

September

2010



The AMERICAN CHAMBER of COMMERCE in SHANGHAI

VIEWPOINT

U.S. Export Competitiveness in China

Winning in the World's Fastest-Growing Market

China

Trends



Executive Summary

As the U.S. emerges from the economic downturn, U.S. policymakers have rightly set their sights on exports as an engine for sustained economic growth and job creation. The U.S. needs to focus attention on fast-growing overseas economies where domestic demand is exploding, such as in China.

The China market offers a tremendous unmet demand for U.S. exporters to satisfy. Driven by a growing Chinese middle class and expanding consumer base, China has the potential to outpace Canada and Mexico to become America's top export market. Already, U.S. goods exports to China roughly doubled over the five year period between 2004 and 2008 and since 2000 have grown 330 percent. In the first six months of 2010, China's imports grew 50 percent.

U.S. companies are in a solid position to compete in China but run up against overseas competitors, especially from Europe and Asia, which enjoy well-established government trade promotion support. The result: the U.S. punches far below its weight in exports compared to other large developed countries. U.S. goods exports last year accounted for only 7 percent of U.S. GDP compared to 35 percent in Germany and 46 percent in South Korea – both key competitors for the China market.

A key finding of this report is U.S. exporters are losing market share in China, which costs the U.S. jobs and economic growth. In fact, the U.S. ranks number 12 out of the top 21 nations and regions competing for export sales to China. The findings, quantified in the *China Market Export Competitiveness Index*, provide alarming evidence that the U.S. is falling behind the competition in China.

Earlier this year, the Obama administration launched the National Export Initiative (NEI) to put the full weight of the U.S. government behind doubling U.S. exports in five years in support of two million jobs. The NEI is America's first government-wide export promotion strategy and is an important first step towards building an export infrastructure that will drive sustained economic growth and job creation in the U.S. for decades to come.

But we cannot stop there.

To compete effectively in China – the world's fastest-growing market – the U.S. government must take specific, targeted actions to increase U.S. competitiveness. AmCham Shanghai has developed the following recommendations that build on the NEI:

- A trade mission to China led by President Obama to raise the profile of U.S. goods overseas and win export customers in face-to-face meetings with Chinese leaders
- Targeted U.S. Export-Import Bank financing to help U.S. companies, especially SMEs, sell exports to China and enjoy the same access to export financing as their competition
- Enhanced funding for effective federal export promotion programs, such as the Market Development Cooperator Program, and the U.S. Foreign Commercial Service
- Integration of state- and city-level export resources with federal promotion efforts and stepped-up federal funding for effective state programs
- A reformed U.S. export control regime so that U.S. companies are not at a competitive disadvantage in controlled industries abroad
- Vigorous engagement with China to open domestic markets and ensure U.S. companies compete in a competitive and non-discriminatory market environment in China 



"[T]he more products we make
the more jobs we support right



The Case for Exports

1

As unemployment hovers stubbornly around 10 percent and the U.S. looks for ways to drive sustained economic growth amid low consumer spending and a record budget deficit, policymakers should be looking overseas to sell more goods and services that are “Made in the USA,” particularly to fast growing markets like China.

...e and sell to other countries,
...nt here in America.” – U.S. President Barack Obama



The Case for Exports

The case for exports is clear. Exports support millions of good, high-paying jobs in America – a record 10 million jobs in 2008. Exports are tied to over one-third of all U.S. manufacturing jobs and pay an average of 15 percent more than the average national wage. The U.S. Commerce Department estimates that every \$1 billion of exports generates or supports 6,250 manufacturing jobs.

Despite the immense benefits of exporting, only 1 percent of U.S. businesses sell to international markets. Of those companies that do export, more than half export to only one country. President Obama recognizes that businesses, especially small- and medium-sized enterprises (SMEs), need more government support to tap lucrative global markets. The National Export Initiative (NEI) launched in March 2010 – America's first-ever government-wide export strategy – puts the full weight of the U.S. government behind that effort and calls for doubling U.S. exports in five years in support of two million jobs. "[T]he more products we make and sell to other countries, the more jobs we support right here in America," said President Obama.

"The NEI is a critical first step for developing a bold, ambitious trade policy and an export infrastructure to drive sustained economic growth."

– Brenda Foster, President, The American Chamber of Commerce in Shanghai

CASE STUDY:



GE Aviation Systems: China Sales Drive U.S.


GE Aviation Systems, a subsidiary of General Electric founded in 1917, is a leading producer of jet engines and components as well as integrated digital, electric power and mechanical systems for aircrafts. Based in Cincinnati, Ohio, it operates in more than 20 locations across the U.S.

GE's revenue in China – the company's fifth largest market – topped \$6 billion in 2009, and GE expects growth of 10 percent in 2010. With 46 new airports slated to

open in China in 2010 alone, GE Aviation is pursuing a long-term strategy to tap into the world's fastest-growing aviation market.

In July 2010, GE Aviation and the Aviation Industry Corp. of China (AVIC) signed a letter of intent that solidified a planned joint venture to build aviation systems for China's new 150-passenger C919 aircraft. GE's division in Grand Rapids, Michigan will create 200 new jobs to develop the

In an advanced economy like the United States, overseas markets represent an important new venue for companies of all sizes – from SMEs to large corporations – to sell their products and services. “Ninety-five percent of the world’s customers and fastest-growing markets are beyond our borders,” President Obama also said. All of that demand can be translated into new jobs for hardworking Americans.

AmCham Shanghai supports the president’s export initiative, which recognizes the tremendous untapped export potential of U.S. industry. “The NEI is a critical first step for developing a bold, ambitious trade policy and an export infrastructure to drive sustained economic growth and job creation in the U.S. for decades to come,” said Brenda Foster, president of AmCham Shanghai. 

\$1 billion in U.S. exports =



6,250 American jobs

Exports

integrated avionics system, or the “brains” of the airplane: the processing, display and maintenance systems for the C919.

“The passengers won’t see it directly but everything that that airplane is doing is a result of the equipment that we put on that airplane,” said GE Aviation site leader George Kiefer.

The project, first announced in November 2009, is expected to employ more than

200 engineers and program managers in GE Aviation’s Grand Rapids facility. About 100 engineers have been hired already to design the electric controls, adding to GE’s 2,400-strong Michigan workforce. Birgit Klohs, CEO of Michigan economic development group The Right Place, Inc., is anticipating two “spin-off” jobs for every new GE Aviation position, saying that these high-level jobs are “critical to support more food being sold at the local grocery store, somebody cutting more hair, somebody

being able to buy a dozen roses.” She predicts that the venture will create 600 new jobs in Michigan.

Michigan Governor Jennifer Granholm has touted the deal as an example of Michigan “taking advantage of the globe.” China is currently Michigan’s third largest export market, worth \$1.4 billion in 2009, a 6 percent increase from 2008.



"China has to be a key part
U.S. exports and jobs."



China is the Key

2

China is a key market for U.S. exports and arguably the most important destination for sustained export growth going forward. China's potential is so great that capturing an additional 1 percent of the China import market translates to \$12.3 billion in additional exports and over 76,000 American jobs. An increase in exports to China means more job opportunities for American workers and economic growth.

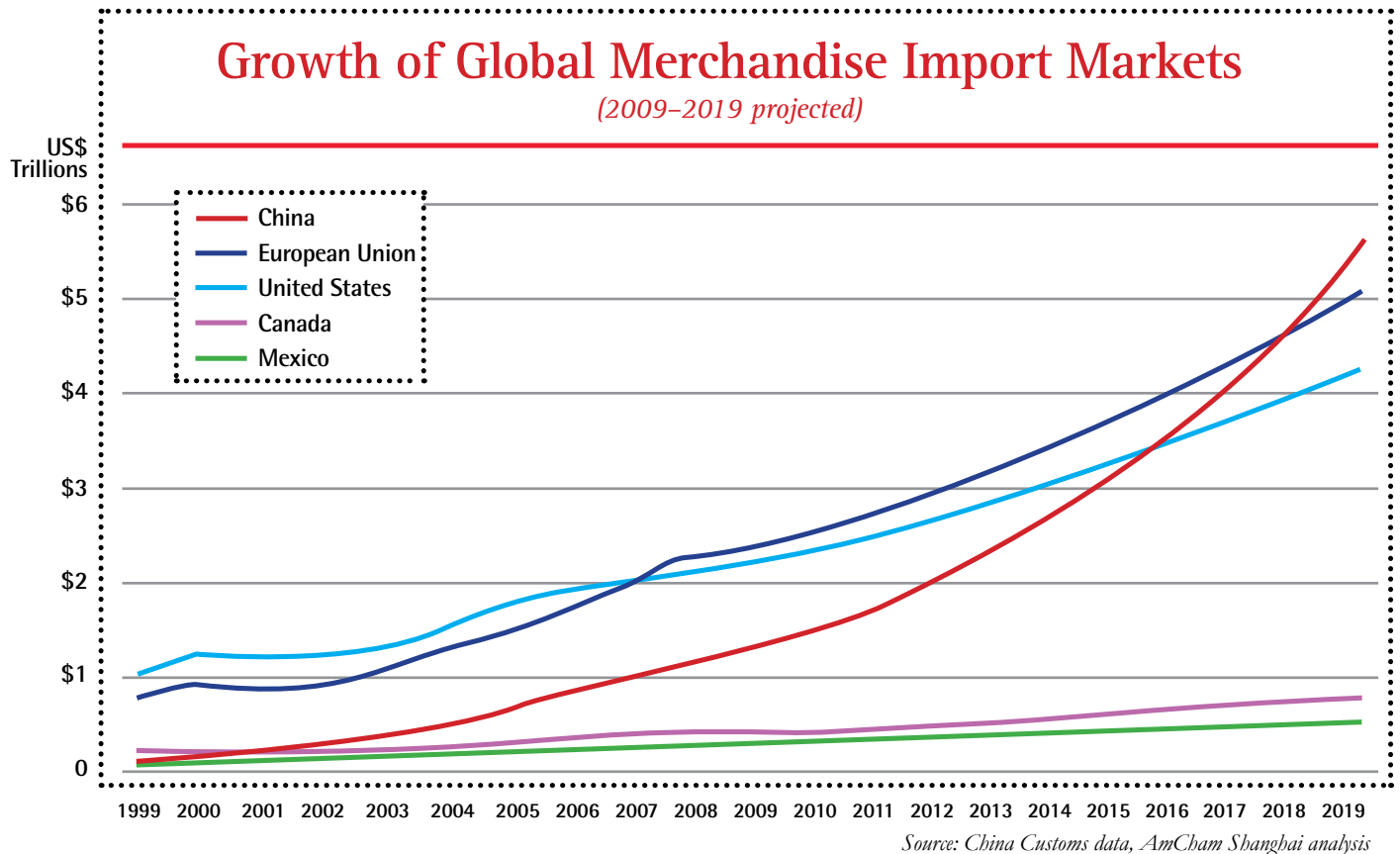
of any strategy to increase

– U.S. Treasury Secretary Timothy Geithner



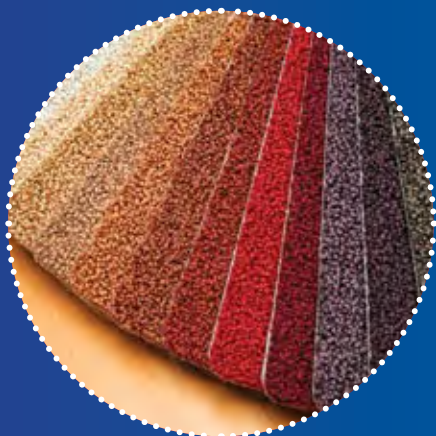
China is the Key

China is America's fastest-growing major export market. According to the US-China Business Council, U.S. exports to China have jumped 330 percent since 2000. China is America's third-largest export market behind only Canada and Mexico and is America's only major export customer to double its export purchases over a five year period – between 2004 and 2008.



CASE STUDY:

Tandus Flooring: China Operations Fuel U.S.



Tandus Flooring, headquartered in Dalton, Georgia, offers a range of innovative floor-covering solutions in the Americas, Asia and Europe. The company specializes in environmentally friendly flooring options and works with local and regional suppliers and contractors. Tandus has global revenues of \$300 million and employs more than 1,600 personnel throughout North America, approximately 10 percent of whose jobs are supported by exports to China.

Tandus established a manufacturing

facility in Suzhou, China in 2004 and relocated its Asia headquarters to Shanghai in 2008. There, Tandus focuses on manufacturing commercial carpet tile products for sale throughout Asia and the Middle East. Localizing design and production for the Asia market as well as locating close to customers and distribution channels allows Tandus to react quickly to market changes and to achieve rapid sales growth in Greater China, where sales grew by more than 100 percent over last year.

China should be the focus for policymakers working to increase U.S. exports as the growth of the China market continues to outpace growth of other major U.S. export destinations. Many believe China's growth as a domestic market has only just begun. McKinsey & Co. estimates that China's middle class, the key to driving consumption in any economy, will reach 400 million people by 2015.

As China's economy matures and further liberalizes, the country will demand an increasing volume and diversity of goods and services that the U.S. should compete to fulfill. Going forward, Canada, Mexico and Japan all represent smaller opportunities than China for export growth. In the first half of 2010, a rise in domestic consumption pushed up China's imports by more than 50 percent. AmCham Shanghai estimates that China will surpass the U.S. in merchandise imports in 2016 and become the world's biggest merchandise import market by 2018.

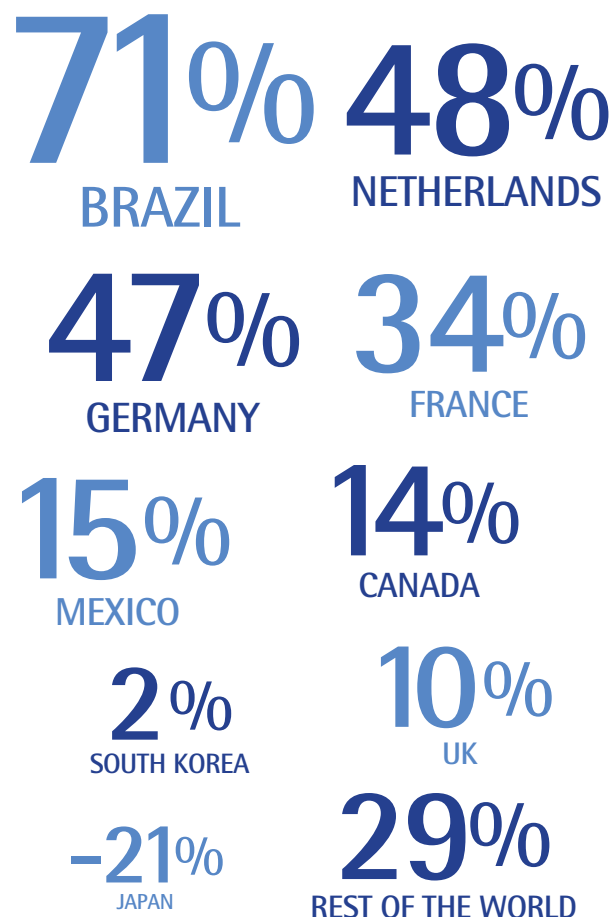
Additional export sales to China's rapidly expanding market will also contribute to reducing the U.S. trade deficit with China and a more balanced trade relationship.

A growing China driven by double-digit import growth and a shift in government policy to a consumption-led development strategy offers a compelling opportunity for American exporters. "China has to be a key part of any strategy to increase U.S. exports and jobs," says U.S. Treasury Secretary Timothy Geithner. 

From 2000 to 2009, U.S. exports to China grew by:

330%

From 2000 to 2009, U.S. exports to the rest of its Top 10 markets grew by:



Source: US-China Business Council

Jobs

In 2009, 50 percent of Tandus Flooring's Asia sales came from U.S.-manufactured finished product. Tandus exports finished product, raw material and manufacturing equipment from the U.S. to Asia, including China, and estimates that approximately 160 of its U.S. staff are supported by exports to China.

Tandus' Suzhou manufacturing facility is using a significant and increasing amount of U.S.-manufactured raw materials in the manufacture of the Asia

product range. As this range of products continues to improve through broader adoption of localized designs, the mix of imports from the U.S. is now shifting from finished products to a greater focus on raw materials – primarily yarn from the Tandus U.S. yarn extrusion facility. The majority of the manufacturing capital investment was imported from the U.S. and Tandus began repatriating profits and cash to the company's U.S. headquarters for reinvestment back into the company in 2009.

While maintaining both manufacturing and design localization in China are critical to remaining competitive and cost effective, Tandus Flooring's strategy for future growth is to continue to manufacture and source key raw materials and equipment from the U.S. The key skill sets required to maintain the high quality standards of their products, as well as the raw materials and manufacturing equipment that are a key element of their competitive advantage, are predominantly available only in the U.S.



"We don't compete with Chi
goods from Europe and Japa



America's Competition in China

3

While U.S. exports to China are increasing faster than exports to any other major export destination, the nation's export performance in China lags behind the competition – Germany and the European Union, South Korea, Japan, Australia and others – in its ability to meet China's rapidly expanding demand for imports.

China; we compete against
an..."

– Robert Z. Lawrence, Harvard University economist and trade specialist

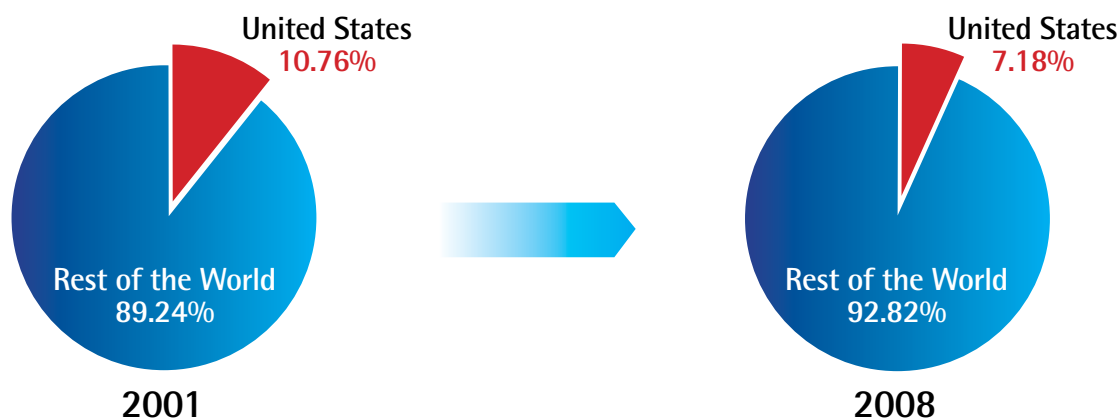


America's Competition in China

China's import market is growing at a double-digit rate. Yet, the U.S. conceded 3.6 percent of China's import market to rival nations between 2001 and 2008. Lost market share is not an abstract statistic. The U.S.'s export underperformance in China cost \$40.8 billion in potential GDP, which translates to 270,000 lost job opportunities for American workers between 2001 and 2008.

By comparison, America's biggest competitors hold a *larger* piece of the China import market. South Korea, with an economy less than 7 percent the size of America's, holds nearly 3 percent more of China's import market. By sustaining its market share in China since 2000, South Korea was able to add nearly \$84 billion to its GDP by 2008. U.S. exports to China contributed less than 1 percent to U.S. GDP in 2008, whereas China-bound exports accounted for 12 percent of South Korea's economy. In an increasingly crowded China market, the European Union nations, Japan and South Korea have not only exported tens of billions of dollars *more* worth of goods to China by volume, these competitors have also managed to maintain *more* market share than the U.S.

China's Imports from the U.S. and the Rest of the World



Source: China Customs data, AmCham Shanghai analysis

CASE STUDY:

Germany: A Model for Export Promotion



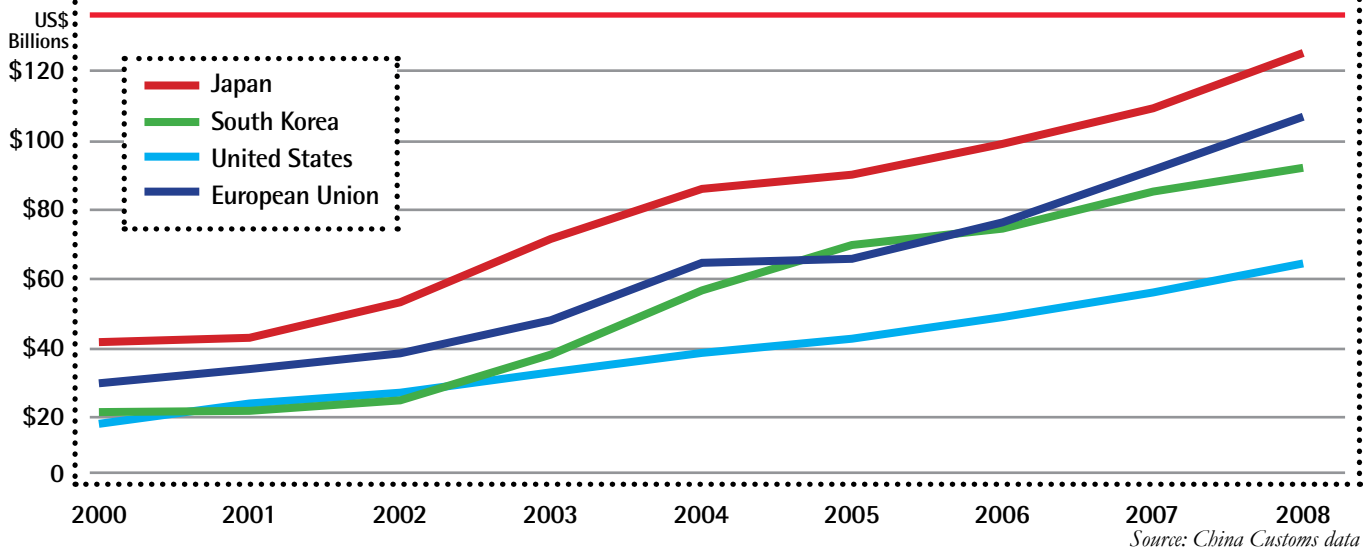
Germany stands out for its strong bilateral trade relationship with China that topped \$100 billion in 2009. The country's stronghold in chemicals, machinery and manufacturing exports to China draws its strength in part from government-sponsored programs and initiatives that have enabled Germany to establish a strong export base that benefits the domestic economy and is a key reason for Germany's rapid recovery from the global economic downturn.

When it comes to export promotion, "Germany

is the model," said GE CEO Jeffrey Immelt at a U.S. Export-Import Bank conference in March 2010. Germany, which has an economy less than one-fourth the size of the U.S., exported two-thirds as much as the U.S. to China in 2009.

In July 2010, German Chancellor Angela Merkel completed her fourth trade mission to China in five years. These missions have contributed not only to a stable and long-term bilateral relationship with China but have provided a competitive advantage to some of Germany's biggest companies. July's trade mission

China's Imports from the U.S., EU, Japan and Korea



The competition continues to outperform the U.S. In the second quarter of 2010, U.S. goods exports to China were up 24 percent from last year. Although impressive, exports from Germany, South Korea and Japan all outpaced the U.S. over the same period (at 53 percent, 39 percent and 29 percent, respectively). The significance is that while the U.S. is doing well to increase exports to China, we must ratchet up our performance to keep pace not only with the competition but with China's rapidly expanding domestic market.

Why is the U.S. struggling to match the competition's export performance to China? To start, our competitors have a long-standing commitment to trade advocacy and promotion that begins at the highest levels of government. For example, German Chancellor Angela Merkel regularly travels to China with a full delegation of German CEOs who pitch German goods and commodities to top leaders in government and business. In 2007, Germany spent over twice as much as the U.S. as a percentage of GDP on its export promotion programs, according to base estimates from the U.S. Trade Promotion Coordinating Committee.

Another reason why the U.S. is losing opportunities in China is because of the competition's government-led drive to focus on exports that are in high demand. For example, both South Korea and Japan are growing exports in fuel and mining – China's fastest-growing import sector – at a faster rate than the U.S. In fact, the U.S. controls only a 1.6 percent share in this high growth import sector compared to South Korea's 4.4 percent and Japan's 3.9 percent.

The U.S. is gaining market share in only one of China's top six import categories, non-ferrous metals. Instead, U.S. export growth is focused on areas that are slowing in import demand in China. For example, despite only 3 percent growth in demand for textile imports in China from 2000 to 2008, the U.S. *expanded* its textile exports over this period by a compound annual growth rate of 19 percent.

In China's fast-growing transportation equipment sector, the U.S. is rapidly losing market share. But this sector is the number one growth area for South Korea and the number two growth area for the European Union by market share. 🇺🇸

included a face-to-face meeting for German executives with Chinese Prime Minister Wen Jiabao and netted Germany 10 deals, including multi-million euro contracts for German greentech companies and Daimler-Benz, along with a multi-billion euro sale for Siemens. Commitment to trade advocacy at the highest levels is only part of the role the German government plays in driving Germany's export economy. As the competition heats up in China, the "German model" is giving German companies a competitive advantage in the world's fastest-growing economy.

The government-supported German Industry & Commerce (GIC) boasts four offices in mainland China's main finance and trade centers of Shanghai, Beijing and Guangzhou, along with subsidiary offices in six manufacturing hubs across China. Targeting German small and medium-sized enterprises (SMEs), GIC maintains a staff of over 100 in Shanghai alone and offers free services such as basic market entry and trade fair support, sourcing assistance and legal, operational and establishment advice to German companies, with the option to upgrade for additional and

in-depth consulting services for a nominal fee.

German Centres, first established in 1995, provide German companies comprehensive "incubation services." There are two German Centres in China; the Shanghai German Centre is the largest in the world supporting more than 90 German companies. With its three-pillar approach of providing low-cost office space, integrated business centers and qualified support services, German Centres offer vital support to German companies that are new to the China market.



"The key to tapping China's market for U.S. job creation increase the export competi

The image is a close-up photograph of a blue-painted metal surface, likely part of an aircraft or industrial structure. The paint is severely peeling and chipped away in several places, revealing a dark, rusted metal underneath. The background is blurred, showing what appears to be a large, complex metal structure, possibly a bridge or a large industrial building, under a clear sky.

China Market Export Competitiveness Index

4

AmCham Shanghai created the *China Market Export Competitiveness Index* to track the performance of top nations competing for export merchandise sales to China and quantify America's competitive position in this critical market.

potential as a leading export and economic growth is to tiveness of the U.S."

– Robert Roche, 2010 Chairman, The American Chamber of Commerce in Shanghai



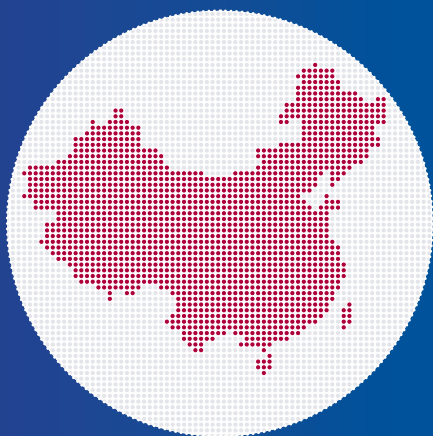
China Market Export Competitiveness Index

The *China Market Export Competitiveness Index* ranks 21 countries and regions using two measurements: (1) by market share, which is the percentage of China's import market held; (2) and by export intensity, which is the value of exports measured as a percentage of national GDP. After compiling the data for 2008 (the most recent data available from China Customs and the World Trade Organization), each country or region was given a Trade Competitiveness Score.

A higher score represents greater relative export performance. The 21 countries and regions (including the European Union) selected for comparison include those from which China bought the most merchandise exports by volume between 2001 and 2008, excluding fuel-heavy export nations Angola, Iran and Saudi Arabia.

Where does the U.S. stand relative to the competition? **Alarmingly, the U.S. ranks in the bottom half of the China Market Export Competitiveness Index at number 12 out of the 21 nations and regions compared in 2008.**

"While growth in U.S. exports to China is strong, the U.S. is not one of China's biggest competitors in China are outperforming America's ability to take full advantage of China as a destination for American exports."



Index Methodology

The purpose of the China Market Export Competitiveness Index is to use quantitative data to track the performance of key participant countries and regions in China's import market. The Index follows the countries and regions that were one of China's top 21 import partners (by market value of imported goods) in 2008.

To reduce the effect of fluctuations in the price of oil on the results, countries with over 85 percent of merchandise exports composed of fuels in 2008 were excluded from this study (fuels only composed 6 percent of United States merchandise exports in 2008). This step eliminated Angola, Iran and Saudi Arabia from the analysis.

The China Market Export Competitiveness Index is based on the Trade Competitiveness Score for each of the countries and regions selected.

The U.S. is behind primary competitors South Korea, Japan, the European Union and Germany, as well as seven other countries and regions – Taiwan, Malaysia, Australia, Thailand, Singapore, Philippines and Brazil. Taiwan was the top performer, followed by South Korea and Japan.

The *China Market Export Competitiveness Index* demonstrates that the U.S. is not taking full advantage of the China market to drive U.S. export growth relative to the competition. To reverse this trend, AmCham Shanghai has developed a set of recommendations in the pages to follow to help the U.S. increase its export competitiveness in the booming China market. 🇺🇸

s impressive, our
performing us and
antage of China as
ports."

China Market Export Competitiveness Index

1	Taiwan
2	South Korea
3	Japan
4	Malaysia
5	Australia
6	Thailand
7	Singapore
8	Philippines
9	European Union
10	Germany
11	Brazil

12 United States

13	Hong Kong
14	India
15	Russia
16	Indonesia
17	Argentina
18	France
19	Canada
20	Italy
21	United Kingdom

Based on the most recent data available from China Customs, the International Monetary Fund (IMF), the World Trade Organization (WTO) and the World Bank, the Market Share Score and the Export Intensity Score for each country and region for 2008 were combined to determine a Trade Competitiveness Score.

The countries and regions were then ranked against one another to produce the Index.

$$\text{Trade Competitiveness Score} = \text{Market Share Score} + \text{Export Intensity Score}$$

$$\left(\frac{\text{Value of Exports to China}}{\text{Total Value of China's Imports}} \right) + \left(\frac{\text{Value of Exports to China}}{\text{Gross Domestic Product}} \right)$$



"To compete effectively in the v
American companies need the U
targeted actions to increase U.S



Enhancing America's Competitiveness in the China Market

5

American companies produce the best products, employ the best workers and are among the most innovative in the world. In fact, the Brookings Institution calculates that the U.S. leads the world in the combined value of goods and services exports – \$1.5 trillion in 2009 compared to Germany's \$1.3 trillion. China is the perfect example of a market that, despite its challenges, offers opportunities that the U.S. must develop to advance its export economy and create jobs for American workers.

world's fastest-growing market, U.S. government to take specific, S. competitiveness in China."



Enhancing America's Competitiveness in the China Market

As the China market continues to grow in importance as a top destination for imports from all over the world, American companies are facing intense competition from companies supported by well-established, government-backed trade promotion programs. America's biggest competitors such as the European Union, Japan, South Korea, Australia and others enjoy a commitment to trade promotion at the highest levels. By comparison, American exporters to China receive significantly less support from their home government.

While growth in U.S. exports to China is impressive, our biggest competitors in China are outperforming us and limiting America's ability to take full advantage of China as a destination for American exports. The National Export Initiative (NEI) is an important first step towards building an export infrastructure that will drive sustained economic growth and job creation in the U.S. for decades to come. However, to compete effectively in the world's fastest-growing market, American companies need the U.S. government to take the following specific, targeted actions to increase U.S. competitiveness in China.

1. Presidential trade mission to China

A trade mission to China led by President Obama himself could enhance U.S. competitiveness and strengthen U.S.-Sino commercial ties in America's fastest-growing major export market – China. President Obama should be commended for launching the NEI to create jobs through exports and for sending U.S. Commerce Secretary Gary Locke on the administration's first-ever Cabinet-level trade mission to China in May. Going forward, more robust trade advocacy should include raising the profile of U.S. goods overseas – a hallmark of the trade strategy of America's biggest competitors.

German Chancellor Angela Merkel oversaw approximately \$5 billion in new deals for German companies on a trade mission she led to China in July. Chancellor Merkel's latest trade mission, her fourth to China since 2006, included a face-to-face meeting for German executives with Chinese Prime Minister Wen Jiabao and netted Germany 10 deals, including multi-million dollar contracts for German greentech companies and automaker Daimler AG, and a \$3.5

CASE STUDY:

EU: A Comprehensive Export Strategy

The European Union, China's largest trading partner, offers comprehensive services and programs to provide European exporters with a competitive leg up on the competition.

The EU Project Innovation Centre (EUPIC), established in 2006 in Chengdu, the capital city of Sichuan Province, is aimed at long-term sustainable development for EU companies in one of the fastest-growing regions in China. Supported by an extensive network of European

and Chinese authorities, EUPIC uses its close connections to deliver professional services to EU organizations such as free fully equipped offices for six months along with resourceful databases of local enterprises and institutions. A planned EU SME Center will be built in 2011 in Beijing. With a budget of approximately EUR10 million, the EU will have a physical building in China's capital where European SMEs can get comprehensive support in their international expansion.



billion deal for technology giant Siemens AG. Presidential leadership brings instant credibility in a country like China, where government plays a major role in the economy. A focused commitment to trade advocacy at the top level of the U.S. government is critical to winning export markets in China and gaining Chinese customers.

2. Targeted U.S. Export-Import Bank financing for exports to China

The U.S. government should provide targeted export financing and support to help U.S. companies sell to China and ensure U.S. exporters have the same access to export financing as their competition.

As America's official export credit agency, the Export-Import Bank (ExIm Bank) plays a central role in supporting jobs by helping American businesses of all sizes target markets overseas when financing from other sources is unavailable. The Bank's government-backed financial services program offers three key functions that support U.S. exports to China:

- Working capital guarantees expand U.S. companies' access to the financing they need to jumpstart exports to China
- Export credit insurance provides a safety net to compete aggressively in highly competitive markets, such as China
- Competitive financing for international buyers extends credit to potential U.S. export customers in China who are unable to obtain financing from traditional lenders

Recognizing the bank's importance for driving export growth, the Obama administration is raising the funds available to exporting SMEs by 50 percent to \$6 billion over the next year. Additional funding is essential because U.S. support for exports significantly lags the competition. Despite total ExIm Bank authorizations increasing nearly 50 percent to a record \$21 billion last year, Canada's export financing agency authorized nearly four times this amount to support Canadian companies. Canada, as well as other major export competitors, also commits several times more than the U.S. to support China-bound exports.

"[F]or the thousands of small businesses who also want to be global players, a big umbrella of the U.S. [government] is quite powerful and necessary."

– Jeffrey Immelt, Chairman & CEO, General Electric

Working with the European Chamber of Commerce (EUCC), EU SMEs have access to the EUCC's SME Helpdesk, which publishes pamphlets and guides for trade fairs through which intellectual property (IP) strategies are laid out. These step-by-step guides to IP strategies and protection are offered to European SMEs before, during and after a trade fair or exhibition in China.

The EU-China IPR2 Project is a bilateral program focused on the protection of

intellectual property rights including improving China's legal system and access to information. The European Commission has allotted EUR10.85 million over four years and China's Ministry of Commerce will contribute EUR5.5 million over the same period. With these two programs, the EUCC insures that its member companies receive assurance before delving into China.

The Managers Exchange and Training Program (METP) is a joint five-year inter-

governmental cooperation project between the EU and China focusing on international trade and developing managers familiar with the benefits of EU-China trade. With an allotted budget of EUR17.2 million from the EU and EUR6 million from China, the METP offers management exchange programs, education classes and fact books about business in China, among others.

The ExIm Bank could encourage export growth to China, especially from America's first-time exporters and SMEs, by:

- Stationing officers in China to promote ExIm Bank services proactively to Chinese export buyers and the China-based offices of U.S. companies. Although the Bank's authorizations are demand-driven, support for China-bound exports has decreased from nearly \$500 million in 2000 to \$22 million in 2009.
- Focusing attention on services for SMEs. A simplified application and claims process would help to attract more SMEs, which often do not have dedicated resources to navigate a complicated and sometimes confusing ExIm process.
- Adding China as one of its select markets targeted for \$25 billion in new authorizations in the next four years. China offers great potential for American exporters and meets ExIm criteria for focused attention as a rapidly growing economy with large commitments to infrastructure investment.

ExIm Support for China-Bound Exports

National ExIm Bank	2008 China Authorizations
Export Development Canada (Canada)	\$739.5 million
KfW Entwicklungsbank (Germany)	\$541.8 million
Japan Bank for International Cooperation (Japan)	\$498.7 million
Export-Import Bank of the United States (USA)	\$152.1 million

U.S. ExIm Bank Authorizations by Destination

Country	2009 Authorizations	% of Total
India	\$2,201.3 million	10.5%
UAE	\$1,869.2 million	8.9%
Mexico	\$1,693.2 million	8.1%
South Korea	\$554.7 million	2.6%
Brazil	\$436.2 million	2.1%
China	\$22.1 million	0.1%

Source: Bank Annual Reports

3. Enhance federal export promotion programs

The U.S. is focusing more attention on promotion efforts to drive export growth and job creation at home, but additional funding commitments are needed to keep up with programs in competitor nations. One clear-cut way to increase U.S. competitiveness in China is to add funding support for federal export promotion programs. This is a necessary step to compete with German, Japanese and South Korean competitors who receive significant export support from their governments and who have been focused on the China market for years.

Germany's government is a world leader at providing vital support centers to help German companies in China. Government-funded German Industry & Commerce (GIC) offices provide market entry advice and other export support services, as well as in-depth consulting services for a nominal fee. Additionally, German Centres in both Beijing and Shanghai offer comprehensive "incubation services" for German companies. More than 90 German companies make use of the Shanghai German Centre and its low-cost, flexible office space and integrated business support services.

CASE STUDY:

Washington and Pennsylvania: U.S. State

Washington is consistently one of America's strongest export performers and leads the nation in goods exported per capita. In 2009, China overtook Canada as Washington's top export destination, with over \$9 billion in exports. Washington draws its export strength from aerospace-related goods, life sciences products, clean energy technology and home-grown agricultural products.

With roughly 8,000 of Washington's companies engaged in export activities, Governor Christine Gregoire has implemented a bold new state-level export initiative to complement the Obama

administration's NEI. The Washington State Export Initiative, announced in June 2010, aims to create jobs through \$600 million in new export sales by growing the number of state-based businesses that export by 30 percent within five years. As part of the six-point plan, the Washington State Department of Commerce has been funded with \$3 million for 2010 and now offers China-focused market-entry support free-of-charge to Washington-based companies seeking an export foothold in China. Through Seattle-based program officers who provide matchmaking services with Chinese distributors, along with market intelligence



The European Union maintains government-funded services for European companies in Chengdu, the commercial center of fast-moving Sichuan Province in western China. The EU Project Innovation Centre (EUPIC), which is jointly supported by the European Commission and several Chinese government agencies, provides six months of free office space and a database of local enterprises to help EU companies tap into Chengdu's rapidly developing market. The EU is also planning to build a \$12.6 million EU SME Centre in Beijing next year that will provide on-the-ground support to European SMEs looking to export to China.

Although the U.S. has developed successful export promotion programs, most are underfunded. A good example is the Commerce Department's Market Development Cooperator Program (MDCP). A \$100,000 MDCP grant awarded to the Association for Manufacturing Technology (AMT) in 2004 has resulted in export sales of \$100 million in U.S. technology and equipment. The AMT program in Shanghai is now self-supported and provides valuable services for U.S. machine tool manufacturers interested in exporting to China. Despite the demonstrated success of MDCP grants, awards funding may reach only \$1.5 million for next year – less than when the program began in 1993.

Office closings and hiring freezes have left the U.S. Foreign Commercial Service (FCS), the federal agency charged with promoting U.S. exports abroad, severely understaffed in key emerging markets like in China. This, despite the fact that the FCS has the best return on investment (ROI) in the U.S. government. In 2008, for every \$1 spent on the agency's export promotion services, FCS returned \$420 in company-confirmed export successes.

Recognizing the importance of on-the-ground government support for export promotion, the Obama

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administration has made funding FCS a key element of the NEI and is proposing a \$60 million increase to bolster FCS staffing levels. Yet, despite bipartisan support for the president's National Export Initiative, the NEI is in danger of not receiving the full funding levels needed to be an important part of a comprehensive export strategy. It is critical that Congress appropriate the full federal investment requested by the Obama administration for the Foreign Commercial Service and the rest of the NEI for FY2011 and beyond. A fully funded commitment is a

Models

reports researched by experienced on-the-ground staff in Shanghai, Washington's Department of Commerce fosters a competitive export advantage for local companies with an eye on China.

Pennsylvania is the nation's 12th leading exporter with over five percent of the state's goods exported to the China market. The state has made significant budget commitments to export promotion and claims to spend more on overseas export programs than any other U.S. state. World Trade PA stands out as an example of Pennsylvania's ambitious plan for promoting state

exports. With \$12 million in operating expenses in 2009, World Trade PA generated at least \$454 million in new export sales. Its free services include funding assistance through grants, technical support and export readiness assessments. The program has 30 international offices and its 10 in-state offices proactively identify local candidate companies that would be well suited to export their goods to top markets such as China.

As part of the state's comprehensive export promotion plan, the Shanghai-based Pennsylvania Center, funded by the Pennsylvania Department

of Community and Economic Development, has established a strong China presence for Pennsylvania companies seeking representation and consultancy services in China. The Center's centrally located incubation site in downtown Shanghai hosts more than 25 U.S. companies and has a dedicated staff of 30 that has served 230 companies and "graduated" over 50 companies in Shanghai alone. "The Center helps Pennsylvania export companies complete their first deal, often resulting in extended service contracts that can lead to future success," said Ning Shao, chief executive of the Pennsylvania Center in Shanghai.

necessary starting point to build programs to support U.S. companies, in particular SMEs, and to be effective in highly competitive markets like in China.

4. Leverage U.S. state and city resources

U.S. states are leading the way in export promotion. U.S. states and cities play a valuable but underutilized role in promoting U.S. exports to fast-growing markets like China and generating high-paying jobs for American workers. More than 30 states and cities have established representative offices in China's political and financial centers to reinforce state- and city-based export promotion programs located in the U.S.

The most innovative states and localities leverage market intelligence generated by their own staff stationed overseas. The state of Pennsylvania's World Trade PA initiative starts at the city level by working with local business chambers to identify companies that show promise as effective exporters to China. A network of employees in 10 offices spread throughout the state then coordinate with over 30 staff on the ground in China to facilitate export agreements for Pennsylvania companies.

State export programs like the ones in Pennsylvania or Washington (see below) are not the norm. Local export initiatives are expensive and would benefit from additional funding. As a first step in supporting state-led efforts to drive local exports, AmCham Shanghai applauds Rep. Rick Larsen's (D-WA) U.S.-China Market Engagement and Export Promotion Act and Sen. Maria Cantwell's (D-WA) companion legislation in the Senate to increase funding for innovative programs at the state level.

Further, as recommended in *Export Nation*, published in July 2010 by the Brookings Institution, the re-launched President's Export Council should include state and city leaders in addition to what now includes representatives from the federal government and the labor and business communities. The federal government can help drive export growth and job creation by integrating federal export promotion efforts with state and city resources and by supporting effective programs with federal funding. While the federal government should continue to take the lead in developing export policy, coordination between the U.S. Foreign Commercial Service and state trade offices in China can play an important role in helping states and localities maximize export opportunities for U.S. companies.

5. Reform outdated U.S. export controls

Whereas the security of the nation is paramount, U.S. companies are at a competitive disadvantage in controlled industries abroad because foreign competitors face fewer export restrictions. The result of the existing U.S. export control regime is many sales that U.S. companies should rightfully win in China and elsewhere are lost to the competition, costing U.S. exporters hundreds of millions of dollars in potential sales and American workers thousands of job opportunities. Misperceptions about the breadth and depth of U.S. export controls force potential Chinese buyers to source equivalent technologies and products from America's foreign competitors, including nations typically allied with the U.S. on global security issues.

It is critical that reform efforts advance to establish a more transparent and predictable system in which "higher walls are placed around fewer, more critical items," as described by U.S. Defense Secretary Robert Gates. An effective export control regime enhances national security by preventing the export of sensitive technology and items, while facilitating legitimate exports in a manner that ensures U.S. companies are on an equal footing with international competitors.

AmCham Shanghai supports the president's new export control initiative and urges the administration to ensure meaningful reforms do not "carve out" an important and fast-growing export market like China. Positive steps include an effort to move to a single, consolidated export control list, lift controls on thousands of non-critical items and restructure controlled items under a three-tiered licensing system so that recourses can be channeled to high priority areas efficiently. Reform could help U.S. exporters capture a larger share of China's technology import market worth over \$100 billion but dominated by competitors in Asia, according to a Milken Institute-National Association of Manufacturers study. The study estimates that a more focused export control regime could add an additional 340,000 jobs and \$64 billion in real GDP annually to the U.S. economy by 2019.

6. Vigorously engage China to open its domestic markets

The U.S. government should vigorously engage China to improve market access for U.S. companies and ensure a pro-competition, non-discriminatory market environment in China.

U.S. companies competing in China brush up against a Chinese policy environment that in some cases restricts commercial access to the country's growing domestic market and expanding consumer base. An open market in China is critical for U.S. companies to compete freely for export opportunities, thereby boosting U.S. economic growth and job creation.


A top concern threatening U.S. companies is China's government procurement system and "indigenous innovation" policy, which together limit the ability of U.S. companies to compete in China's growing procurement market valued at \$88 billion. Indigenous innovation is a

policy framework that China developed to boost Chinese innovation and the commercialization of local technology. The impact is a distinct disadvantage for U.S. companies and technology so long as China continues implementing policies that promote favored homegrown enterprises – China's own "national champions" – over foreign rivals.

Meanwhile, China has made insufficient progress on opening specific markets for U.S. exports. China's beef market, for example, is off-limits to the U.S. but could be a key growth market worth over \$200 million for U.S. beef exporters, according to the National Cattlemen's Beef Association.

Further, the U.S. government should encourage faster progress towards making China's cloudy regulatory environment more transparent and press China on its weak enforcement of intellectual property rights (IPR). IPR enforcement and protection are ongoing challenges that impact not only the competitiveness of American products in China but the willingness of American companies to partner with Chinese companies on vital issues like climate change and emerging green technologies. In a recent AmCham Shanghai survey, 88 percent of U.S. companies cited strengthened IPR enforcement as an issue on which they would like to see the U.S. press China.

The U.S. government should encourage China to improve its July 2010 offer to accede to the WTO Agreement on Government Procurement (GPA). China's membership would work towards establishing a level playing field for U.S. companies by applying WTO standards to China's procurement market. A robust GPA consistent with international norms and covering nearly all facets of Chinese procurement is critical to helping U.S. companies compete in China's enormous and growing government procurement market.

While China has made substantial progress opening its markets to foreign participation, the U.S. government should make full market access for U.S. companies a top priority in trade discussions with China. The Strategic & Economic Dialogue (S&ED), the Joint Commission on Commerce and Trade (JCCT) and the G-20 are high-level forums in which to engage China vigorously on developing a pro-competition, non-discriminatory market. 

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The AMERICAN CHAMBER of COMMERCE in SHANGHAI

VIEWPOINT

AmCham Shanghai – Your Partner in China

AmCham Shanghai is a platform for business, government and NGOs to work together to enhance U.S. competitiveness in China, advance U.S.-China collaboration and develop a more balanced U.S.-China commercial relationship.

About The American Chamber of Commerce in Shanghai

The American Chamber of Commerce in Shanghai (AmCham Shanghai), known as the “Voice of American Business in China,” is the largest and fastest-growing American Chamber in the Asia Pacific region. Founded in 1915, AmCham Shanghai was the third American Chamber established outside the United States. As a non-profit, non-partisan business organization, AmCham Shanghai is committed to the principles of free trade, open markets, private enterprise and the unrestricted flow of information.

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