



# The New England-China Relationship in 2005

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# Overview

- China's emergence as an economic power
- U.S.-China trade
  - Investing in China
- New England-China trade
  - Exports
  - Imports
  - Students
- Conclusions & commentary

# Main observations

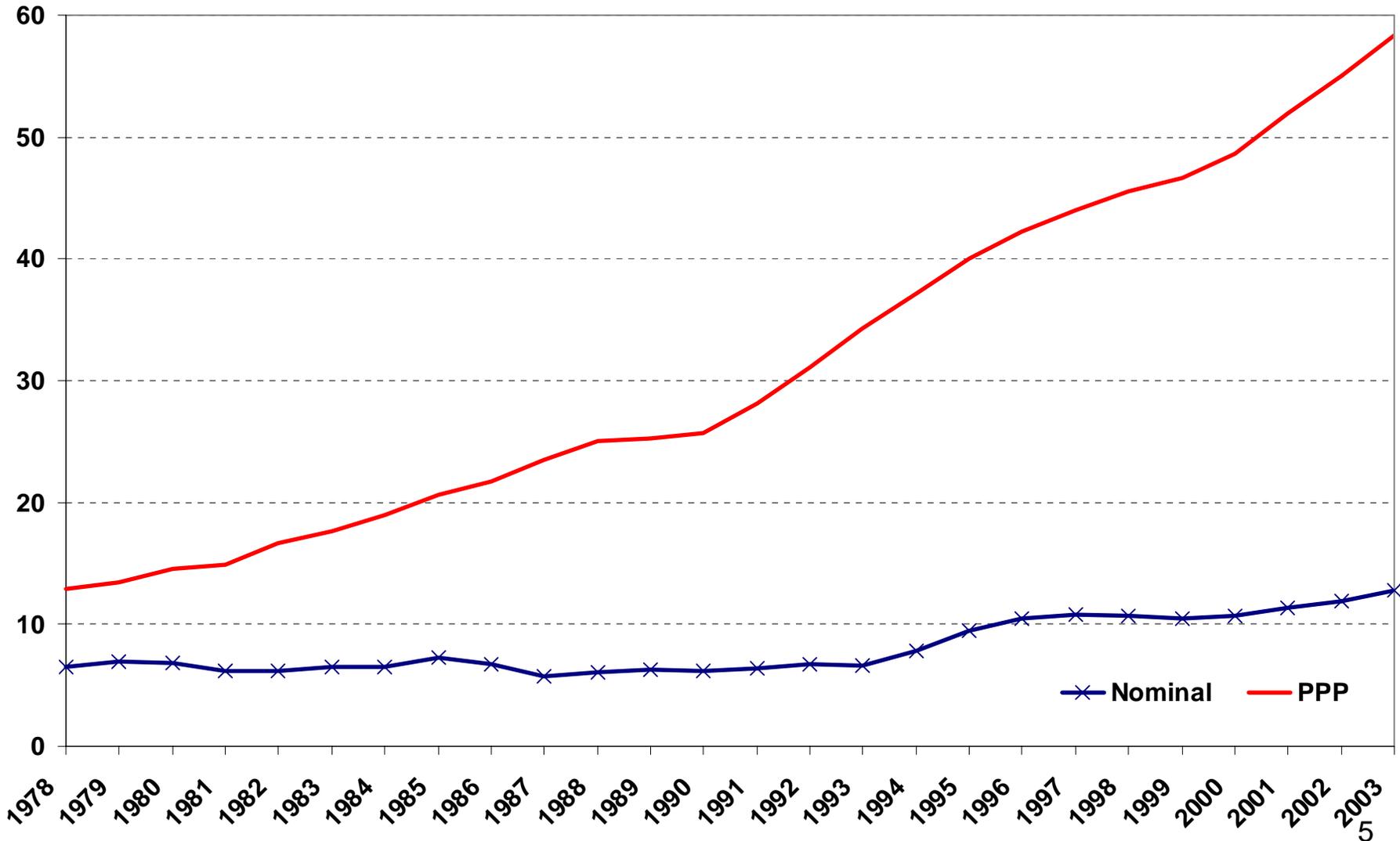
- China's economic rise has been dramatic
- U.S. is just starting to realize its significance
- New England does not have a special relationship – yet
- Key issue is not trade deficit but rise of a new economic super-power

# China's economic rise

- Growth in real GDP has averaged about 9 percent per year since late 1970s
- China's Gross National Income in purchasing power parity terms has risen from almost 15 percent of U.S. in 1980 to almost 60 percent in 2003
- Exports and imports have grown as shares of GDP

# China's GNI has risen relative to U.S.

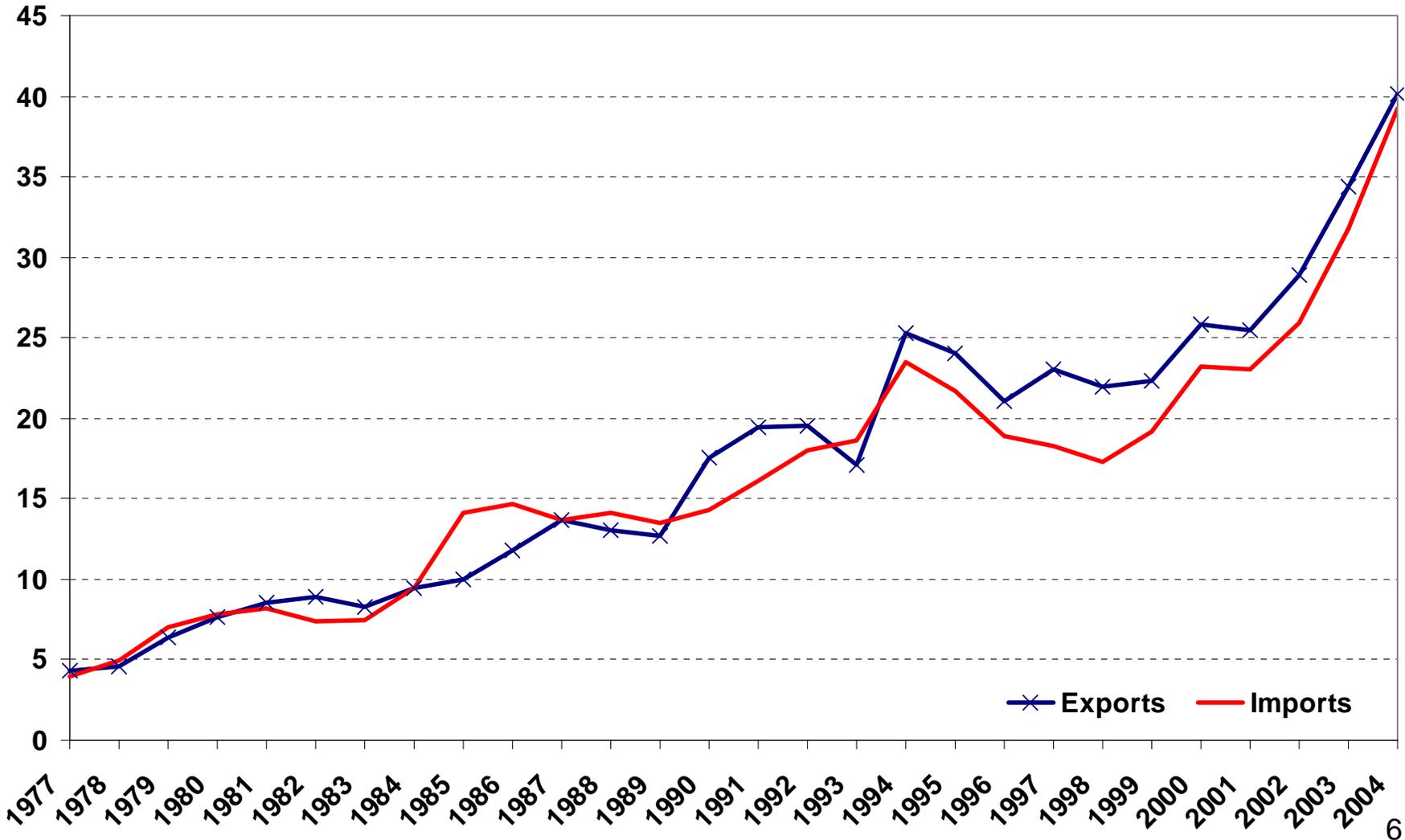
Percent



Source: World Development Indicators, The World Bank Group

# China's exports and imports have risen relative to GDP

Percent



# China-U.S. Trade

- U.S. trade figures show a deficit with China of \$162 billion in 2004 (compared to overall deficit of \$652 billion)
- China accounted for 12 percent of U.S. imports in 2003, second to Canada
- China accounted for only 4 percent of U.S. exports
- China's shares have doubled since 1995

- China's overall trade surplus has not been large historically
- China runs a deficit with other Asian countries
  - Foodstuffs & raw materials
  - Intermediate goods for assembly and often re-export
  - Investment goods to expand capacity

# Why is China buying from Asia and not U.S.?

- Asian neighbors shifting production to China to serve global markets (including the United States)
- Advantages in serving domestic Chinese market
  - Physical proximity
  - Familiarity with culture; Chinese Diaspora
  - U.S. export restrictions
  - U.S. concerns about intellectual property rights
  - Overvalued dollar

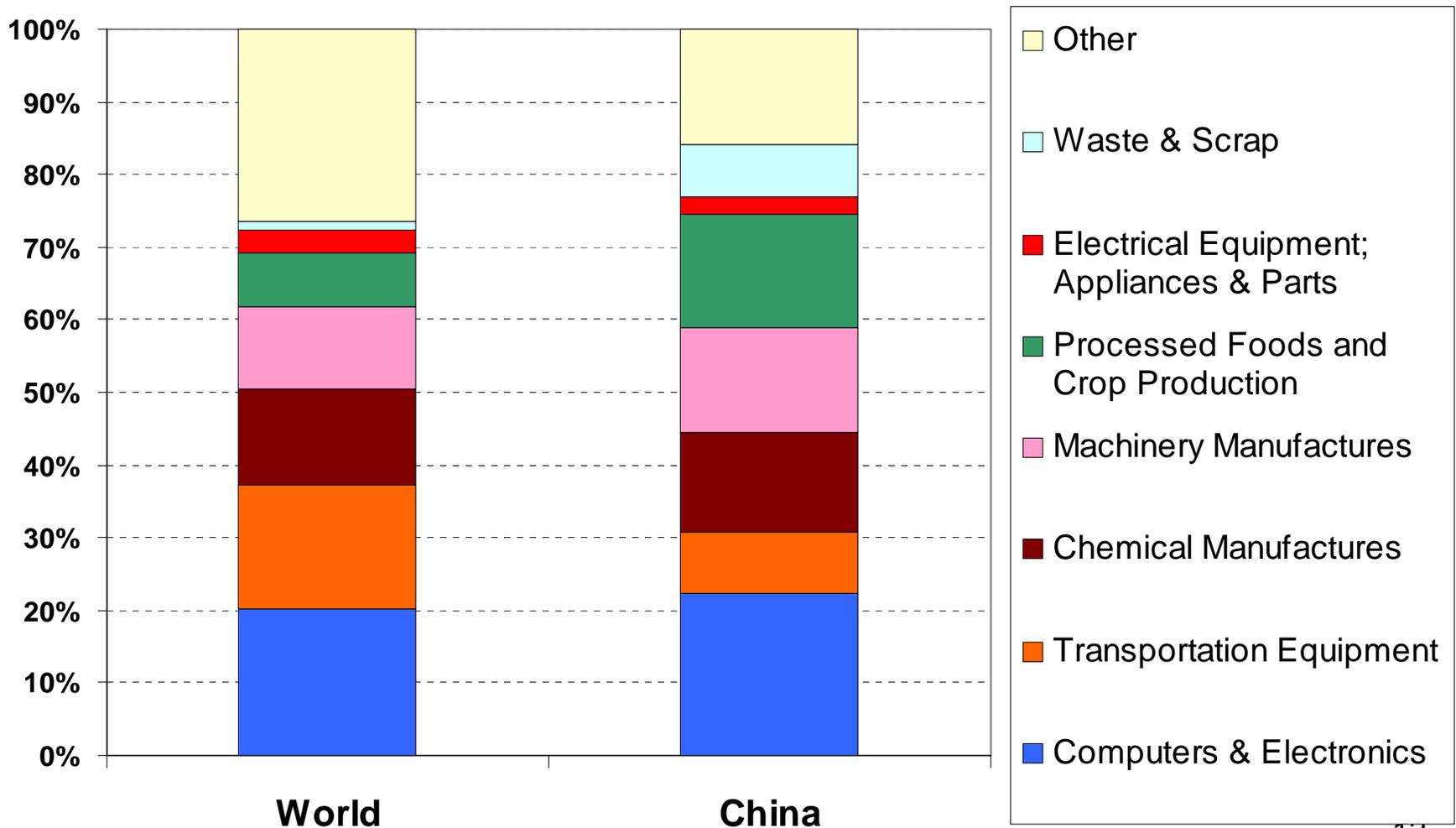
# Should the yuan be re-valued?

- U.S. dollar is probably overvalued relative to yuan
  - U.S. products are more costly in China
  - Chinese products are cheaper in U.S. (and EU as well)
- Estimates of how much yuan should appreciate vary considerably
- Impact of appreciation on U.S. deficit could be modest

# Investment (FDI) in China

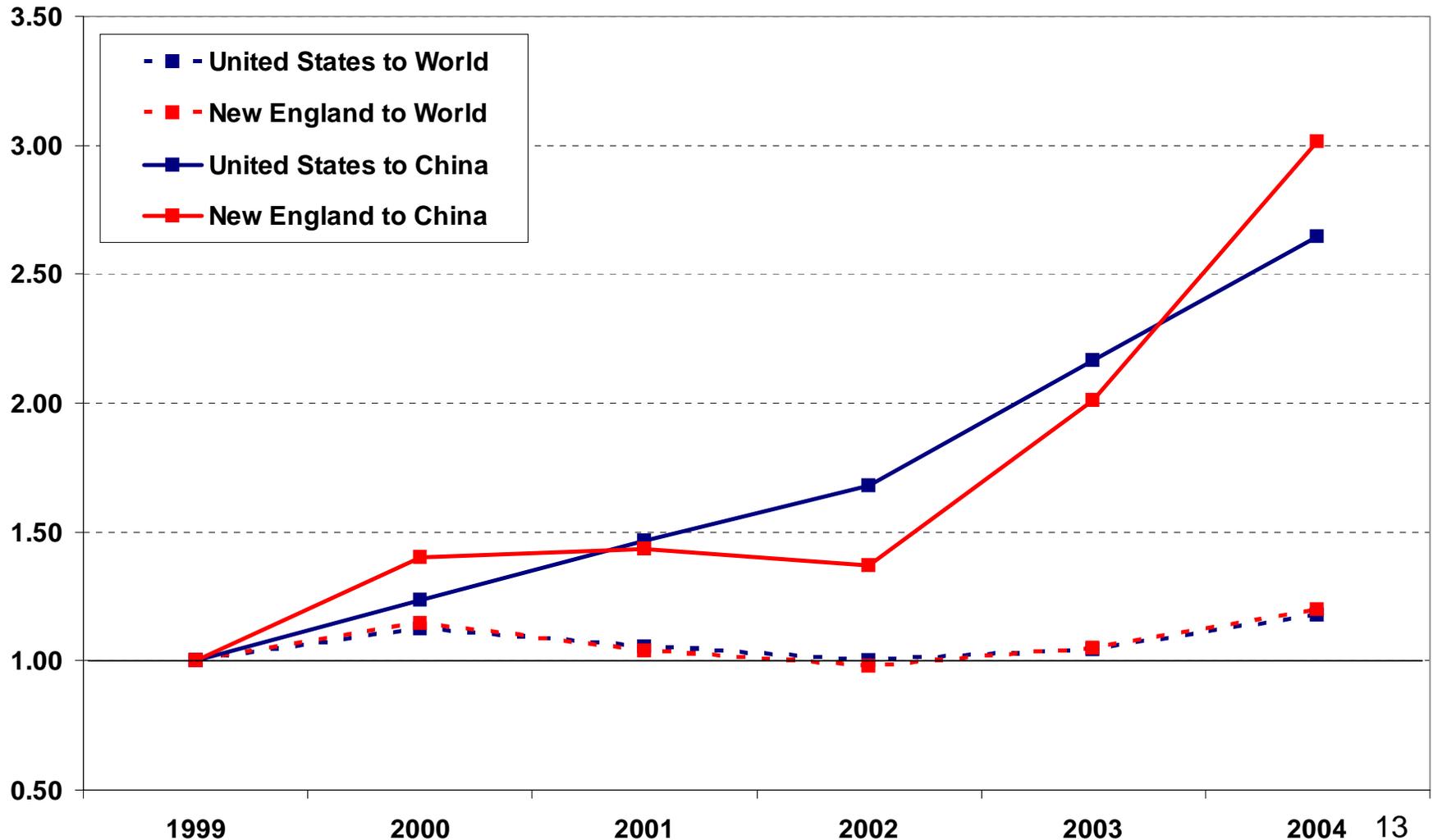
- China attracted 10 percent of world foreign direct investment in 2004
  - Second to the United States
- U.S. is a significant investor, but collectively Asian countries are more important
- China accounts for only 1.5% of U.S. investment outflows

# Exports to China similar to world exports – but more resource, waste

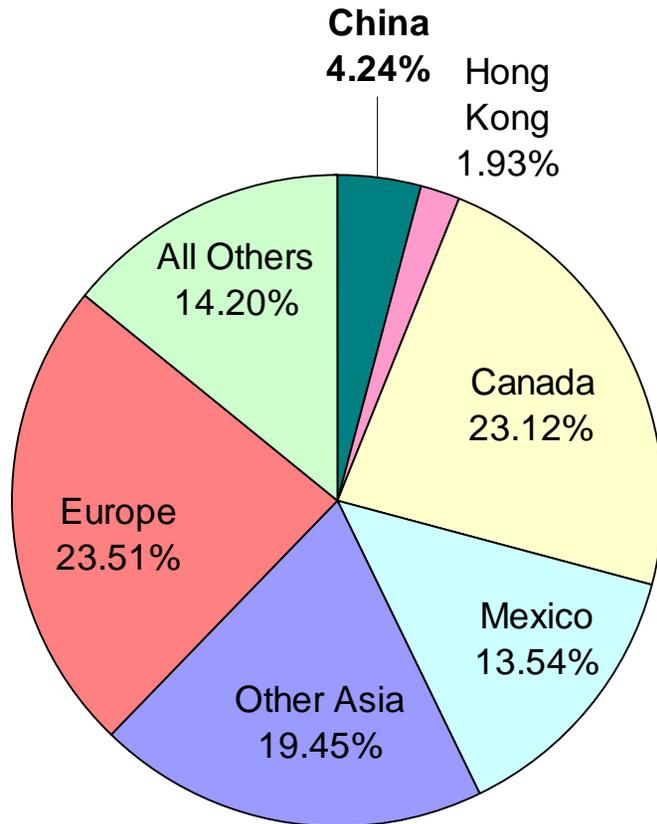


# New England exports to China have grown rapidly

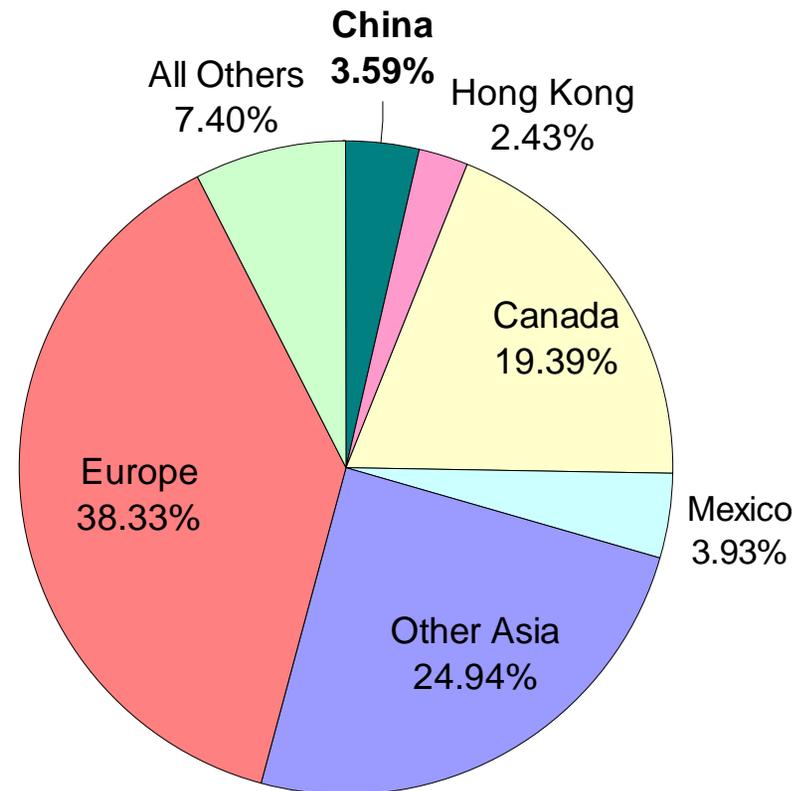
Index, 1999 = 1



# China still a small export destination for New England

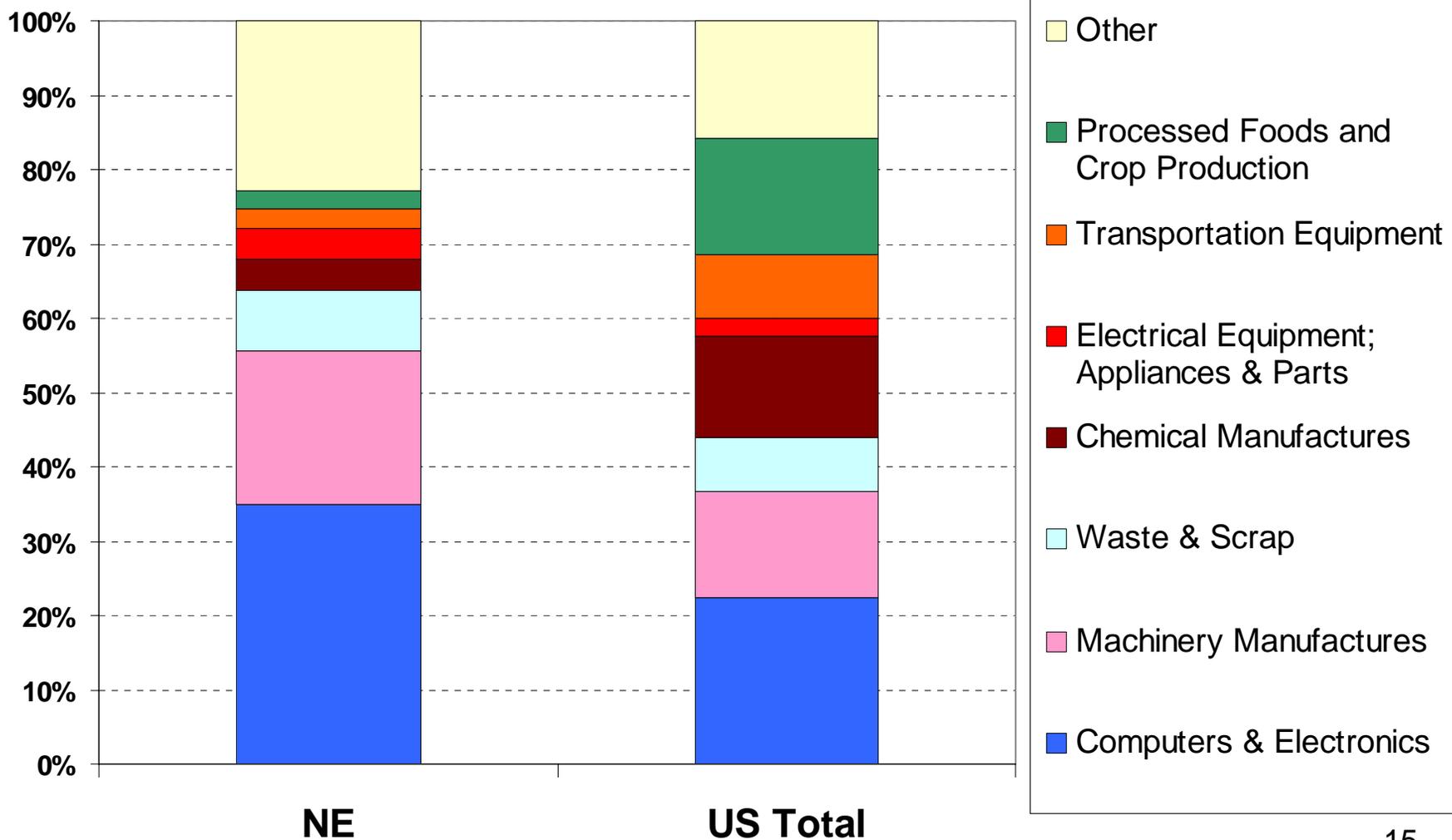


**United States**



**New England**

# Computers & Electronic Products are more important NE exports



# Exports to China in 2004

Share of world exports    Share of 2003 GSP

U.S.	4.2	0.3
NE	3.6	0.2
CT	2.4	0.1
ME	4.6	0.3
MA	4.0	0.3
NH	4.5	0.2
RI	3.6	0.1
VT	2.5	0.4

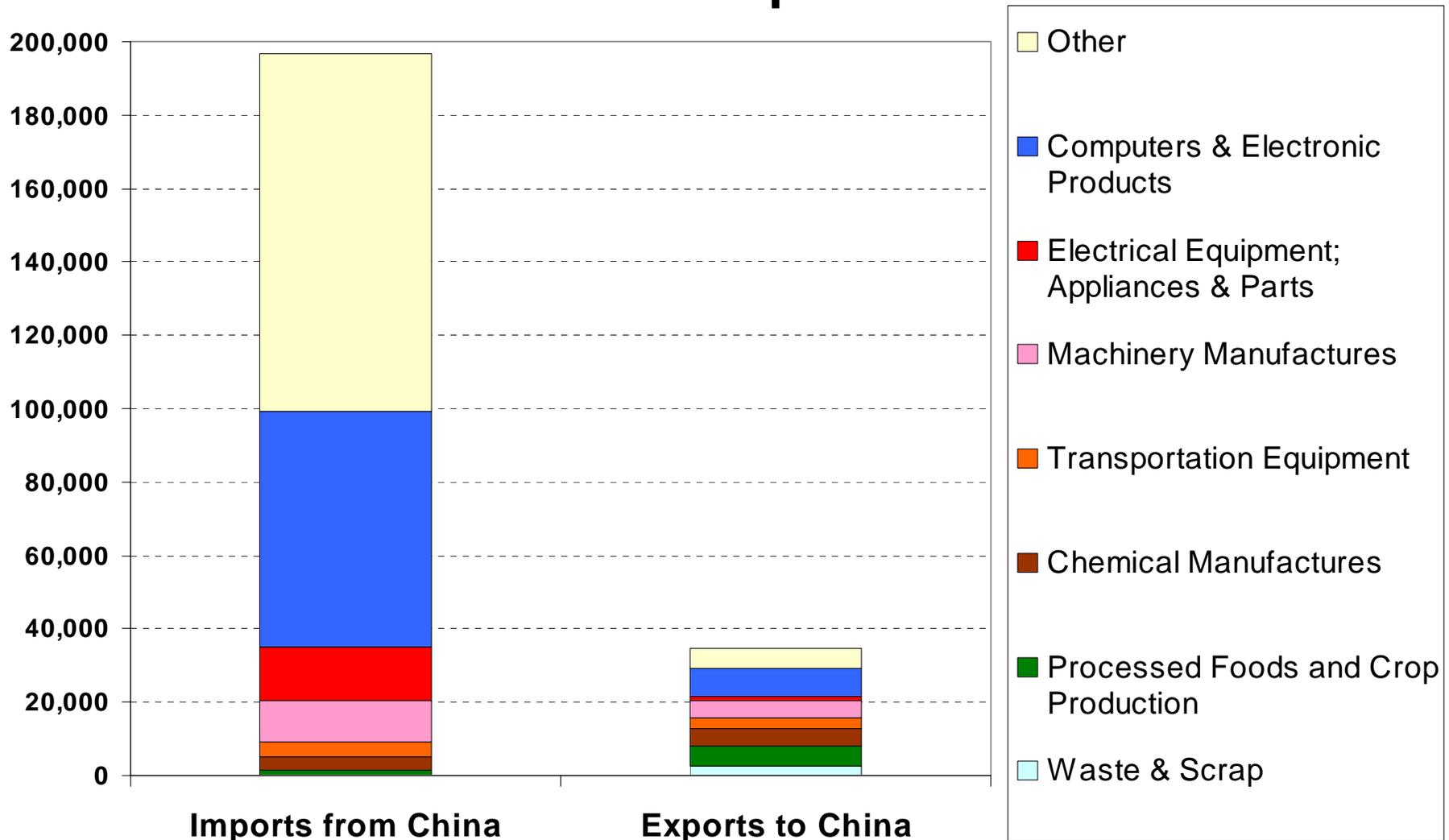
# Import Competition

- Economic Policy Institute estimates Chinese imports have affected NE states more adversely than nation
  - Maine: leather goods
  - Rhode Island: miscellaneous manufacturing
  - Massachusetts: leather & misc. manufacturing; recently, electronic equipment
  - New Hampshire & Vermont – electronic equipment

# China is moving up technology ladder

- Early exports were low skill products (leather, apparel, miscellaneous manufacturing)
- Moving into computers, communications, semiconductors, audio & video *in addition*
- U.S. has large deficit with China in “advanced technology products”
- Korea & other Asian countries moving into new export products to stay ahead of China

# Composition of U.S.-China Imports and Exports



# Chinese students are drawn to New England institutions

- New England institutions highly regarded in China, especially Harvard, MIT, Yale
- 62,000 Chinese students studying in U.S. in 2003-04; second to India
- 4900 Chinese students in New England – about 8 percent
- Consistent with share of foreign & graduate students, more than population share

# Chinese immigrants in New England

- Number of Chinese immigrants doubled from 1990 to 2000 in New England and U.S.
- New England is home to 5.4 percent of Chinese immigrants vs. 5.1 percent of U.S. adults
- Chinese immigrants form 0.5 percent of NE population and 3.9 percent of NE immigrants (slightly larger than U.S. shares)

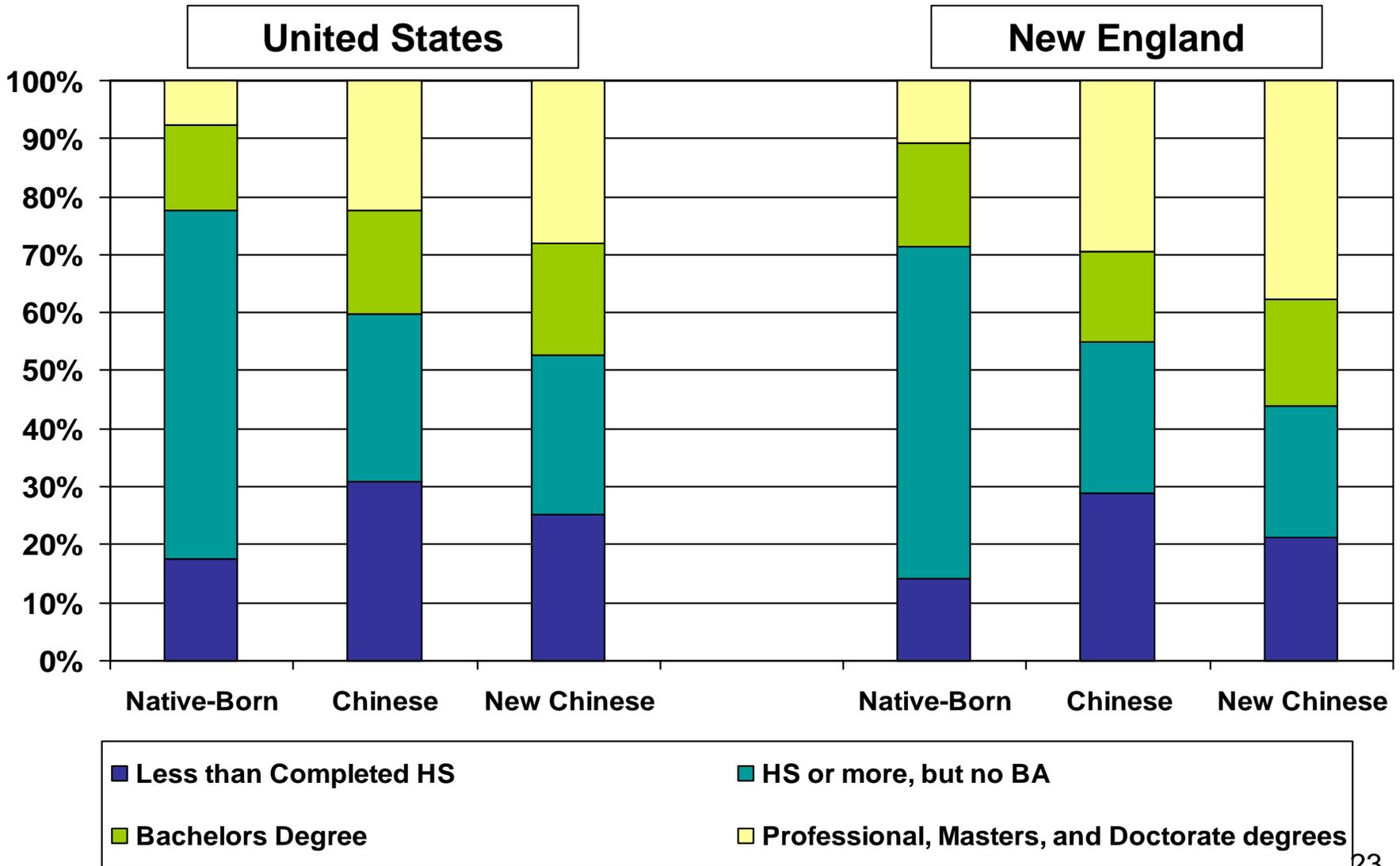
Source: Julia Reade

# Chinese immigrants are very highly educated – or less educated

- Over 30 percent of Chinese immigrants in New England hold advanced degrees
  - 38 percent of Chinese immigrants post-1990 hold advanced degrees
  - 11 percent of native-born NE adults hold advanced degrees
- More Chinese immigrants have not completed high school than native-born

Source: Julia Reade

# Highest Level of Completed Education (age at least 18)



# Are U.S. universities losing their attraction for Chinese?

- Foreign student enrollments, incl. Chinese, fell in 2003-04
- Perceived visa difficulties
- Competition from other countries
- Competition from Chinese institutions
- Improving opportunities in China

# Conclusions & Commentary

- China is now a powerful force on world economic scene
- U.S. trade deficit with China has ballooned
  - U.S. consumers benefit from cost goods and U.S. producers from lower cost inputs
  - But disruptive to some industries
- China is moving up technology spectrum
- Other Asian countries are racing to stay ahead

- U.S. exports to China are growing rapidly, but dwarfed by imports
- New England does not have a special trade relationship with China
- Some areas of promise for U.S. and New England:
  - Environmental clean-up products
  - Drugs and medical products
  - Wireless telecommunications
  - Asset management

- New England universities are a draw for Chinese students
- Many stay
- A large fraction of recent Chinese immigrants have advanced degrees
- Can they help New England seize the opportunities & meet the challenge posed by China?

# The challenge

- How can U.S. and New England take more advantage of the opportunities in China?
- How can we maintain our edge as China moves rapidly up the technology spectrum?