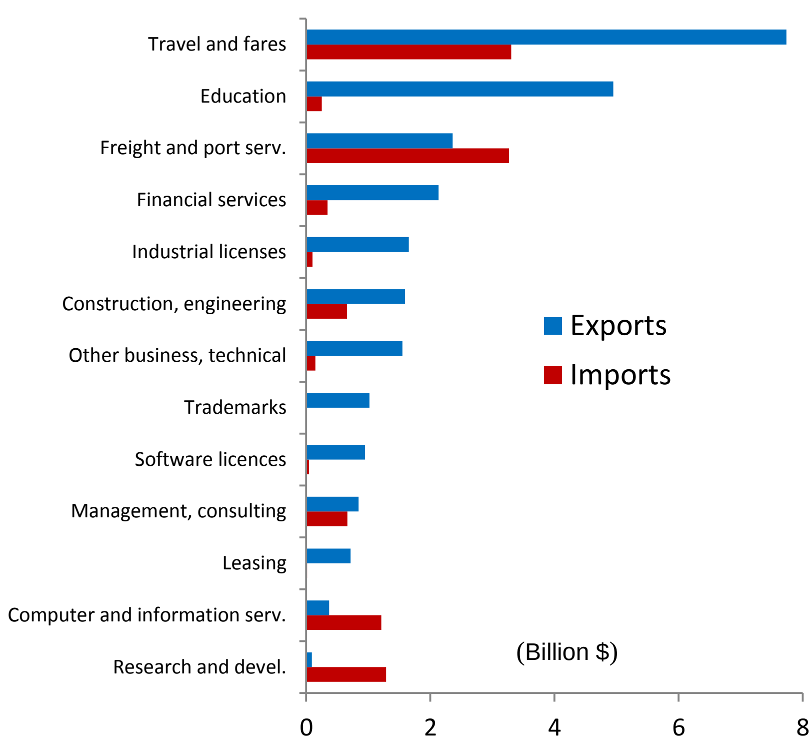
- U.S. cross-border exports of services to China were $26.7 billion in 2011, up from $10.5 billion in 2006 and reflecting a compound annual growth rate (CAGR) of 21% during 2006–2011. This compares to a CAGR of 8% for U.S. services exports to all partners.
- In 2011, the U.S. services trade surplus with China was $15.4 billion, behind only Canada's ($28.0 billion), Japan's ($19.6 billion), and Ireland's ($18.9 billion). From 2006, the U.S. services surplus with China grew faster than with any other trading partner (67% CAGR).
- The large surplus with China during the period was primarily driven by increases in travel and passenger fares, education, financial services, and construction and engineering services.

U.S. cross-border exports of private services to China increased dramatically during 2006–2011



Source: USDOC, BEA

U.S. exports of services to China posted large surpluses in many sectors in 2011



Source: USDOC, BEA

- U.S. exports of travel and fares ($7.8 billion) and education ($5.0 billion) led all U.S. services exports to China in 2011, accounting for nearly half of total cross-border exports. Strong income growth in China led to increased travel and purchases by Chinese citizens, as well an increase in the number of Chinese studying in the United States (They made up the largest share of foreign students— 22 %—in 2011).
- Other leading U.S. exports to China were financial services and construction and engineering services, key inputs to China's expanding economy. The largest relative trade surpluses in 2011 consisted of royalties and license fees on intellectual property (over half from U.S. affiliates), including industrial licenses ($1.7 billion), trademarks ($1.0 billion), and software licenses ($947 million).
- U.S. imports of freight and port services (primarily related to U.S. goods imports from China) led U.S. services imports in 2011 at $3.3 billion. Other leading imports were research and development services ($1.3 billion) and computer services ($1.2 billion).

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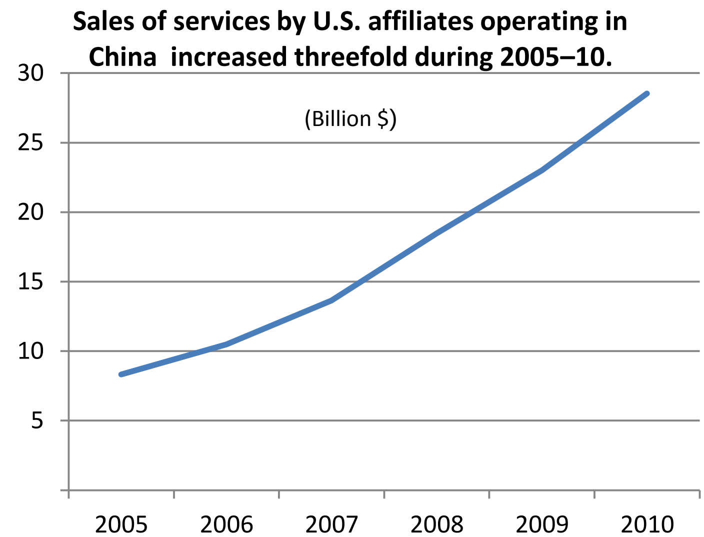
Even with expanding cross-border exports, the leading channel by which U.S. firms provide services to the Chinese market is through sales by U.S. affiliates operating in China.

- Services supplied by affiliates of U.S. firms operating in China have exceeded cross-border services exports since 2006, and reached $28.5 billion in 2010 (latest available data), compared to $21.5 in cross-border exports that year.
- U.S. affiliate sales in China expanded by 22% CAGR during 2005–10, the largest annual growth rate for U.S. affiliate sales in any foreign market.
- Detailed data for U.S. affiliate sales are not available; however, the Bureau of Economic Analysis reported that recent increases in such sales to China involved a broad variety of sectors, among them professional, scientific, and technical services (including management) and wholesale trade, where existing operations expanded.[1]
- Affiliates are established through investment. Leading services-related sectors for U.S. investment stock in China were wholesale trade ($4.8 billion), holding companies ($4.8 billion), information ($3.0 billion), and depository institutions ($3.0 billion) in 2011.



Source: USDOC, BEA

China's continued strong income growth, demographic changes, and government policies focused on developing the domestic economy likely will further boost U.S. services trade with China.

Manufacturing, particularly heavy industry, still dominates China's economy. Despite relatively strong recent growth, services in China represented an estimated 43% percent of GDP in 2012, compared with an average 54% in middle-income countries, 70% in high-income countries, and nearly 80% in the United States. The goal of the Chinese government as articulated in its two most recent five-year development plans is to restructure the economy away from an export-led focus to a consumption-led, services-driven economy: "The guiding principles and policy orientation seek to rebalance China's growth pattern, with domestic demand, especially consumption, as the main driver, and services as the leading sector."[2] Rising incomes and increased urbanization are expected to raise demand for services. McKinsey and Co. estimates that by 2030, services will exceed manufacturing, reaching 53% of GDP. Robust growth is projected in financial services, information and technology, wholesale and retailing, logistics, education, and entertainment services,[3] all sectors in which the United States is a leading global competitor and supplier.

Despite the significant growth potential for U.S. services trade with China, nontariff measures in a variety of sectors restrict U.S. services suppliers.

According to the World Bank's Services Trade Restrictiveness Database, China ranks as the 37th most restrictive country for services trade among 104 countries ranked. By comparison, India, another very large developing country, is the 2nd most restrictive country, while the United States ranks as the 78th most restrictive.[4] According to the U.S. Trade Representative's office, examples of Chinese barriers to U.S. and other foreign services suppliers include restrictions and nontransparent licensing requirements in banking, insurance, express delivery, and logistics services; and equity caps and joint venture requirements in retail, securities, insurance, transportation, and telecommunications services.[5]

[1] U.S. Department of Commerce, BEA, *Survey of Current Business*, October 2009, 26, 34–36.
[2] World Bank, "Mid-Term Evaluation of China's 11th 5-year Plan, n.d.
[3] McKinsey and Company, "Consuming China: How to get ready for the next stage." June 2012.
[4] World Bank, Services Trade Restrictiveness Database (accessed January 12, 2013).
[5] USTR, 2012 National Trade Estimate Report on Foreign Trade Barriers, 78–88.