# China vs. the United States: Market Connections and Trade Relations

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*The United States and China are economically interdependent and neither can afford to see the other fail. This paper first discusses how China-U.S. trade benefits both countries. Two important issues, U.S. outsourcing to China and U.S. trade deficit, were also discussed. Followed, this paper explores the attractiveness of China market for U.S. firms at both macro and consumer levels. Finally, the authors discuss the interdependence of U.S.-China trade relationship and the future of these two countries' strategic trade cooperation.*

## INTRODUCTION

The United States and China are the current two largest economies in the world. Ever since the implementation of China's open-door policy in 1978 and these two countries' re-establishment of diplomatic relations in 1979, the trade and economic co-operations between these two countries have surged.

In 1979, the total U.S.-China trade was $2 billion. China was the 23rd largest U.S. export market and ranked the 45th largest source of U.S. imports. In 2010, the total U.S.-China bilateral trade jumped to $457 billion, and China was the third-largest U.S. export market (after Canada and Mexico), and the largest source of U.S. imports (Morrison, 2011). China has moved from 32nd U.S. trading partner in 1978 to the current second largest U.S. trading partner (after Canada). The importance of U.S.-China trade relationship is further expected.

The U.S. and China's mutual profitable relations rooted in economic ties. With these ties are getting tighter and stronger, media and people from both countries are raising a debatable question: Are the United States and China friends or enemies? or frenemies? Are they strategic rivals or strategic partners?

Our answer is that at least from the perspective of trade and economy co-operation, the U.S. and China cannot decouple from each other now. This study discusses why it is important for the U.S. and China remain strategic partnership and how these two countries could do for their continuous mutual benefits and sustainable developments in future.

## CHINA'S EXPORTS TO THE U.S. BENEFIT BOTH COUNTRIES

China has relied heavily upon export-led growth. Through trade, the U.S. contributed to the fast rise of China in the past three decades. China accounted for 19.1% of U.S. imports in 2010, compared with 3% in 1990 and 8.2% in 2000. The importance of China as a source of U.S. imports has risen dramatically, from 45$^{th}$-largest in 1979, to eighth in 1990, to fourth in 2000, to second in 2004-2006, and then to the first in 2007-2010 (Morrison, 2011). The combination of low-cost labor, growing employee skills, firms' weaning on western advanced technology, and coupled with government incentives, China has achieved scale of economy and equipped itself into a world export engine (Brown, 2010). In 1978, China's trade was $20.6 billion and 0.8% of the world total, in 2010 this figure and ratio have skyrocketed to $2.97 trillion and about 7.8% of the world total. The U.S. has been a vital market for China's export. In 1978, 10% of Chinese goods are exported to the United States, while in 2010, this figure jumped to 23.1% (figures are calculated based on data from WTO and US China Trade Council).

According to Heckscher and Ohlin's theory, the abundance of labor in China relative to the U.S. and the abundance of capital in the U.S. relative to China make these two countries focusing on producing what are lesser expensive in terms of labor and capital (Ghannadian, 2004). As we all know, China has the labor costs advantage, while the U.S. has technology and capital advantage. Similarly, comparative advantage theory explains why countries with relatively lower cost of producing a certain goods or service would specialize in making that particular marketing offering. In other words, China's relative low-cost/low-wage advantage makes it focusing on producing labor-intensive goods, while U.S. is better to focus more on its comparative advantage in providing goods which are capital intensive. A strategic merging of advantages from both sides has formed and enhanced the production and trade structure of these two countries.

### A Rising Popularity of Chinese Products in the U.S. Market

It is helpful to discuss why Chinese products have been gaining popularity in the States during the last three decades. We will explore this issue from two "P"s, product and price, out of the well-known marketing mix "4Ps". The other two "P"s, promotion and place (distribution channels) are more dependent on the U.S. market conditions, and thus they are complicated and beyond the discussion of this paper.

Sheng et al.'s (2009) study on American consumers' attitudes towards purchasing made-in-China products shows that price may signal low product quality, but low price is positively related to purchase intentions in the United Sates. In other words, for American consumers, low prices apparently serve as incentives for purchasing.

China's vast exports of manufactured goods to the U.S. market range from low value labor-intensive goods (such as toys and garments) to more technologically-advanced products (such as computers). Through the past decades, Chinese products have occasionally experience quality issues, such as toys containing lead-based paint or loose magnets that could choke children, however, Chinese goods are generally known for its reasonable quality and affordable price (Zhou and Hui, 2003). The overall quality of Chinese products has been improved to a fairly good level over the years. More recently, we do see many high-end consumer goods or even world-class luxury goods are contracted to be manufactured in China. Many American consumers at certain age still recall their doubts about "Made in Japan" or "Made in Korea" labels in the 60s and 70s. Today, such doubts are barely there. China, just like Japan and Korea in a few decades ago, is continuously improving the quality of its products. The Chinese government has been well aware of country-of-origin (COO) effects, which is closely related to its labor market and exports. Nagashima (1970) defines the COO image or "made in" label as the reputation or the stereotype that consumers attribute to products of a specific country. Similarly, Narayana (1981) defines COO as the cumulative image effects of a country's products perceived by consumers. Through Chinese government's campaigns such as "Year of Quality" or "Long March to Quality"(Zhou and Hui, 2003) for product quality improvement, China has kept up the momentum to improve product quality and its products are becoming more and more competitive in the international market.

Two issues associated along with the exponential growth of China's export to the U.S. are job-losing due to outsourcing to China and the high U.S. deficit to China. We offer different views on these two issues.

**Outsourcing Is Not Bad**

Many people even some media and politicians in the United States blame outsourcing to China as the cause of losing American jobs and attribute the enormous U.S. trade deficit as a result of too many imports from China. While the criticism on outsourcing to China and some other countries is still going on by many American people who demand more job opportunities in the United States, little support is found for the claims that outsourcing is largely to blame for the job loss in the U.S. (e.g., Groshen et al., 2005; Baily and Lawrence, 2005).

Zhu (2007) argues that outsourcing actually sustains American jobs in a long run. A simple example can illustrate this. If a computer can be made more cheaply in China, it makes more sense to import it than make it domestically. Such transaction actually raises real incomes for both sides, with added growth in the exporting country, and lower prices in the importing country (Economist, 2004). When the price of computers is lowered, the market will expand as more people could afford them. Consequently, more computer related jobs such as maintenance and training services are created. In the long run, by redeploying resources advantageously, outsourcing is a positive-sum gain for both sides (Economist, 2004). Yi (2007) supports the argument that more free trade between China and the U.S. can increase jobs instead of decreasing them. Based on Mass Layoff Statistics program, which tracks major job cutbacks among U.S. employers and reasons for the cutback, Groshen et al. (2005) reports that no evidence of layoffs is attributable to foreign competition. In other words, the authors oppose the view that offshoring or outsourcing has created a surge in layoffs. Groshen et al. (2005) believe that firms are hiring fewer than before, not because they are laying them off more rapidly. Instead, trade actually can drive the sluggish job recovery and create new jobs. Similarly, Baily and Lawrence (2005) analyze trade and industry data to estimate the extent of job dislocation due to outsourcing and offshoring in the manufacturing and service sectors from 2000 to 2003. They find the "real causes of job losses were weak domestic demand, rapid productivity growth, and the dollar's strength which dampened U.S. exports" (Baily and Lawrence, 2005, p.86).

U.S. imports of low-cost goods from China indeed greatly benefit U.S. consumers by increasing their purchasing power and help the United States maintain at a low inflation rate. In addition, U.S. firms that use China as the final point of assembly for or use Chinese-made inputs for further production in the United States are able to lower costs and become more globally competitive (Morrison, 2011). More importantly, trade with China has actually helped directly or indirectly to create jobs in the United States. Fifteen million jobs were created in the manufacturing sector from 1996 to 2005 from the loss of three million jobs in the U.S. (Yi, 2007)

## The U.S. Trade Deficit

Because U.S. imports from China have risen much more rapidly than U.S. exports to China, the U.S. merchandise trade deficit has surged from $1.7 billion in 1986 to $273 billion in 2010 (US Census Bureau). During the last quarter century, the U.S. trade deficit with China has kept growing like a snowball. The trade in 2011 through May has soared 12% from the same five-month period in the previous year.

At present, trade imbalance between the U.S. and China is one of the top concerns in U.S.-China relation and a constant irritant for many U.S. politicians given 43% of the U.S. trade deficit is accounted for by China. Statistics provided by the U.S. Census Bureau indicates that between 2001 and 2010, the U.S. merchandise trade deficit with China increased from $1.67 billion to $273.06 billion, a 164-fold increase. The U.S. deficit with China in 2010 was larger than the combined U.S. trade deficits with its major trading partners including the Organization of the Petroleum Exporting Countries (OPEC), European Union 27 nations (EU27), Mexico, Japan, and Canada, all together totaled $235 billion (Morrison, 2011). The U.S. media, many politicians, and even some economists blame the Chinese currency yuan as the culprit. Although the undervalued and not-so-freely convertible Chinese yuan gives China certain trade advantages and enlarges the U.S. trade deficit, it is not the main cause of U.S.' indebtedness, as will be explained later.

The U.S. has a large trade deficit not only with China but with many of its trading partners. Table 1 shows that the U.S. is running trade deficit with all its top five trading partners.

**TABLE 1**
**U.S. TRADE DEFICIT (IN MILLION DOLLARS) WITH ITS TOP 5 TRADING PARTNERS IN 2010**

| | U.S. trade deficits in million $ (2010) | Trade deficits ranking (2010) | Trading partners ranking (2010) |
|---|---|---|---|
| China | -273,065.55 | 1 | 2 |
| Japan | -59,802.31 | 2 | 4 |
| Mexico | -66,333.88 | 3 | 3 |
| Canada | -28,283.67 | 4 | 1 |
| Germany | -34,478.41 | 5 | 5 |

Source: U.S. Census Bureau

China's share of the overall U.S. trade deficit rose from 21.3% in 1995 to 43% in 2010 while the share of the major East Asia exporters (Japan, South Korea, Hong Kong, Taiwan, Singapore, Indonesia, Vietnam, and India combined) fell significantly from 46.1% to 12.1% in the same period (calculated based on U.S. Census Bureau data). This suggests that the U.S. is importing more from China while importing relatively less from the other Asian nations. In other words, the sources of imports have been shifted from traditional East-Asian countries or regions such as Japan, Korea, Hong Kong, and Taiwan to China.

McKinnon (2006) argues that the fundamental cause of the U.S. trade deficit with China is U.S. excess consumptions and Chinese excess savings rather than the problem of too many exports from China (cited in Leightner, 2010). If the U.S. is not importing from China, it would still have imported from somewhere else. Historical data shows that the source of imports for

United State has shifted from Europe, to Japan, to Korea and Taiwan, and now to China. With lower prices from China, the goods are made more affordable for American people and hereby generating a greater market for imports. If the manufacturing and assembly operations transfer from China to Vietnam or Indonesia, the China-U.S. bilateral trade surplus would accordingly decrease, but the Vietnam-U.S. or Indonesia-U.S. trade deficits would then increase leaving the overall U.S. trade balance still in deficit. Therefore, it is the U.S.' over spending, not China, causes its trade deficit.

In fact, the U.S. business, consumers, and government all have benefited from the trade with China (UCLA Asian American Study Center). Firstly, American companies, especially large ones benefit greatly from outsourcing to China and trading with China. Secondly, American consumers are able to have a wide variety of Chinese goods at affordable prices and reasonable qualities in the U.S. market. Thirdly, the U.S. government has benefited from China's trade surplus dollars. A large portion of those Chinese trade surplus dollars were in return spent on purchasing U.S. treasuries or bonds that are used to finance U.S. government spending such as bank bailouts and economic stimulus packages. In addition, those large amounts of treasuries purchased by China are useful to stabilize interest rates and inflation rates in the U.S.

## THE ATTRACTIVENESS OF CHINA MARKET FOR U.S. EXPORTERS

The U.S. government recognizes the importance of exports for the U.S. economy. In 1993, then President Clinton announced a National Export Strategy for the United States, aiming at helping U.S. firms to compete in the global marketplace. As one of the outcomes of that initiative, the U.S. identified 10 big emerging markets (BEMs), including China, as potential markets for trade growth. More recently, President Obama is calling for a doubling of U.S. exports within the next five years. This initiative is very important for the U.S. economy given U.S.' high unemployment rate and high debt leverage. The U.S. internal demand alone can no longer stimulate enough growth for the U.S. economy (Czinkota and Skuba, 2010).

**TABLE 2**
**GROWTH IN US EXPORTS TO TOP 10 MARKETS, 2000-2010**

| Countries | % change (2000-2010) |
|---|---|
| China | 468% |
| Brazil | 131% |
| Singapore | 64% |
| Germany | 64% |
| Netherlands | 60% |
| Mexico | 47% |
| S. Korea | 40% |
| Canada | 39% |
| UK | 17% |
| Japan | -7% |
| Rest of the World | 86% |

Source: The U.S.-China Business Council (USCBC)

The attractions of China as an export platform have stimulated growing interest from the United States. China has maintained an average growth rate of 10% since 1978. In addition, among the past 33 years, China has 18 years with a growth rate of 10%-15% (World Bank, WDI), and it is considered the fastest growing economy in the world. The U.S. total exports to the world doubled from $584.7 billion in 1995 to $1.28 trillion in 2010. In the same period, the U.S. export to China has a 7.8-fold increase from $11.8 billion to $91.9 billion. Just within the latest decade from 2000 to 2010, U.S.' exports to China has increased by about 468% from $16.2billion to $91.9 billion (see table 2). China has already become the fastest growing export market for American goods. As illustrated in table 1, the U.S. exports to China have risen at a significantly higher rate than its exports to any other major export market.

**Analyzing the Attractiveness of China Market at Macro-Level**

Most preliminary International Market Selection (IMS) models include a screening process based on macro-level indicators, such as market size/potential and market development (Gaston-Breton and Martin, 2011). Market size and economic development are most frequently used as indicators of market potential (e.g., Russow and Okoroafo, 1996; Cavusgil, 1990). Sheng and Mullen (2011) find market size and economic intensity are very strong factors in predicting export market attractiveness. They find these two constructs are significant in predicting the potential of export market at both aggregated and disaggregated (industry) levels. China is the second largest economy with a huge market size of more than one-fifth the world population and the U.S. is the largest developed economy with more than one-fourth the world's total GDP. These two countries are attractive to each other.

Previous studies with comprehensive macro-level constructs show that China market is very attractive for U.S. firms. Cavusgil et al.'s (2004) preliminary foreign market opportunity assessment shows China has an overall market potential index of a "91" out of a "100", ranking at second (after Canada) for U.S. firms. Their analysis includes market size, market intensity, country risks, market receptivity, market growth, infrastructure and free market structure. Following Cavusgil and colleague's steps, Sheng and Mullen (2011) propose a new model for export market opportunity analysis by combining the marketing-based Overall Market Opportunity Index (OMOI) with the economic-based gravity model in order to more accurately assess export market potential. They have included market size, economic intensity, foreign direct investment, free trade agreements, cultural differences, geographic distance, and language distance. Even based on the data in 2004, their model predicted that China would have been the second largest export market for U.S. exporters. The actual data shows that the U.S. was the fifth-largest source of China's imports in 2004, and the third-largest (after Canada and Mexico) in 2010. Thus, the potential of China as an even bigger export market for the U.S. can be further expected.

Both the U.S. and China are two large economies in the world, with large market sizes, and stable economic and political systems (low economic and political risks). Although, these two countries have major differences, such as per capita wealth and cultural distances, the differences between China and US are not preventing the two countries from trade and other economic co-operations. Both countries are describing the other party as "friend and ally" (Zhu, 2007).

**Attractiveness of China Market and Rising Purchasing Power of Chinese Consumers**

The World Bank estimates that 250 million to 300 million Chinese have been brought out of poverty into middle class since China adopted economic reforms and liberalized its planned economy to market economy three decades ago. Poverty rate is reported fell from 53% in 1981 to 2.5% in 2005 (Wikipedia). World Bank further estimates that by 2030, developing countries will account for 93% of the middle class globally, with China representing 52% of the increase (Knowledge @ Wharton). Boston Consulting Group (BCG, 2010) reported that in 2009, China had 148 million "middle class and affluent" consumers, defined as those whose annual household income was 60,000 RMB ($9,160) or higher, and that level is projected to rise to 415 million by 2020 (BCG, 2010). In addition, another report said that China has at least 1.1 million millionaires (in U.S. dollars) in 2010 (Bloomburg).

Given a rapid rise of Chinese people's dispensable income and Chinese government's encouragement of consumption in order to lessen its dependence on export as the major contributor to economic growth, the purchasing power of Chinese middle classes are growing fast during the recent years. According to a recent World Luxury Association (WLA) report, the consumption of luxury products by Chinese consumers totaled US$10.7bn in 2010, accounting for 25% of the global market. China is moving from communism to consumerism and will be the second largest consumer market after USA by 2015 (People's Daily online, 2011).

**TABLE 3**
**CHINA'S TRADING WITH ITS TOP 15 TRADE PARTNERS, 2009 ($ BILLION)**

| Rank | Region | Exports | Imports | Total Trade | Trade Balance |
|---|---|---|---|---|---|
| 1 | United States | 220.8 | 77.46 | 298.26 | 143.34 |
| 2 | Japan | 97.87 | 130.91 | 228.78 | -33.04 |
| 3 | Hong Kong | 166.23 | 8.7 | 174.93 | 157.53 |
| 4 | South Korea | 53.67 | 102.55 | 156.21 | -48.88 |
| 5 | Taiwan | 20.5 | 85.72 | 106.22 | -65.22 |
| 6 | Germany | 49.92 | 55.72 | 105.64 | -5.8 |
| 7 | Australia | 20.64 | 39.49 | 60.13 | -18.85 |
| 8 | Malaysia | 19.63 | 32.34 | 51.97 | -12.71 |
| 9 | Singapore | 30.05 | 17.8 | 47.86 | 12.25 |
| 10 | India | 29.66 | 13.73 | 43.38 | 15.93 |
| 11 | Brazil | 14.12 | 28.28 | 42.4 | -14.16 |
| 12 | Netherlands | 36.68 | 5.12 | 41.81 | 31.56 |
| 13 | UK | 31.28 | 7.88 | 39.16 | 23.4 |
| 14 | Russia | 17.52 | 21.23 | 38.75 | -3.71 |
| 15 | Thailand | 13.29 | 24.91 | 38.19 | -11.62 |

Source: widipedia.com

The political and economic reforms during the last thirty years have already "freed many Chinese consumers from political strictures on consumption" (Arnould, 2011, p. 6). The one child family policy has further changed Chinese consuming pattern (Belk, 2011). China is a high collectivism country, whose collectivism score is the highest in the world in Hofstede's (1991) cultural dimensions. Evidences show that many Chinese purchase large value items such as cars and houses based on family decisions and funds (Liu and Bai, 2008). We shall not disregard Chinese collective consumption behavior, thus household income in addition to per capita income should be emphasized when marketing to Chinese consumers. Furthermore, with the appreciation of Chinese yuan to U.S. dollars by 27.5% since 2005 (Forex Blog, 2011), the US products are observably more attractive for more and more Chinese consumers.

The conventional view holds that China is the world's great surplus economy. However, it is only partially true. While China has a huge surplus with the United States, it runs a trade deficit with many of its top trading partners such as Japan, South Korea, Australia, and Brazil (see table 3). Therefore, China market remains vital for the U.S. exports.

## TRADING RELATIONSHIP AND THE FUTURE STRATEGIC COOPERATION

The bilateral trade relationship between China and the U.S. is becoming closer and meanwhile more complex. Take Boeing as an example, China is not only Boeing's the largest supplier of parts, but also its largest overseas buyer for commercial airplanes. It is estimated that China will purchase $480 billion worth of aircrafts from Boeing in the next 20 years (China Daily, Jan 7th, 2011).

Throughout the 1980s and 1990s, nearly all of the U.S. imports from China were low-value or low-value-added labor-intensive products, such as toys, footwear, garments, and tires. However, over the past one decade, an increasing proportion of U.S. imports from China have been comprised of more technologically advanced products. The U.S. and China both import and export advanced technology products (ATP) to each other, and the ATP trade has expanded rapidly in recent years. According to the definition by the U.S. Census Bureau, ATP are referring to ten groups of high-technology goods such as electronics (semiconductors), aerospace, nuclear technology, information and communication, and biotechnology goods. In 2010, the U.S. imported $115.7 billion worth of advanced technology products from China, accounting 31.3% of total U.S. imports from China, compared with 19.2% ($29.3 billion) in 2003. Meanwhile, U.S. ATP exports to China have also increased steadily by 13% annually since 2000 (Hammer et al., 2009). U.S. ATP exports to China increased from $8.3 billion (4.6% of total U.S. global ATP exports) in 2003 to $21.5 billion (8.8% of U.S. global ATP exports) in 2010 (U.S. Census).

The significant increase of ATP trade deficit with China from $21 billion in 2003 to $94.2 billion in 2010 caused some concerns that China is growing international competitiveness in high technology (Morris, 2011). However, a close examination shows the ATP imported from China featured differently to the ATP exported to China. China's imports of ATP from the U.S. are particularly in two sectors: electronics and information & communication (Hammer et al., 2009). The electronic ATP alone accounted for roughly half of U.S. ATP exports to China, mainly because China need them in manufacturing or assembling lines (Hammer et al., 2009). This is consistent with Morris' (2010) argument that a large portion of the U.S. ATP imports from China are in fact relatively low-end technology products such as notebook computers, or products that are assembled in China using imported high technology parts. As Weiss (2010) commented, low-technology products still dominate China's exports, although the share of high-technology products is rising rapidly.

A large trade deficit of the U.S. to China resulted in China's large holdings of U.S. treasury securities at nearly $1,160 billion in 2010. This makes China the largest foreign holder of U.S. treasury securities. Both China and the U.S. are now relying on stability for a mutual further development. In other words, it is not only relying on China's economic and political stability, but also a stable and growing U.S. economy. The large trade volumes between the U.S. and China and China's large holdings of U.S. securities have jointly caused the economies of the United States and China to become increasingly integrated.

In the long run, price-advantages will be phasing out, given the rising cost of manufacturing and limited access to resources. China should keep improving its product quality and continuously increasing its competitiveness in the world. In addition, China should expand state expenditures to soak up excess savings, continue investments in education, rural area development, communication and physical infrastructure. Last but not least, China should also accelerate import liberalization and increase intellectual property rights protection.

The United States should quicken the reduction in fiscal imbalance (Woo, 2007), not only with China but also with the other major trading partners as well. To lower trade deficit and expand exports, the U.S. needs to examine the attractiveness of international markets and expand exports aggressively. In the early phase of its fast economic development, China has concentrated on economic growth without focusing on a rational utilization of its natural resources. The consequence is the polluted environment. The World Bank cited 16 Chinese cities out of 20 as the world most polluted (Lawrence and Sun, 2010). Chinese government has started to be aware if environment fail, the economic success achieved in the past 30 years would fail too. China planned to invest USD$1.03 trillion during its 12th five-year plan from 2011 to 2015 (China Daily, May 13th, 2010) on environment protection and improvements. China's large government's spending focusing on improving environment and modernizing its country would generate substantial demand for foreign goods and services (Morrison, 2011). U.S. firms should not miss out those attractive and lucrative opportunities in China.

The U.S. should also invest further in infrastructure and education, and prepare its workforce better for more intense international competition (Zhu, 2007). In addition, the United States need to be continuously innovative, find ways to improve a quicker application of new technologies, and develop new processes and products to keep its edge. This is truly the edge the U.S. has over China. The U.S. ranked second (after Switzerland) in Global Competitiveness Index in 2009-2010, and China was at the 29th position. The U.S. has high innovation capability. However it holds low comparative advantage in producing mature products due to higher labor costs compared to many other countries in the world. Thus, routine jobs may be outsourced to overseas. As has been discussed in a previous session in this paper, more affordable outsourced goods may benefit both exporting and importing parties. Groshen et al. (2005) further claim that the U.S.' ability to continue sending jobs overseas may be, at least in part, a sign of its ongoing success in innovation. The U.S.' innovation and China's implementation prove to be a good strategic partnership.

## CONCLUSION

The market connection between China and the United States has been various and will be enhanced in the future. Consumers, firms, and countries on both ends will continue to benefit substantially. The worldwide very well-known marketing professor Dr. Kotler (2010) predicts that China could become the world's largest economy as early as 2030. While China is a very attractive market for the United States, the United States serves as the most important market for China. The strategic economic interests for the both countries make it clear that they cannot stop their economic connections. Trades between these two countries will increase even more in the future and thus will create great opportunities for the marketers in both countries. Trade with China gives U.S. consumers' higher purchasing power with their current incomes and equips U.S. firms with cost advantages when using lower priced components in manufacturing. On the other hand, trade with the largest market in the world, the U.S., China strengthens its relationship with the States, increases its income and job opportunities, expands its markets, and equips China to higher technology and artisanship. The respective comparative advantage of the U.S. and China encourages these two countries make complementary trading. As firms are outsourceing the jobs there might be a short-term negative effect of Americans losing jobs. Nevertheless, in the end, there will be many more jobs created. Moreover, as two of the strongest economic powers in the world, the win-win strategy for the U.S. and China can promote the overall growth in the global economy.

U.S. firms should focus on innovation and technology development. History provides us insights that computer and internet revolution have boosted the U.S. economy and let U.S. out won Japan in their competitions. In addition to U.S.-China trading cooperation, the U.S. can assist China in modernizing its rural areas and upgrading infrastructures. China on the other hand can help reduce the US' high trade deficit by further liberalizing trade, complying more with WTO standards of business, and enforcing intellectual property rights laws. This will reduce fears of American companies that are hesitant to enter the new market. Moreover, the Chinese marketers can better mobilize their resources to enter into the service markets in the U.S., such as tourist market and educational market. The Chinese marketers will be more confident in the world market if they can be successful in the U.S. market.

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