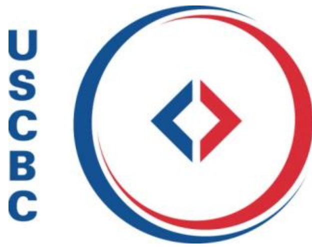


US-China Bilateral Investment Treaty: What it Means for US Jobs

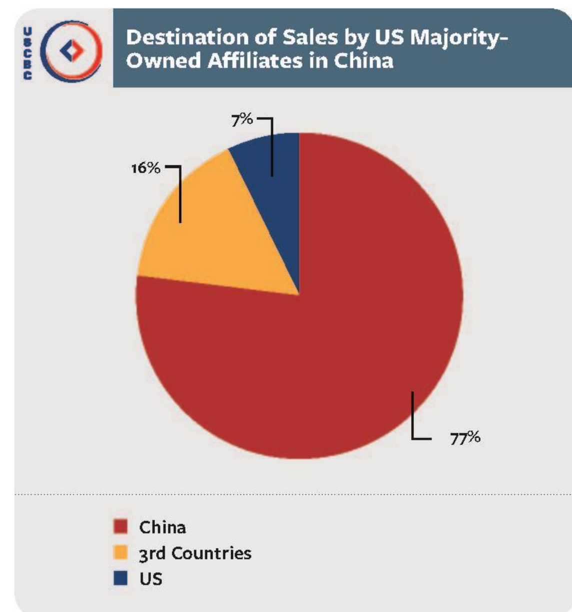
September 2014

How many times have you heard that US companies do business in China as a means to cut costs and outsource American jobs? Odds are, a lot. It is a phrase that's been uttered many times—so much so that many Americans think it is true. But the simple fact is that it's not.

Why are US companies in China in the first place?

Most companies that do business in China are there to access the China market. They want to be close to their regional operations and customers—more than 300 million middle class consumers. They *aren't* there to make goods and ship them back to the United States for sale at local stores (although there are plenty of Chinese and other Asian companies that do that).

How do we know? Official data illustrates this clearly. According to the US Bureau of Economic Analysis (BEA), US companies ship only 7 percent of goods they make in China back to the United States. An overwhelming 93 percent of goods made by US companies in China either remained in that country or were sold in regional markets like Southeast Asia. US-China Business Council (USCBC) data echoes this point. In its 2013 Annual Survey, only 8 percent of US companies said they use their China operations to ship goods back to the United States. More than 90 percent say they invest in China primarily to reach the China market. The numbers speak for themselves: Most US companies are in China for China.



What is a Bilateral Investment Treaty?

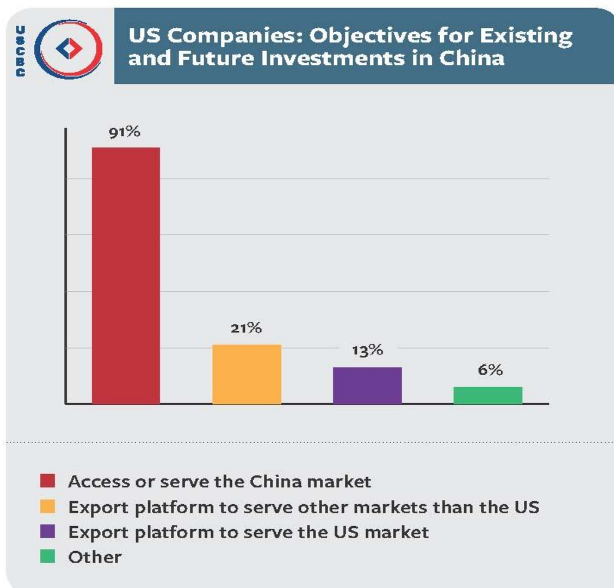
The United States and China—the world's two largest economies—are currently negotiating a Bilateral Investment Treaty (BIT). A Bilateral Investment Treaty (BIT) is an agreement between two countries that sets up "rules of the road" for foreign investment in each other's countries.

A successful BIT would remove many of the restrictions the Chinese government places on foreign companies, and it would give stronger protections for US companies that invest there. Today, American companies aren't permitted to operate in nearly 100 industries and sectors, and—in some sectors—Chinese regulations require that US companies partner with domestic firms to operate. Beyond that, US companies face a number of challenges once in the market, like getting business licenses approved and protecting intellectual property. To read more about what BITs do, see the USCBC briefer, "Bilateral Investment Treaties: What They Are and Why They Matter."

What impact would the BIT have on US companies?

A successful BIT would eliminate market access restrictions that US companies face in China today, meaning they'd have better opportunity to invest in and penetrate markets there. For US companies that are currently required to partner with domestic companies to operate in China, that means they can own *all* of their operations and profits.

Let's look at how this might play out in practice. Say the BIT opens China's market in a sector that was formerly restricted to 50 percent ownership. A US manufacturer or technology company operating in China is now permitted to own *all* of its operations and keep *all* of its profits, rather than being forced to share them with a Chinese company. That means that the company can better protect its technology and realize greater financial returns, which ultimately strengthens the company's operations globally, including in the United States.



An ambitious BIT would also remove high barriers to the US services sector, allowing US services companies to invest and expand both in China and at home. The United States' services sector already represents almost 80 percent of the US economy. With greater opportunity to invest in China, US services companies can reach new customers there.

As the US Bureau of Economic Analysis (BEA) points out, foreign affiliates contribute significantly to the bottom lines of US companies and often support domestic operations, rather than supplant them. US companies rely on overseas offices to retain their competitive edges and grow their operations in the United States and abroad.

Why Can't US Companies Just Export Everything to China?

Not every company can successfully take the "Made in the USA" model and be competitive in overseas markets, as desirable as that might be. For some products, transportation costs would be too great, especially for a market as far away as China. For others, simply the time to transport something to China might be prohibitive; many suppliers need to be near their customer to get the business. And most services have to be provided where the customer is—it's hard to sell insurance in China from a desk in New York City, for example.

For all these reasons and more, many companies have to invest in China to get business in China. And getting that new business will help strengthen a company's global competitiveness, which in turn will support employment in the United States, the development of new products and technologies, and contribute to the economic health of the United States.

But what impact would the BIT have on the US workforce?

We can't always predict the patterns of US investment abroad, but we can draw several conclusions from what we know now. US workers employed by internationally-invested companies represent a large—and

well-paid—slice of the US labor force. US companies that invest overseas employed nearly 23 million Americans in the United States in 2011 – nearly 20 percent of the private sector US workforce. On average, data shows us that those companies also pay their workers more, according to the Office of the US Trade Representative.

A BIT would also help usher in more investment from Chinese companies, meaning more employment opportunities in the United States. Though Chinese companies can already invest in most sectors across the US economy, a BIT would provide added guarantees of their rights and protections in America. That guarantee will help bolster Chinese investment in the United States—carrying on a trend that's been growing rapidly over the past decade.

Since 2000, Chinese investment in the United States totaled nearly $40 billion as of the end of last year, according to data from the Rhodium Group consultancy. Further, Chinese majority-owned companies that have invested in the United States support nearly 27,000 American jobs. Contrary to some claims, Rhodium's analysis shows that Chinese companies aren't investing here to eventually send jobs back to China—they're investing here to serve US customers, just like American companies invest in China to serve Chinese customers. Ultimately, finalizing a strong BIT will give Chinese companies greater motivation to expand their investments and hire more workers in the United States.

Governors and mayors throughout the United States know how important foreign investment is to creating jobs and building the tax base, which is why so many of them are actively seeking new investment from China. A BIT with China would facilitate these vital locally-led initiatives to strengthen our economy.

Conclusion

For US companies to continue to grow and expand, opening markets like China's is essential. Negotiating a successful US-China BIT is a key part of this strategy. A BIT would help address ingrained investment barriers in China and secure for American companies valuable commercial protections in the market. Those protections—combined with broader access to China's market—mean companies can put more resources toward hiring American workers and developing more innovative products.