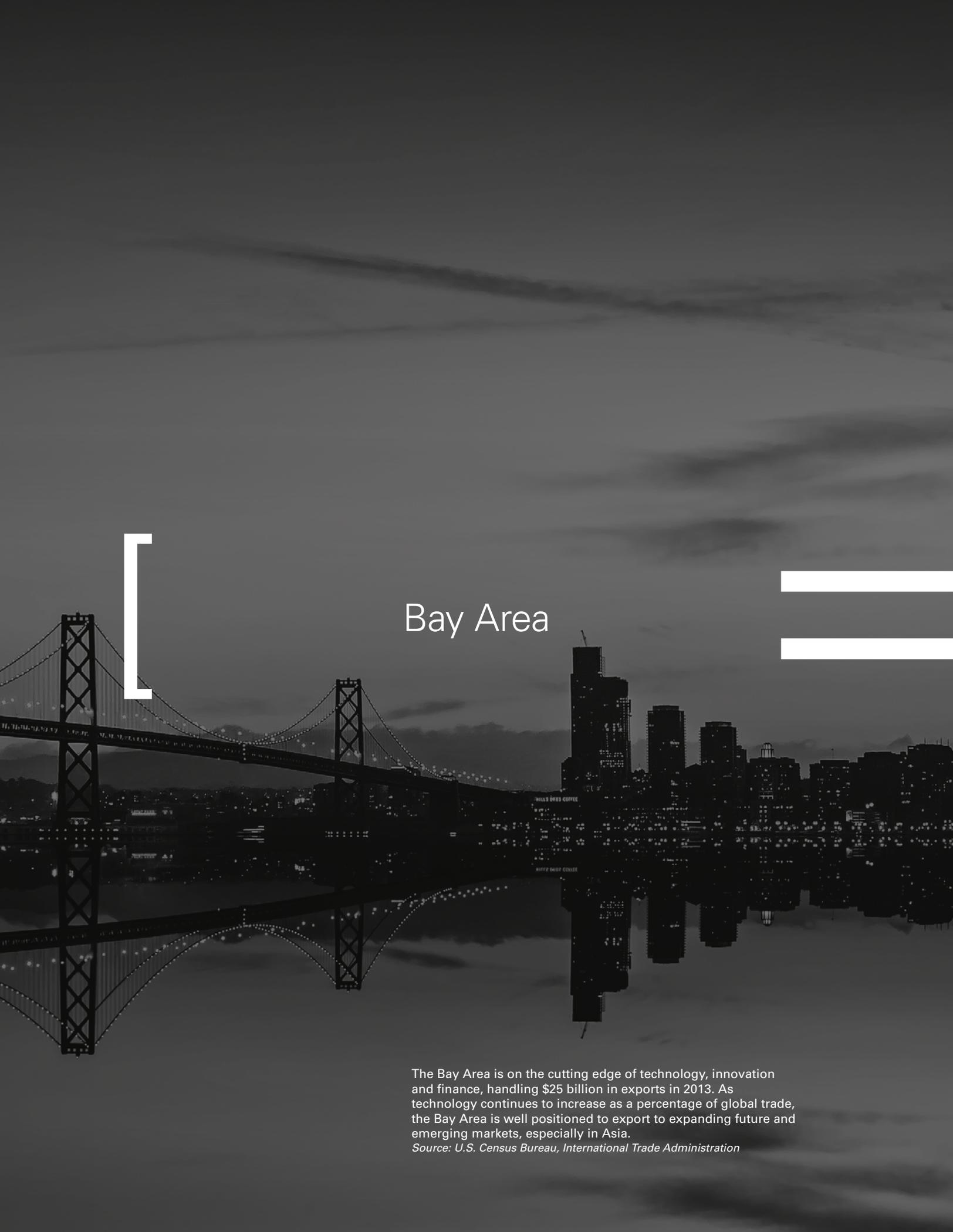


# Trade in the Bay Area: Investment and Global Financial Flows





## Bay Area



The Bay Area is on the cutting edge of technology, innovation and finance, handling \$25 billion in exports in 2013. As technology continues to increase as a percentage of global trade, the Bay Area is well positioned to export to expanding future and emerging markets, especially in Asia.

*Source: U.S. Census Bureau, International Trade Administration*

## About HSBC Group

Founded in 1865 to finance trade between Asia and the West, today HSBC Group is one of the world's largest banking and financial services organizations. Headquartered in London, HSBC Group operates through long-established businesses and an international network of some 6,300 offices in 75 countries and territories. HSBC is the world's leading bank for international trade, financing approximately 10 percent of international trade flows in 2012.\* Our global reach and expertise helps millions of customers – from small businesses to multinationals – unlock their potential.

## The Bay Area Council Economic Institute

Bay Area Council Economic Institute is a partnership of business with labor, government, higher education, and philanthropy that works to support the economic vitality and competitiveness of the Bay Area and California. The Association of Bay Area Governments (ABAG) is a founder and key institutional partner. The Economic Institute also supports and manages the Bay Area Science and Innovation Consortium (BASIC), a partnership of Northern California's leading scientific research universities and federal and private research laboratories.

Through its economic and policy research and its many partnerships, the Economic Institute addresses key issues impacting the competitiveness, economic development, and quality of life of the region and the state, including infrastructure, global business, science and innovation, energy, and education. A public-private Board of Trustees oversees the development of its products and initiatives.

## About Made For Trade

HSBC Made For Trade is a national conversation with leaders in business, government, industry and academia about the role of global trade in today's economy. This national tour looks at the contribution of international flow of goods, services and capital to the U.S. economy, and the opportunities for American businesses brought about by global trade. HSBC Made For Trade stops in four U.S. cities whose economies have been shaped by global trade, and concludes in Washington, DC, where voices from around the country are brought together with national officials and thought leaders to discuss the policies to further promote the international flow of goods, services and capital.

\*Oliver Wyman Global Transaction Banking survey 2012

## Contents

<b>Executive Summary</b>	<b>3</b>
<b>The Global Economic Outlook</b>	<b>4</b>
<b>The Global Trade Outlook</b>	<b>5</b>
<b>Bay Area Trade</b>	<b>6</b>
Regional Export Profile	7
Major Negotiations Impacting Trade	9
<b>Global Investment Flows</b>	<b>10</b>
<b>Trade and Investment Flows with China</b>	<b>11</b>
Trade	11
Investment	12
Financial Flows and the Internationalization of China's Currency	13
Initiatives Impacting Trade and Financial Flows	15
<b>Methodology</b>	<b>17</b>

## EXECUTIVE SUMMARY

The global economy and trade have continued their recovery from the global economic recession of the mid-2000s, with moderate growth led primarily by emerging markets. The revenues of Bay Area companies increasingly come from global markets, and the Bay Area economy is intricately linked with global trade and financial flows.

The Bay Area is the fourth largest exporting region in the United States. In 2013, the Bay Area's exports of goods totaled \$54.2 billion, comprising 32 percent of California's total exports. Exports support approximately 378,000 jobs in the region, of which 197,000 are in direct production. In the coming years, imports will be influenced by the strength of the U.S. economy, while exports may be affected by slowing growth in China.

The rapid growth of technology in Bay Area trade and the immense importance of trade with Asia have a positive impact on the Bay Area economy.

Based on current projections of overall growth in trade and on the growing concentration of technology in the national export profile, the Bay Area's technology exports should increase by almost 20 percent in the next two years. Technology led the region's global exports and accounted for almost 50 percent of Bay Area exports in 2013.

- Technology-intensive goods are expected to account for 17 percent of the total growth in U.S. export goods through 2020, and would become the largest single contributor to U.S. trade growth.
- In 2013, technology, defined as electronics and machinery manufacturing, accounted for approximately \$25 billion in Bay Area exports. The Bay Area Council Economic Institute (BACEI) projects that number will grow to nearly \$30 billion in technology exports by the end of 2016.
- This spike in growth marks a new trend that began in 2013 following a very tepid post-recession recovery of technology exports from the Bay Area.

Fifty-nine percent of Bay Area companies report an increasing share of revenues are coming from global markets.

- Of 38 leading companies tracked in a 2013 BACEI survey, 22 reported that their share of revenues from international sales was increasing, while only 12 said the revenue from domestic sales was increasing (for 4, the balance remained the same).

Two-way trade between California and China totaled nearly \$146.4 billion in 2013.

- California attracts more Chinese investment in technology than any other state, 35 percent of which is in the Bay Area. Chinese investment (acquisitions or partnerships) spans a range of sectors including real estate, information technology, biotechnology, entertainment software and solar power.
- China is a major destination for Bay Area investment, and hosts more overseas affiliates of Bay Area companies than any other country.

The internationalization of China's currency is accelerating, mirroring China's growing importance in the world economy. Progress toward convertibility will facilitate growing investment flows with California and the region, as would a push to make San Francisco a global renminbi (RMB) trading hub.

- Offshore RMB trade settlement in Hong Kong SAR is growing at 35 percent per year. Between April 2013 and April 2014 the value of U.S. CNY payments grew by 327 percent, making the United States the third largest source of CNY transactions (excluding China and Hong Kong SAR) after Singapore and the United Kingdom.
- RMB deposits held onshore total RMB 100 trillion (\$16.3 trillion). By comparison, total offshore deposits - held primarily in Hong Kong SAR, Singapore and London - total less than RMB 1 trillion.

# Trade in the Bay Area: Investment and Global Financial Flows

By Sean Randolph, President and CEO, Bay Area Council Economic Institute

## THE GLOBAL ECONOMIC OUTLOOK

The economy is continuing to recover from the global financial crisis, which started in 2007, with uneven growth across every major region. Economies such as China and India that until recently have been growth powerhouses, have measurably slowed. While developing economies as a group are doing well, growth in most advanced economies is low, with Europe only now emerging from a prolonged recession.

World output is expected to rise by 3.6 percent in 2014, up from 3.0 percent in 2013 and 3.2 percent in 2012, but down from 3.9 percent in 2011. As a region, Asia has experienced the strongest growth, followed by Africa, a trend that should continue in 2014<sup>1</sup>.

Financial conditions in advanced economies have generally improved. In Europe, risk premiums have declined for the most debt-impacted economies. Despite fairly resilient capital flows, financial conditions have tightened in many emerging market economies, with some currencies under pressure and sovereign bond yields edging up.

The International Monetary Fund (IMF) makes the following projections for California and the Bay Area's major global partners:

- The Eurozone (the economic and monetary union of the European Union) is expected to grow 1.2 percent in 2014 and 1.5 percent in 2015. The pickup will be more modest in Southern European economies that have been under the most stress. Easier credit conditions and increased consumer and business confidence have buoyed business activity in the United Kingdom, where growth is expected to reach 2.9 percent this year and 2.5 percent in 2015.

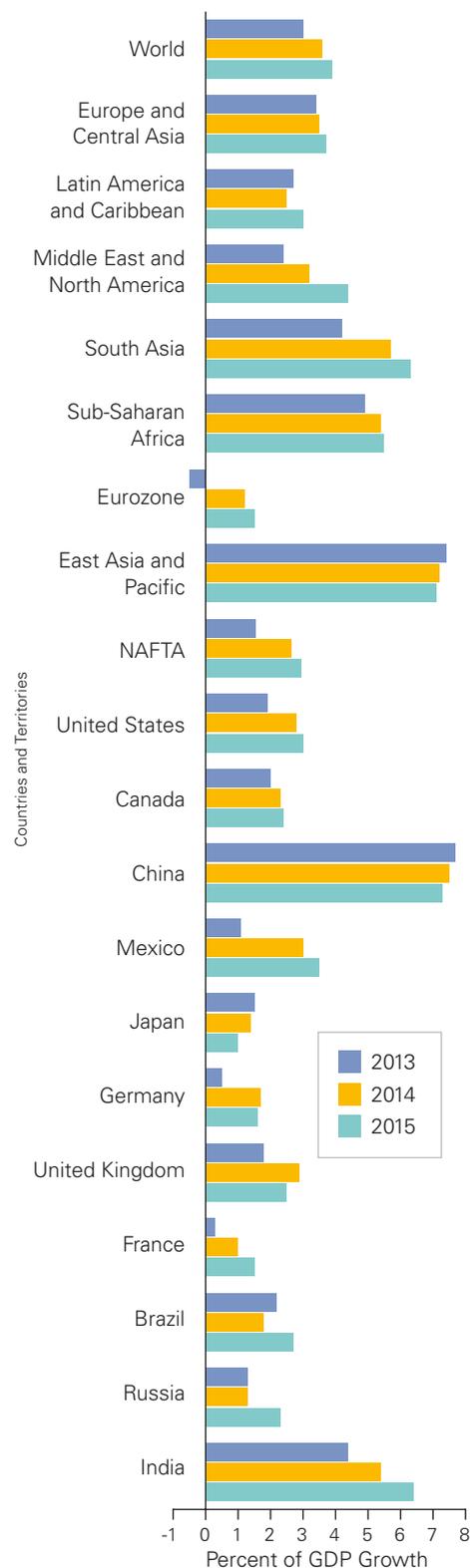
- Growth remains slow in Japan. Temporary fiscal stimulus should partly offset the drag from the consumption tax increase enacted in early 2014. Growth is expected to remain unchanged at 1.4 percent in 2014, before slowing to 1.0 percent in 2015.
- In China, growth will continue to be moderate due to structural challenges, and policy reforms aimed at slowing credit growth. GDP is expected to grow at 7.5 percent in 2014 and 7.3 percent in 2015, a decline from the double-digit growth of the past.
- GDP in India is expected to grow 5.4 percent in 2014 and 6.4 percent in 2015.
- In North American Free Trade Agreement (NAFTA), Canada will see a modest pickup in growth from 2.3 percent in 2014 to 2.4 percent in 2015. Growth in Mexico will be stronger, rising from 3.0 percent in 2014 to 3.5 percent in 2015.

Projected Real GDP Growth, 2014 and 2015 by regions and countries (Annual Percent Change)

Source: International Monetary Fund, World Economic Outlook Database, April 2014

Analysis: Bay Area Council Economic Institute

<sup>1</sup> International Monetary Fund, World Economic Outlook April 2014.

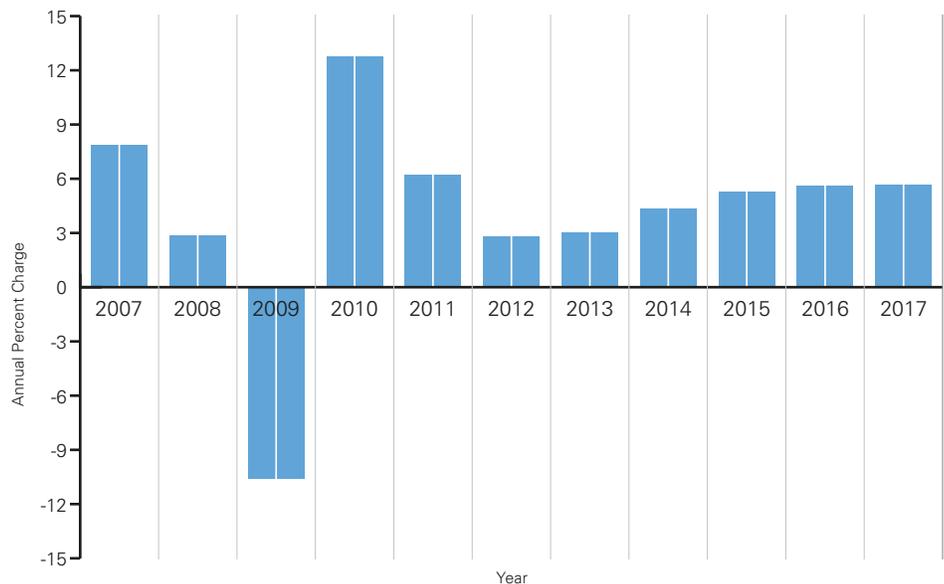


## THE GLOBAL TRADE OUTLOOK

The economic patterns described previously are broadly mirrored in trade. Global trade slowed substantially in response to the financial crisis of 2007-2009 and the Eurozone crisis of 2011-2012, but gathered steam with the strengthening of global activity in 2013. Overall, global trade should see healthy but moderate growth from 4.35 percent in 2014, increasing to 5.66 percent in 2017<sup>2</sup>.

The IMF makes the following projections for California and the Bay Area's major global partners<sup>3</sup>.

- Exports are contributing to the modest but welcome recovery taking place in the Eurozone, picking up from 3.24 percent growth in 2014 to 4.75 percent in 2017. Public and private debt, and high unemployment in some countries will continue to constrain domestic demand. Export growth in Germany is expected to climb from 3.54 percent in 2014 to 5.4 percent in 2017; the United Kingdom is also expected to see trade growth, from 1.4 percent in 2014 to 4.4 percent in 2017.
- The IMF is projecting a sharp fall in export growth in the Asia-Pacific region, from 9.28 percent in 2014 to 7 percent in 2017. The Asia-Pacific region was, up until recently, one of the strongest global export regions. This partially reflects slower growth and falling demand in advanced economies. Japan's exports, however, are expected to grow from 2.84 percent in 2014 to 3.74 percent in 2017. China is expected to sustain an export growth rate of 6.8 percent from 2014 to 2017.
- NAFTA countries should see export growth climb from 4.89 percent in 2014 to 6.83 percent in 2017. Growing from 5.98 percent in 2014 to 8.57 percent in 2017, Mexico is expected to experience faster export growth than Canada, from 3.81 percent in 2014 to 5.09 percent in 2017.



World Trade Volume Growth of Goods and Services

Source: International Monetary Fund, World Economic Outlook Database, April 2014  
 Analysis: Bay Area Council Economic Institute

According to the HSBC Global Connections Trade Forecast, U.S. trade is expected to grow six percent annually from 2014 to 2016, with exports driven primarily by industrial machinery, transportation equipment and scientific equipment. Technology-intensive goods are expected to account for 17 percent of the total growth in U.S. export goods for the remainder of the decade, making technology products the largest single contributor to U.S. trade growth. This mirrors trends in global trade, where

HSBC forecasts that growth in high-technology goods will outpace growth in merchandise exports generally, increasing its share from 22 percent in 2013 to over 25 percent by 2030, with annual growth of eight percent over the period<sup>4</sup>. This trend toward technology in global trade will particularly benefit the Bay Area, which is home to many of the world's leading technology companies.

<sup>2</sup> & <sup>3</sup> International Monetary Fund, World Economic Outlook April 2014.

<sup>4</sup> "U.S. Trade Optimism at All-Time High; U.S. Dominance in Technology Exports to Remain Strong: HSBC Report", HSBC

## BAY AREA TRADE

In 2013, the Bay Area's exports of goods totaled \$54.2 billion, comprising 32 percent of California's total exports of \$168.1 billion.

A 2012 report by the Brookings Institution estimated that, based on 2010 data, exports supported 378,000 jobs in the Bay Area, of which 197,000 were in direct production<sup>5</sup>. These jobs were distributed across the region, with the highest concentration in the San Francisco-Oakland-Fremont and the San Jose-Sunnyvale-Santa Clara areas.

As a region, the Bay Area is the fourth largest exporting region in the nation, after Houston, New York and Los Angeles. Houston's exports are based largely on petroleum, and export numbers in the Los Angeles area are largely associated with trade transiting the ports of Los Angeles and Long Beach, which together are the largest in the nation.

Exports of Goods from U.S. Metropolitan Areas	
Top 4 Metro Areas by Export Value, 2012	
Metro Area	Export Value 2012
Houston-Sugar Land-Baytown, TX	\$110,297,753,116
New York-Northern New Jersey-Long Island, NY-NJ-PA	\$102,298,029,869
Los Angeles-Long Beach-Santa Ana, CA	\$75,007,521,224
<b>Bay Area</b>	<b>\$51,800,372,380</b>
San Jose-Sunnyvale-Santa Clara, CA	\$26,687,656,696
San Francisco-Oakland-Fremont, CA	\$23,031,671,910
Santa Rosa-Petaluma, CA	\$1,059,056,392
Vallejo-Fairfield, CA	\$721,389,782
Napa, CA	\$300,597,600

Source: Office of Trade and Industry Information, Manufacturing and Services, International Trade Administration, U.S. Department of Commerce (Metro areas are those defined in December 2009 by the Bureau of the Census. This data is based on Origin of Movement (OM) ZIP-code-based series and is therefore not comparable with data reported by customs district.)

Analysis: Bay Area Council Economic Institute

Bay Area Region Metro Exports Value, 2012	
(Percent Share of California Exports)	
San Jose-Sunnyvale-Santa Clara, CA	16.5%
San Francisco-Oakland-Fremont, CA	14.2%
Santa Rosa-Petaluma, CA	0.7%
Vallejo-Fairfield, CA	0.4%
Napa, CA	0.2%

Source: Office of Trade and Industry Information, Manufacturing and Services, International Trade Administration, U.S. Department of Commerce

Analysis: Bay Area Council Economic Institute

Not surprisingly, the region's largest trading partners are heavily concentrated in Asia. After Asia (\$21.4 billion in 2012), the region's other top trading partners are NAFTA countries with \$12.1 billion and Europe with \$9.2 billion.

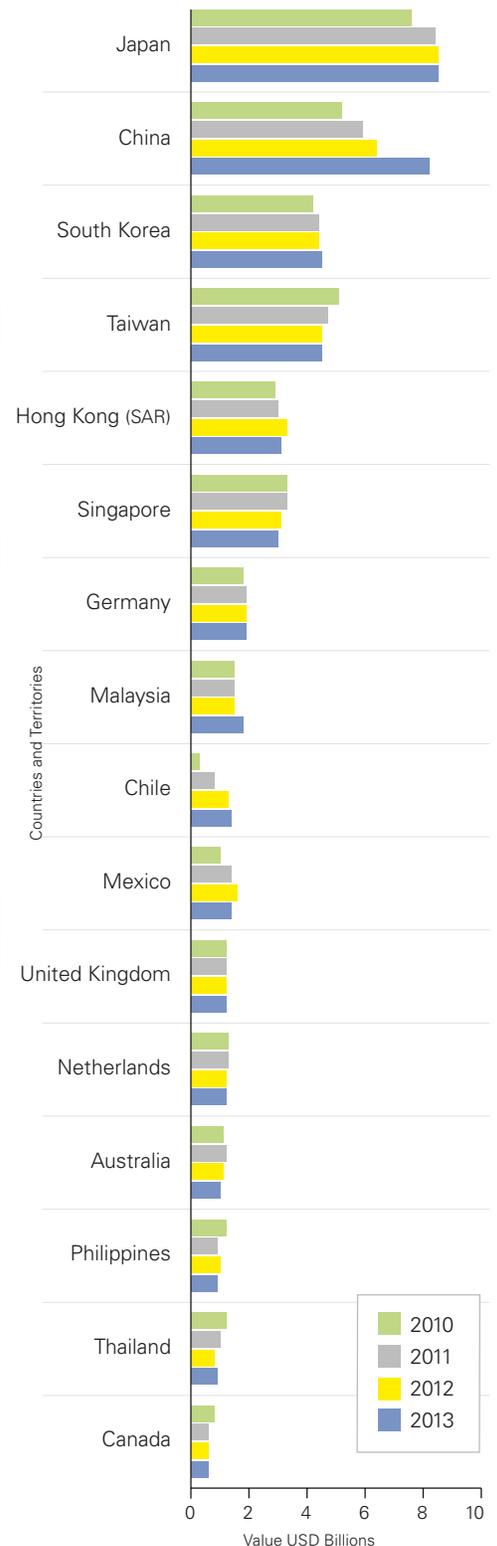
<sup>5</sup> Istrate, Emelia and Nicholas Marcia, Export Nation 2012: How U.S. Metropolitan Areas Are Driving National Growth (Washington, DC: The Brookings Institution, Metropolitan Policy Program, March 2012).

### Top 15 Trading Partners for the Bay Area (Exports)

Note: USA Trade Online data are measured by the goods traffic flowing through the Bay Area ports/customs districts

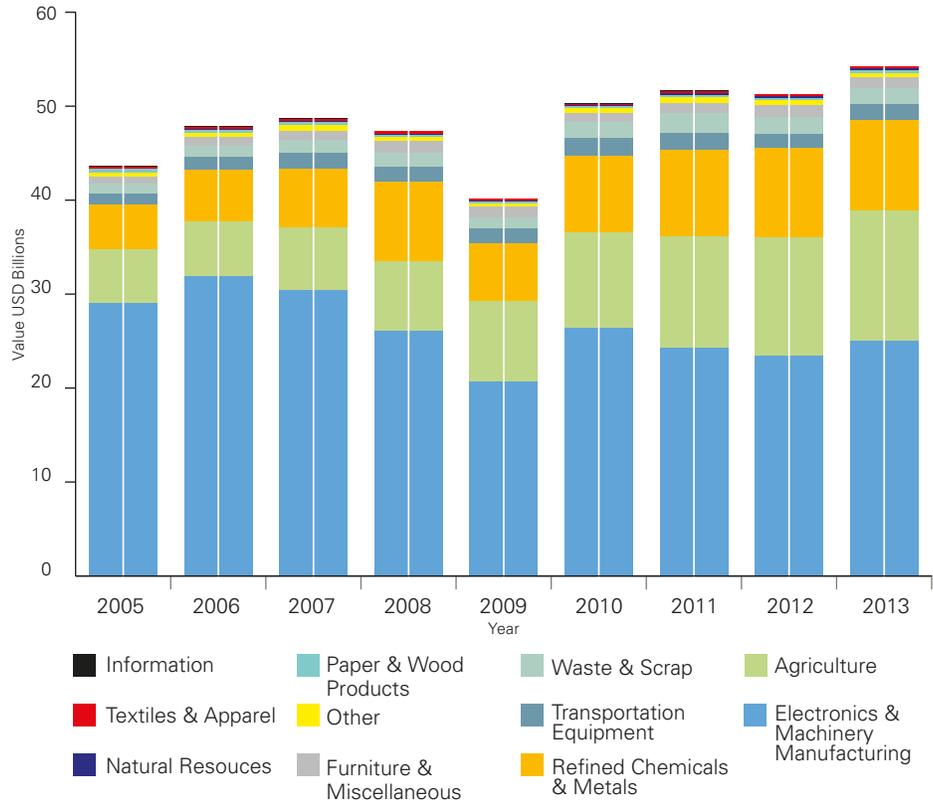
Source: U.S. Census Bureau, USA Trade Online

Analysis: Bay Area Council Economic Institute



**Top 15 Trading Partners for the Bay Area (Imports)**

Note: USA Trade Online data are measured by the goods traffic flowing through the Bay Area ports/customs districts  
 Source: U.S. Census Bureau, USA Trade Online  
 Analysis: Bay Area Council Economic Institute



**Bay Area Exports by Product Category**

Source: US Census Bureau, US Trade Online  
 Analysis: Bay Area Council Economic Institute

**REGIONAL EXPORT PROFILE**

The Bay Area's leading companies are increasingly oriented toward global markets. An index developed by the Economic Institute in 2003 and updated in alternating years since then documents the trend. The most recent comparison, updated in 2013, found that of the 38 companies tracked in the preceding two years, 28 saw both their international and domestic sales rise, seven saw their international sales increase and their domestic sales fall, and two saw their domestic sales increase while their international sales fall. Only one saw both fall. More significantly, 22 saw their share of revenue from domestic markets increase relative to international markets, 12 saw their share of revenue from domestic markets increase relative to international markets, and four saw their balance of revenues remain the same. These findings confirm a long-term trend in which the revenues of Bay

Area companies increasingly come from global markets. This trend paused briefly during the last global recession, but then resumed its former course. Since reporting by some companies defines sales in Mexico and Canada as "domestic", the trend is actually more pronounced than these figures suggest<sup>6</sup>.

The region's exports are led by technology. This pattern holds for trade with all of its major partners. The Bay Area exported \$24.88 billion in technology products in

<sup>6</sup> Bay Area Council Economic Institute, International Trade and the Bay Area Economy: Regional Interests and Global Outlook 2012-2013, March 2013. A review of revenue data for the same companies conducted in May 2014 suggests that this distribution has remained stable in the past year, with roughly equal numbers of companies seeing international sales rise as domestic, and approximately the same number of companies seeing their share of revenue from international markets rise as companies with growing domestic shares. This pause in the trend toward increased reliance on global markets most likely reflects the economic slowdown in China and continued weakness in European markets, as well as a sustained recovery in the US.

2013, up from \$22.82 billion in 2012 and \$22.68 billion in 2011.<sup>7</sup> Based on current projections of overall growth in trade, and of the growing concentration of technology in the national export profile, the Bay Area's technology exports should increase to \$26.5 billion this year, and could reach nearly \$30 billion by 2016.<sup>8</sup>

Agricultural trade is also significant. California is the nation's top agricultural exporter: exports totaled \$5.98 billion in 2013, an increase from \$5.18 billion in 2012. While the immediately surrounding region to the port is not a major source of agricultural products apart from wine, the Port of Oakland is a shipment point for

exports from the Central Valley, and serves as a major link between the Bay Area and the state's agricultural sector. California's export profile is dominated by high-value specialty crops: The top ten exports products are almonds, dairy products, wine, walnuts, pistachios, table grapes, rice, oranges, processed tomatoes and cotton. In 2012, California accounted for 60 percent of U.S. fruit exports, 100 percent of tree nut exports, 63 percent of vegetable exports, and 10 percent of field crop exports. It's leading overseas markets are Canada, the European Union, China/Hong Kong SAR and Japan, followed by Mexico, Korea, India, the United Arab Emirates, Turkey and

Taiwan. Exports to most major markets are growing, but are particularly strong to China/Hong Kong SAR, surging 36 percent from 2011-2102. Led by the Bay Area, California accounts more than 93 percent of U.S. wine exports.<sup>9</sup>

### Airports

Beyond facilitating the international flow of goods and people, the Bay Area's airports play a major role in supporting service exports such as education and tourism. San Francisco International Airport (SFO), Oakland International Airport (OAK) and San Jose International Airport (SJC) together handled over 63 million passengers in 2013, 11 million more than in 2012. SFO is the Bay Area's primary portal for global traffic with links to 55 international cities on 26 carriers, and handles the lion's share of the region's international passenger traffic with 70.8 percent of travelers arriving from or departing to international destinations.

From a cargo perspective, California airports handle trade with a significantly higher value per kilogram than other U.S. airports. High technology products such as computers, semiconductors, electronic equipment, medical equipment and telecommunications equipment dominate goods shipped through the Bay Area.

SFO is the fifth largest airport in the nation by cargo value, with 37.6 percent of the Bay Area's total domestic air cargo market, and 62.4 percent of its international air cargo market<sup>10</sup>. San Jose International Airport's cargo volumes account for less than five percent of the Bay Area market and are declining<sup>11</sup>. Tracking the global recession, cargo volumes declined at all three Bay Area airports from 2006 to 2013. The Metropolitan Transportation Commission, however, forecasts air cargo growth (by value) of 92 percent by 2035.

---

## The Power of Disruptors

Innovative Bay Area companies are pioneering innovative technologies in European markets and elsewhere, often with disruptive effects. This can particularly be seen in the shared economy, where San Francisco companies globally are playing a pioneering role. Ride-sharing company Uber is rapidly expanding worldwide in 36 countries. As in San Francisco, traditional taxi companies are feeling the pressure. Yelp, with its European headquarters in Dublin and sales and engineering teams in London and Hamburg, is expanding across Europe. Airbnb is also growing its European presence.

Netflix also has a growing presence in Europe. The company, whose services are currently available in the UK, Ireland, the Netherlands and Scandinavia, plans to launch shortly in six additional countries: Germany, France, Austria, Belgium, Luxembourg and Switzerland. The scale of opportunity in European markets is only now becoming apparent. Since launching in Sweden in 2012, Netflix has become the country's largest video-stream provider. Germany and France are the fourth and sixth largest broadband markets in the world, and Western Europe has 134 million broadband-connected homes, compared to 88 million in the U.S. With Netflix on the horizon, large continental media companies are gearing up for competition.

Electric carmaker Tesla is also expanding globally, particularly in Europe. Sales of the Model S began in China in April, with the goal of sales of 5,000 or more vehicles by the end of the year. The company expects to manufacture in China within the next four years, and has committed to building a network of charging stations in major cities. European deliveries grew from a zero base in the second quarter of 2013 to more than 1,000 cars in the third quarter. CEO Elon Musk foresees demand in the European market for more than 10,000 vehicles in the near future. In September 2013, its second month in the market, Tesla's Model S became the best-selling electric car in Norway where it is benefitting from government incentives including an electric vehicle exemption from the country's 25 percent value-added tax. Anticipating further growth in Europe, Tesla has recently established warehouse and logistics facilities in the Netherlands.

7 U.S. Census Bureau, USA Trade Online

8 Bay Area Council Economic Institute

9 U.S. Census Bureau, University of California Davis Agricultural Issues Center

10&11 U.S. Census Bureau, USA Trade Online

## Ports

Oakland is the fifth largest container facility in the United States and the third largest in California after the Ports of Los Angeles and Long Beach. In 2013, the Port of Oakland processed 16.8 million tons, an increase of 15 percent from 14.6 million tons in 2009. Measured by weight, it is one of the few container ports in the nation that exports (62 percent in 2013) more than it imports (38 percent in 2013). However, the port's imports substantially exceed its exports when measured by value. This is attributable to the fact that imports are led by higher value finished goods (electronics and machinery), while comparatively low value agricultural goods and raw and recycled materials (fruits and nuts, meat, waste paper, metal scrap) account for most of its exports.

## MAJOR NEGOTIATIONS IMPACTING TRADE

Two major negotiations are underway with the potential to significantly impact the region's trade in the future, in both Asia and in Europe. Due to the weighting of the Bay Area's trade toward Asia, negotiations aimed at improving access to Asia-Pacific markets will particularly benefit the region. Although trade with Europe is smaller, negotiations aiming at improved market access and lower regulatory barriers also present a major opportunity due to the size of Europe's market.

### Trans-Pacific Partnership (TPP)

Negotiations for the Trans-Pacific Partnership (TPP) began in November 2009 and are targeted for conclusion by the end of 2014<sup>12</sup>. Talks are underway with eleven countries - Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam<sup>13</sup>. Although the U.S. already has free trade agreements (FTAs) with Australia, Chile, Malaysia, Peru and Singapore, it is seeking new avenues for economic engagement in the Asia-Pacific region. The TPP is framed as an

agreement that additional countries, such as China, can join in the future.

The TPP will confirm and build on existing U.S. free trade agreements, and adds new topics to the trade agenda such as intellectual property, the environment, financial services, investment and rules of origin. Agreement is expected in the near future on customs, technical barriers to trade and telecommunication, but sensitive issues, such as agriculture and automobiles with Japan, remain to be resolved.

### Transatlantic Trade and Investment Partnership (TTIP)

Negotiations commenced in the summer of 2013 on the Trans-Atlantic Trade and Investment Partnership (TTIP), which if successful will create the world's largest free trade zone by reducing trade and investment barriers between its two largest economies. Together the United States and the European Union (EU) account for 45 percent of world GDP. Since account tariffs with the EU are already low (around four percent), the biggest opportunity presented by TTIP lies in the area of regulatory standards. Both the U.S. and Europe have well-developed regulatory systems that at times differ in their approach. The harmonization of standards, with mutual recognition of regulatory inspections and approvals (eliminating the need for duplicative product inspections in both Europe and the U.S.), would reduce friction in the trading system and significantly lower costs for producers and consumers on both sides of the Atlantic.

A study by the Atlantic Council, the Bertelsmann Foundation and the British Embassy in Washington found that a successful TTIP will support more than 740,000 new U.S. jobs. This estimate is based on a 100 percent reduction in trans-Atlantic tariffs, a 35 percent reduction in the costs resulting from non-tariff regulatory barriers, and a 50 percent reduction in procurement

barriers. According to the same study, California would lead the nation in the number of new TTIP-related jobs, adding an estimated 75,000. Successful implementation of TTIP would increase California exports to the EU by 26 percent, with the largest gains in motor vehicles (\$3.3 billion), chemicals (\$3.2 billion), electrical machinery (\$2.2 billion) and metals and metal products (\$1.3 billion). The leading sectors for job growth would be Business Services, Financial Services, Non-Electrical Machinery Manufacturing and Metals and Metals Products Manufacturing.<sup>14</sup>

### Trade Promotion Authority (TPA)

The successful conclusion and ratification of both agreements may turn on the willingness of Congress to grant Trade Promotion Authority (TPA), under which the Executive Branch is authorized to negotiate trade agreements in consultation with Congress, and the agreements that result are subject to a single up or down vote (i.e., without amendments). Often referred to as "fast track" (now called "smart track") TPA is important to U.S. negotiating partners who are concerned that carefully crafted and balanced agreements may unravel through politically motivated or other amendments. U.S. presidents had TPA until 2007, when it was allowed to lapse, and subsequent Congresses have been reluctant to approve its extension. In July 2013, the President asked that Congress reauthorize TPA.

<sup>12</sup> United States Trade Representative, "2014 Trade Policy Agenda and 2013 Annual Report"

<sup>13</sup> United States Trade Representative <http://www.ustr.gov/about-us/press-office/fact-sheets/2011/november/united-states-trans-pacific-partnership>; U.S. Chamber of Commerce <https://www.uschamber.com/issue-brief/trans-pacific-partnership>

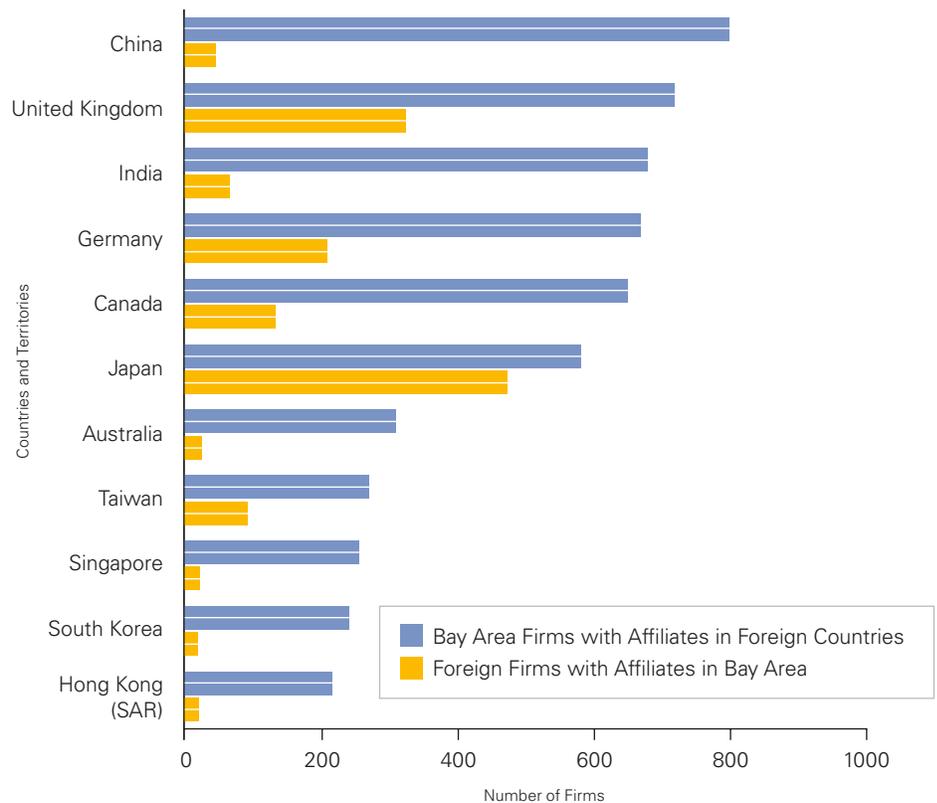
<sup>14</sup> The Atlantic Council, Bertelsmann Foundation, and the British Embassy Washington, TTIP and the Fifty States, September 2013.

## GLOBAL INVESTMENT FLOWS

Global financial flows are generated by investment as well as trade.

The Bay Area is a major recipient of global capital and a top investor around the world. Since 2006, the region has attracted over \$5 billion of foreign private equity and venture investment each year. In 2012, 422 foreign investment deals were made in the Bay Area with a total value of \$8.2 billion. This represented an increase of \$1 billion over 2009 and \$2.5 billion over 2010. This activity has dimensions that extend well beyond the dollars invested. Particularly with venture capital, it also represents the exchange of business expertise across geographies and business cultures, and access to both technology and talent.

Bay Area companies are most heavily invested in Europe (the United Kingdom and Germany in particular), Asia (China, India, and Japan) and Canada. Measured by overseas affiliates, most of this activity is concentrated in technology, apparel, and engineering. Inbound investment to the Bay Area comes primarily from Europe (the United Kingdom and Germany), Japan and Canada. Investment from China is currently small but is growing rapidly, as discussed below.



Global Business Presence—Foreign Affiliates in the Bay Area and Bay Area Affiliates Abroad (Foreign Direct Investment)

Source: Uniworld 2013  
Analysis: Bay Area Council Economic Institute

## Demand for Semiconductors Creates Opportunities

Surging demand for telecommunications and microprocessor technology in China is pushing demand for chips as 3G service is rolled out in rural areas and 4G service expands in urban areas.

Intel's China Research Center in Beijing researches systems architectures for future chipsets and platform products. A long-established player in the China market, the company has a wafer manufacturing plant in Shanghai, a \$2.5 billion semiconductor manufacturing facility in Dalian and a testing and assembly site in Chengdu for a combined investment in China of approximately \$4.7 billion. Most

recently, Intel is partnering with Chinese laptop and smartphone manufacturer Lenovo on a new Classmate-Plus laptop for students and a power-efficient, high-end K900 smartphone, both powered by versions of Intel's Atom processor.

Marvell Technology Group is capitalizing on China's 4G FDD-LTE rollout, looking to China Mobile's vast subscriber base, rapid growth in smartphone sales, and Google's Android operating system's dominant position in the market.

Based in Santa Clara, Marvell employs nearly 2,000 people, and generated net revenue in 2013 of \$3.4 billion, of which \$1.7 billion came from China.

It has a major R&D site in Shanghai, in addition to mobile R&D design centers in the U.S. and Israel. It has provided 3G chipsets for major market players including Samsung, Motorola, Huawei, ZTE and other Android handset makers. It also designs chipsets for television set-top boxes, LED-screen TV processors and computer hard disc drives. China's planned build-out of fiber optic cable to the home, to reach 175 million cable television subscribers, will present another opportunity – for chipsets to support 10 gigabit or higher transmission network infrastructure.

## TRADE AND INVESTMENT FLOWS WITH CHINA

For historic, demographic and economic reasons, the Bay Area's business ties with China are unique and merit particular attention when analyzing the region's global trade and investment relationships.

### TRADE

At the national level, U.S.-China trade is growing, but more slowly than in the past. In the five years following China's 2001 entry into the World Trade Organization (from 2001 to 2006), U.S. exports to China grew from \$19.2 billion to \$55.2 billion; U.S. imports from China grew from \$102.3 billion to \$287.8 billion. Overall, China's two-way trade with the world more than tripled, from \$509.7 billion, to \$1.76 trillion.<sup>15</sup> Between 2006 and 2013, U.S. exports to China increased by an additional 122 percent to \$122.7 billion; in the same period imports from China increased by nearly 53 percent to \$440.4 billion.

Reflecting a sustained trend (with the exception of 2009 at the peak of the global recession), the U.S. has become China's top trading partner, its top export destination and its fourth largest import supplier; China has become the third largest market for U.S. manufactured exports after Canada and Mexico.

This pattern is directly reflected in California and the Bay Area. Two-way trade between California and China totaled nearly \$146.4 billion in 2013: \$130.4 billion in imports and \$16.4 billion in exports. Regionally, nearly \$18.1 billion in imports from China and \$8.2 billion in exports to China passed through Bay Area ports and airports.

**Two-way trade between California and China totaled nearly \$146.4 billion in 2013: \$130.4 billion in imports and \$16.4 billion in exports.**

China's Trade with the United States, 2006-2013 (Billions of Dollars)								
	2006	2007	2008	2009	2010	2011	2012	2013
U.S exports	55.2	65.2	71.5	69.6	91.9	103.9	110.5	122.7
Percent change	32	18.1	9.5	-2.6	32.1	13.1	6.5	9.8
U.S imports	287.8	321.5	337.8	296.4	364.9	399.3	425.6	440.4
Percent change	18.2	11.7	5.1	-12.3	23.1	9.4	6.6	3.5
U.S. balance	-232.5	-256.3	-266.3	-226.8	-273.1	-295.5	-315.1	-317.7

Source: U.S. International Trade Commission (ITC), U.S. Department of Commerce  
Analysis: Bay Area Council Economic Institute

Top imports through Bay Area ports included furniture, electronics, computers, toys, plastic products, tools, tires and sporting goods. Top exports were aluminum ingots and shapes, animal feed, beverages, industrial clay, cotton, dried fruits and nuts, pharmaceuticals, earths/minerals, food products and hay. Non-containerized bulk exports included scrap metal, wood pulp, petroleum products and chemicals.

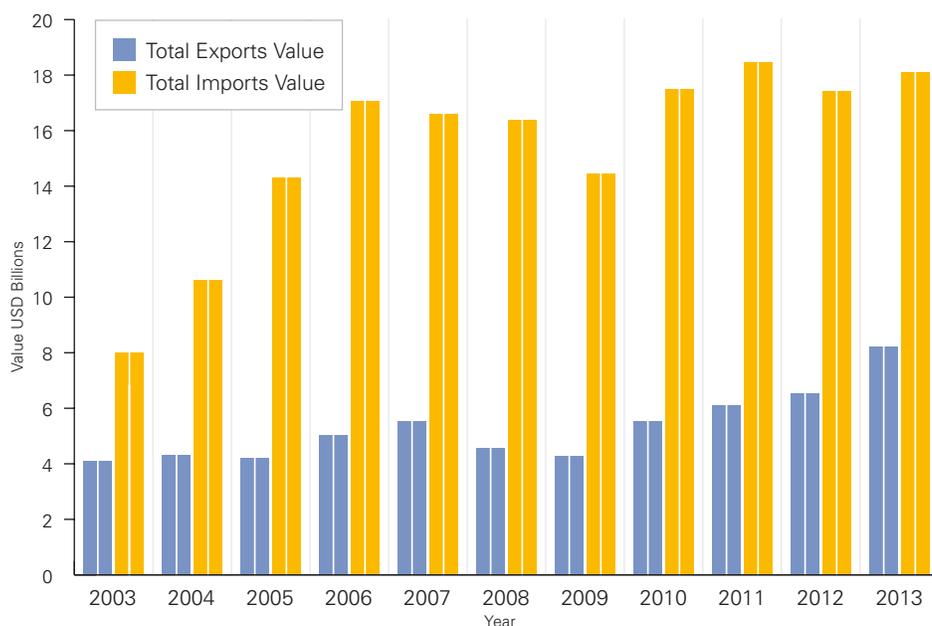
Nearly \$9 billion in Chinese imports entered San Francisco, Oakland and San Jose International Airports in 2013. Products ranged from fashion apparel and luggage to pharmaceuticals, seafood, gems, fresh-cut flowers and electronics. Some \$6.8 billion in air cargo exports from the Bay Area included fresh and frozen fruit and vegetables, vitamins, cosmetics, lab reagents, semiconductors, medical devices, machine tools and data processing equipment.

It should be noted that U.S. Census data for the region is based on flows through the maritime, airport and inland gateways that make up the San Francisco Customs District. These figures include not only

goods produced in or destined for end users in the region, but also cargo passing through the district en route to and from other locations, primarily in the Rocky Mountain states, Midwest and East Coast. These numbers exclude goods not moved by air or sea (e.g., goods moving by truck), and are larger than for goods directly produced or consumed in the region. They are, nonetheless, a useful indicator of aggregate transportation, cargo handling and related trade support activities in the region.

While the San Francisco Customs District runs a net trade deficit with China by value, exports by volume—petroleum products, soybeans, steel, machinery, bulk minerals and oils, industrial clays and earths, fertilizer, which move primarily by sea—substantially exceed imports. Most of these cargoes move via bulk shipping. Higher-value imports—auto parts, retail merchandise, home and garden supplies, furniture, appliances, electronics—move in containers.

<sup>15</sup> U.S. Census Bureau, USA Trade Online



Trade between China and Bay Area through Top Bay Area Ports, 2003–2013

Source: U.S. Census Bureau, USA Trade Online  
 Analysis: Bay Area Council Economic Institute

steadily, setting new records every year since 2009, and increasing from \$5.8 billion in 2010 to \$6.7 billion in 2012, and by \$4.7 billion in just the first half of 2013, according to business consultancy Rhodium Group. While deal volume has tapered, total deal value is up. Private companies (as opposed to state-owned enterprises) account for a growing share of this activity – 80 percent of transactions and 50 percent by value in 2012.

At the national level, well-known deals include Wanda Group’s \$700 million purchase of Kansas City movie theater chain AMC Entertainment Holdings; Wangxiang America Corp.’s \$257 million buyout of battery maker A123 Systems; BGI-Shenzhen’s \$118 million takeover of Mountain View-based Complete Genomics; and the \$4.7 billion Shuanghui International Holdings purchase of Smithfield Foods.

For most Chinese firms, FDI in the U.S. is aimed at achieving scale, vertical integration and technical expertise. For the U.S. partner, acquisition may bring a fresh injection of capital and improved access to Chinese markets. With investment from China under scrutiny, the current trend is toward deals valued at less than \$500 million; joint ventures, partnerships and equity stakes rather than outright acquisitions; a focus on privately held versus publicly traded firms; and avoidance of companies and technologies where there are potential security-related issues.

California accounts for the largest number of Chinese investment transactions of any U.S. state; New York, however, accounts for a larger share of Chinese investment by value. This may reflect the fact that capital-intensive investment in manufacturing or resources tends to flow to less expensive jurisdictions, while California attracts more investment in smaller, innovative companies. New York’s numbers also skew high due to Lenovo’s acquisition of IBM’s laptop business, a particularly large transaction. The principal drivers of Chinese investment in California—apart from real estate—are market growth and

## INVESTMENT

As China’s economy has grown and diversified, its business ties to the Bay Area have also evolved. This can be seen in growing flows of cross-border investment, which is in turn generating growing cross-border financial movements.

### Business Presence

The Bay Area is home to 51 affiliates of Chinese companies, 96 affiliates of Taiwanese companies, and 38 affiliates from Hong Kong SAR. China ranks second in the world as a location for Bay Area business affiliates abroad. There are currently 795 Bay Area corporate affiliates located in China, making up 8.6 percent of all Bay Area affiliates abroad. In comparison, Taiwan hosts 303 and Hong Kong SAR hosts 216.

### Financial Investment

Since the economic downturn in 2000, private equity and venture capital investment abroad by Bay Area firms has grown significantly. China accounts for a significant part of this activity. While total Bay Area investment abroad waned in

2008 with the global financial crisis, the region’s investment in China remained steady, reaching \$2.7 billion in 2011 or 38 percent of all Bay Area investment abroad.

China is also a growing investor in the region, reaching \$495 million in 2011, or seven percent of all foreign private equity and venture capital flowing into the Bay Area that year.

### Foreign Direct Investment (FDI)

U.S. FDI into China appears to have reached a plateau, given slower growth, currency controls, a challenging environment for mergers and acquisitions (M&A) and initial public offerings (IPOs), rising production costs, and other issues. Nevertheless, Bay Area venture capital firms such as Kleiner Perkins Caulfield & Byers, Hina Group, New Enterprise Associates, Sequoia Capital, IDG Ventures and Draper Fisher Jurvetson, as well as private equity firms such as TPG, are continuing to actively invest.

The most compelling story concerns capital leaving China for the U.S. and other overseas locations. Chinese foreign direct investment in the U.S. has grown

the development of strategic assets, such as brands, technology and knowledge that can enable Chinese companies to move up the value chain.

Rhodium Group reports cumulative Chinese FDI in California in 2000: 11 of 156 deals valued at \$1.3 billion, of which \$463 million, or 35 percent, was in the Bay Area. Another 20 deals worth \$800 million were done in 2012 and the first half of 2013. Investment in California is spread across a range of sectors—software and IT; consumer electronics; semiconductors; leisure and entertainment; food; transportation; pharmaceuticals; healthcare; and aerospace—with a focus on either upstream (R&D) or downstream (supply chain, branding, after-sales service) value added services. Key deals were concentrated in the Internet, electronics and solar energy sectors.

While technology is growing in importance, real estate is a core focus for Chinese investors throughout the U.S. but particularly in the Bay Area and California. For Chinese investors, the U.S. real estate market presents few barriers to entry. Recent U.S. acquisitions have ranged from high profile properties in Manhattan to distressed commercial buildings and hotels that are in default or need turnaround capital. The San Francisco Bay Area is a natural destination.

Currently, one of China's largest publicly-listed developers, China Vanke, is teaming with Tishman Speyer to build two high-rise 37 and 42 story residential towers in San Francisco's South of Market district, with \$175 million invested. In another major real estate development, Chinese property developer Zarsion Holdings Group is co-developing the Brooklyn Basin project, a \$1.5 billion, 65-acre former industrial property on the Oakland waterfront where local developers Signature Development Group and Reynolds and Brown are building a new neighborhood of 3,100 residential units, 200,000 square feet of retail space, and 30 acres of parks and open space. Most recently, in April 2014, Chinese developer Gemdale announced

a partnership with Lincoln properties on a 428,000 square foot office project at 350 Bush Street on property that stood vacant for decades. The two towers are the first to be built in San Francisco's financial district since the 1980s.

Residential investment by private individuals is also increasing. Over the time period from 2007–2012, National Association of Realtors data as reported by Rhodium Group shows that Chinese buyers increased their share of U.S. home purchases from 5 percent to 11 percent, ranking second among foreign buyers only behind Canadians. In 2012 this represented as much as \$1 billion in capital inflows to California. Real estate services firm Jones Lang LaSalle sees residential property investment by high net worth Chinese (those with 10 million Yuan, or \$1.6 million in assets) growing particularly strongly. As reported by China Daily, the most popular offshore destinations for residential investment are the United States, Canada, Australia and the U.K. Investment considerations include not only the potential for appreciation and return on investment (down payments can run as high as 30–50 percent in major Chinese cities, compared to the U.S. where 20–25 percent is the norm and interest rates are low), but also asset diversification (security), and establishing an overseas anchor for the family.

Parallel with private investment in residential property, individual Chinese investors are increasing their investment in California and the Bay Area through Regional Centers authorized under the federal EB5 investor visa program. These centers offer green cards in exchange for specified levels of financial investment and documented job creation. Current EB5 supported projects include housing in San Francisco's Hunter's Point, and call centers and nursing homes in Oakland. At Hunter's Point, the first two tranches of project funding raised \$27 million from 54 mostly Chinese investors, and the second tranche raised \$50 million. A third \$100 million tranche is planned for later this year.

## FINANCIAL FLOWS AND THE INTERNATIONALIZATION OF CHINA'S CURRENCY

Increased trade and financial flows between the Bay Area and China are connected to the internationalization of China's currency, a process that began in 2005 and is accelerating.

The renminbi (RMB) began a controlled rise against the U.S. dollar in July 2005, and quickened in 2013 with a 2.9 percent rise (compared to 0.25 percent in 2012). Over that period the value of the RMB increased approximately 40 percent. While debate continues in Washington whether the RMB is undervalued, constituting an unfair trade advantage, a case can also be made that China's currency is approaching its market equilibrium value and is no longer unfairly distorted.

To the surprise of speculators and some observers, however, the RMB weakened in early 2014, falling 2.9 percent from February to April. The shift ran counter to a common assumption that the value of the RMB would experience a sustained rise. The government's move was likely intended to discourage speculation and demonstrate to traders and to the financial community that the currency's value would be allowed to fluctuate – a signal consistent with a long-term commitment to internationalize the currency.

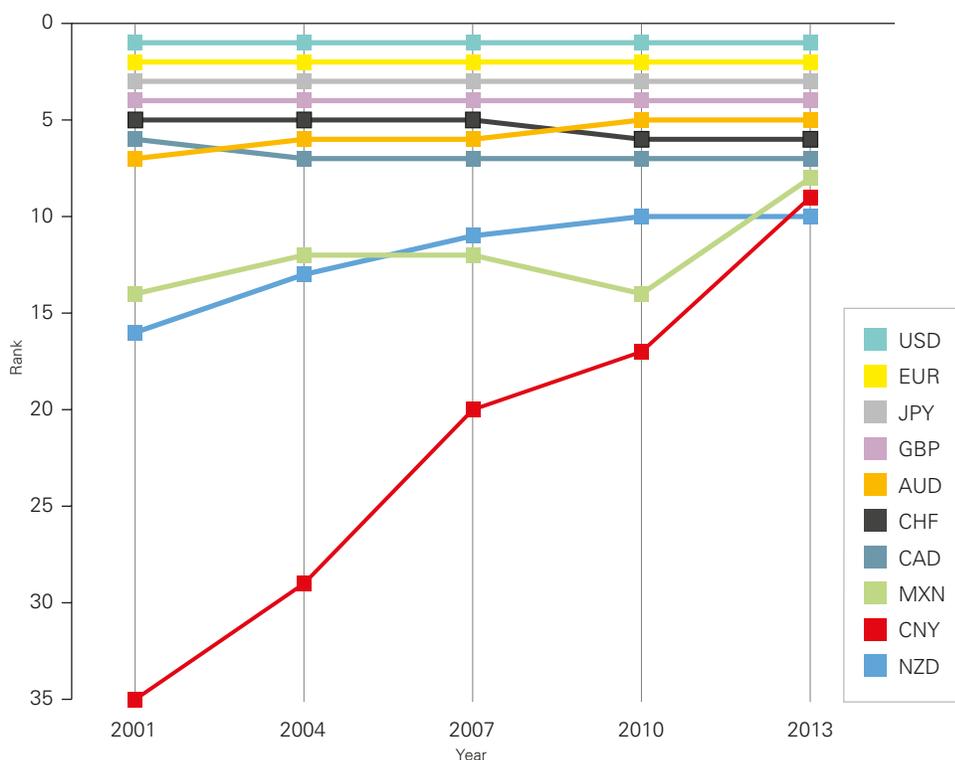
The exchange rate for China's currency has historically been set more by policy than by the market, with the government adopting a strategy of gradual exchange rate adjustment. China's central bank, the People's Bank of China (PBOC), sets a daily reference point for the RMB, then allows it to trade within that band. Until recently the band was set at plus or minus one percent, but, in March 2014, was increased to plus or minus two percent. This change could be read as a sign of the government's intention to reduce the need for intervention and allow the market to play a stronger role in determining the exchange rate, again advancing to the goal of long-term convertibility.

This development follows a series of policy shifts:

- In 2009, companies registered in China were permitted to settle trade accounts in RMB.
- In 2010 an offshore CNH market was established in Hong Kong SAR where RMB could be bought and sold in financial transactions outside the mainland. The CNH market parallels the onshore RMB market, which remains highly regulated and is used by domestic Chinese companies and foreign companies operating in China.
- Since October 2011, RMB denominated funds raised offshore can be used to finance the onshore business operations of wholly owned foreign enterprises and joint ventures.
- Since June 2012, all qualified companies in mainland China have been permitted to make and receive payment in RMB for trade in goods and services. By the end of the year, the RMB was being used to settle approximately 8 percent of China's cross-border trade transactions. HSBC expects this figure to reach 30 percent by 2015.

While growing strongly, the global market for RMB is still small. RMB deposits held onshore total RMB 100 trillion (\$16.3 trillion). By comparison, total offshore deposits—held primarily in Hong Kong SAR, Singapore and London - total less than RMB 1 trillion. According to HSBC, approximately 95 percent of RMB payments are intra-institutional, while five percent is trade related.<sup>16</sup> Still, offshore RMB trade settlement in Hong Kong SAR is growing at 35 percent per year. Between April 2013 and April 2014 the value of U.S. CNY payments grew by 327 percent, making the United States the third largest source of CNY transactions (excluding China and Hong Kong SAR), after Singapore and the United Kingdom. While still comparatively small, the U.S. share of global transactions by value grew from 1.3 percent to 2.6 percent.<sup>17</sup>

**Between April 2013 and April 2014 the value of U.S. CNY payments grew**



Currency Distribution of Global Foreign Exchange Market Turnover

Note: Net-net basis; percentage shares of average daily turnover in April; Trade sum to 200%, reflecting two currencies per transaction. Source: Bank for International Settlements Statistics Analysis; Bay Area Council Economic Institute

**by 327 percent, making the United States the third largest source of CNY transactions (excluding China and Hong Kong SAR), after Singapore and the United Kingdom. While still comparatively small, the U.S. share of global transactions by value grew from 1.3 percent to 2.6 percent.<sup>18</sup>**

Similarly, from the first year when RMB 10 billion were issued, the total outstanding value of dim sum bonds (yuan-denominated bonds sold by the Chinese government, banks and companies to offshore investors) reached RMB 360 billion in 2013, and should reach an estimated RMB 550 billion in 2014. More central banks are holding small portions of their reserves in RMB, a trend that is also likely to grow.

To further expand the currency's use in cross-border trade settlement and encourage its wider use in cross-border investment, China is expanding the number of offshore RMB trading centers: in addition to Hong Kong, centers have recently been established in London, Singapore and Taiwan, with more to

come. Consideration is being given to an additional trading center in San Francisco, which would expand the global RMB trading network to the US West Coast and cement the Bay Area and California's position among China's economic partners.

Progress toward convertibility will mirror China's growing weight in the world economy. As this occurs, regulatory transparency and macroeconomic stability will be important to the currency's international appeal. The opening of China's onshore capital market – which has yet to occur – will be an important step, as will the loosening of capital controls on outbound direct investment, and the lifting of limits on foreign ownership of banks. It will take several years or more before full internationalization is achieved. As this occurs, the process will support expanded international trade and investment flows.

<sup>16</sup> HSBC "THE YEAR of the RMB"; "China RMB debate: The renminbi's road to full internationalization" <http://www.euromoney.com/Article/3229831/China-RMB-debate-The-renminbis-road-to-full-internationalization.html>

<sup>17&18</sup> SWIFT "The United States strengthens its position as a leading offshore RMB clearing centre" < [http://www.swift.com/about\\_swift/shownews?param\\_dcr=news.data/en/swift\\_com/2014/PR\\_RMB\\_May2014.xml](http://www.swift.com/about_swift/shownews?param_dcr=news.data/en/swift_com/2014/PR_RMB_May2014.xml)>

## INITIATIVES IMPACTING TRADE AND FINANCIAL FLOWS

At least two policy initiatives are likely to impact U.S. financial flows and the pace of the RMB's internationalization.

### US-Bilateral Investment Treaty

In July 2013, the United States and China announced their intention to negotiate a U.S.-China Bilateral Investment Treaty (BIT) covering all sectors and stages of investment. A successful BIT would make it easier for American businesses to invest in China.

The U.S. government seeks pre-establishment national treatment (PENT) for U.S. companies, with a “negative list” approach (which starts by assuming national treatment and lists sectors to which national treatment does not apply). China has limited its agreements to date to post-establishment national treatment. China had initially agreed to talks only if certain Chinese industries, especially in its service sector, were exempt but agreed to drop blanket restrictions. The resolution of this question has major implications for market access.

Also on the table is the dismantling of restrictions on foreign investment in sectors including automobiles, financial services, agriculture and health – sectors that are major focal points of Chinese industrial policy.

To promote investment and liberalization reform, the Chinese State Council approved a pilot free trade zone in Shanghai. The Shanghai government followed up by unveiling a negative list of exceptions for foreign investment, specifying the different treatment of foreign and Chinese investors in the Shanghai Pilot Free Trade Zone. These proactive measures are meant to test new approaches and to smoothen changes in the domestic legal regime to accommodate a high-standard BIT.

### Shanghai Pilot Free Trade Zone

In September 2013, the Chinese government announced the establishment of the China (Shanghai) Pilot Free Trade Zone (SHPFTZ). Considerable uncertainty

still surrounds its provisions and how they will be implemented. It's structure, however, provides for four zones: the Waigaoqiao Free Trade Zone (the first free trade zone in Shanghai launched in 1990), the Waigaoqiao Bonded Logistics Park (the first free trade logistics park in China established in 2004), the Yangshan

Bonded Port Area (the first bonded port in China established in 2005) and the Shanghai Pudong Airport Free Trade Zone, covering a planning area of 28.78 square kilometers.<sup>19</sup>

As proposed, it includes the following elements:

<sup>19</sup> Framework Plan for the China (Shanghai) Pilot Free Trade Zone <http://en.shftz.gov.cn/FrameworkPlan.html>

## Entertainment Software in China

Online entertainment software is rapidly going global, and game developers and animators speak a common technical language. It should be no surprise that interactive animation development lends itself well to cross-border collaboration—not just for games but for apps, feature-length films, and beyond.

San Francisco digital art and animation studio Concept Art House (CAH) has been in China since its inception in 2007, with a studio in Shanghai's Yangpu District. It began with three founders and two employees, and as of early 2013 had a staff numbering 140–200 in San Francisco and 120 in Shanghai.

Founders included concept artist James Zhang, who provided digital art solutions for Star Wars Galaxies published by LucasArts and Lair for PlayStation; Matthew Le Merle, a Booz-Allen consultant and entertainment software enthusiast who joined as an investor; and Xuan Li, who led CAH's China expansion by building capacity and winning contracts with Shanda and Tencent, including work on Worlds of Warcraft, a favorite online game in China with 7 million users. Other clients have included NBC, Disney, AOL and Sina.

CAH chose Yangpu for its proximity to universities and the cluster of digital artists that had begun to form in what had been an industrial area. Le Merle

says that the Bay Area-China linkage makes good business sense on several levels: demand for higher-quality entertainment is growing among China's rising middle class; costs of making traditional live action films (or buying older titles from catalogues) and physically distributing them to larger audiences in emerging markets are up sharply; Bay Area companies are at the cutting edge of digital technology, but lack enough skilled workers locally to serve global markets; Chinese studios have upped their game significantly in terms of quality; and the time difference enables CAH to work on client projects 24/7.

China has also proven to be an active market in its own right. Reflecting this, the Shanghai studio has recently taken on more autonomy, doing its own business development. Using this business model, CAH is pursuing new market opportunities, including digital trading cards and graphic novels. The largest opportunity, however, may be in online education, particularly as libraries become digitized and schools offer courses beyond their physical, local boundaries. In March 2014, CAH announced the launch of Spellgun, a newly created division that will partner with Talkweb, a leading Chinese provider of mobile e-commerce applications. Talkweb has a history of launching and supporting western games in the Chinese smartphone market, and will partner with CAH and Spellgun to identify and assist U.S. game developers looking to enter the Chinese market.

### Foreign Investment/Administrative

- Further opening of service sectors to foreign investors and reform of the administrative system governing foreign investments;
- Simplifying administrative systems to support the further opening of the service sector;
- Encouraging foreign investors to set up banks in the zone, with the opportunity to engage in a broader range of business activity, and lowering the operational qualifications for foreign-invested banks;
- A “negative list” framework for foreign investment, consisting of 18 sector categories. While the negative approach aligns with the U.S. framework proposed in the BIT talks, the industries on the negative list are identical to the existing restricted industries for foreign investment as set out in either the Foreign Investment Industry Catalogue or other industrial regulations. This means most foreign investment subject to existing industrial restrictions will still need to go through an approval procedure even if it is registered in the zone. According to an official at the Shanghai FTZ, the negative list may be adjusted and shortened in the future. For foreign investment in the FTZ not on the negative list, only filings (instead of approvals) are required for initial incorporation or a subsequent change of registration.

### Trade Facilitation

- Relaxing the equity ratio on foreign investment for international vessel transportation enterprises, and allowing foreign investors to set up wholly foreign-owned international shipping management companies.

### Tax Policy

- The zone establishes tax provisions intended to support business innovation. In the future, these tax provisions are expected to include reforms impacting offshore business and overseas equity investment.

### Proposed Financial Reforms

- The zone establishes provisions to encourage futures trading, including an international oil futures trading platform;
- Facilitates financing and currency exchange for activities within the zone;
- Accelerates RMB convertibility for capital account items and further opens the financial service sector to foreign investors.
- Banks in Shanghai may directly make collections or payments based on the instructions submitted by individuals or entities within the zone, and individuals employed or practicing within the zone are allowed to conduct cross-border RMB settlement for personal account items.
- Nonbanking financial institutions and enterprises located in the zone are allowed to borrow RMB funds from offshore sources.
- All Shanghai banking institutions may directly arrange cross-border RMB settlement for companies located in the zone.

- A qualified entity in the zone may apply to open a Domestic Foreign Exchange Funds Master Account, through which to pool and centrally manage foreign exchange funds of the entity’s domestic affiliates, and centrally receive and make foreign exchange current account payments on behalf of the entity’s domestic affiliates. The entity may also set up an International Foreign Exchange Funds Master Account. Funds may be freely transferred between the Domestic Account and International Account of an entity, subject to a quota prescribed by the Shanghai branch of SAFE.

The China (Shanghai) Pilot Free Trade Zone is attracting major international attention, in part because of its ambitious scope, and in part because many of the details are still not available. It is clear, however, that with its focus on service sector industries the Shanghai zone differs in concept from the more traditional bonded trade zones already operating in China. From the standpoint of financial transactions and cross-border financial flows, it is apparent that the zone is being positioned as a platform through which China can test out the next steps in the internationalization of its currency, and its broader financial liberalization process. Successful implementation will increase the attractiveness of China as a regional headquarters location for multinational and other foreign businesses, and potentially benefit domestic Chinese companies investing abroad.

The government has indicated that the policies piloted in the China (Shanghai) Pilot Free Trade Zone could be disseminated to other regional centers throughout China, further underscoring its importance as the next stop in China’s financial and market liberalization process.

## METHODOLOGY

The Bay Area refers to the nine counties that comprise the San Francisco Bay Area region: San Francisco, San Mateo, Santa Clara, Alameda, Contra Costa, Solano, Napa, Sonoma and Marin.

Data in this report is sourced from the International Monetary Fund, the U.S. Census Bureau, USA Trade Online, the International Trade Administration (U.S. Department of Commerce), the Office of the United States Trade Representative's Office, the Bank for International Settlements, Thompson Reuters, and analytical reports by the Bay Area Council Economic Institute, the Brookings Institution, the Atlantic Council, and HSBC USA. Information on domestic and international sales by Bay Area companies is drawn primarily from corporate annual reports.

The analysis was prepared by Dr. Sean Randolph, President & CEO of the Bay Area Council Economic Institute, with the support of Jia Ren, a recent graduate of the Monterey Institute of International Studies.

[www.madefortrade.hsbc.com](http://www.madefortrade.hsbc.com)

© Copyright HSBC Bank USA, N.A. 2014. ALL RIGHTS RESERVED. No part of this document may be reproduced, stored, distributed or transmitted in any form without the prior written permission of HSBC Bank USA, N.A.

This document is issued by HSBC Bank USA, N.A. (HSBC) and is intended for reference and illustrative purposes only. It does not constitute an offer or advice for you to purchase from or otherwise enter into a transaction with HSBC or any of its subsidiaries or affiliates.

The information contained in this document may include information from third parties who HSBC believe to be reliable but such information will not have been independently verified by HSBC. All information contained in this document (including without limitation, information about products, terms and conditions, pricing, forecasts, market influences and HSBC policy) is subject to change from time to time without any obligation on HSBC to give notice of such change to you.

Whilst HSBC will try to ensure that the information in this document is current, accurate and complete at the date of publication, it cannot guarantee this and therefore it makes no representation (express or implied) about the currency, accuracy or completeness of that information. HSBC cannot accept liability for any direct, indirect or consequential losses arising from the use of or the reliance on the information contained in this document by any person and such liability is excluded to the maximum extent permitted by law. You are responsible for making your own evaluation about the products referred to in this document. HSBC recommends that before you make any decision or take any action that might affect you or your business, you consult with suitably qualified professional advisers to obtain the appropriate financial, legal, accounting, tax or other advice.

HSBC is authorized by the Office of the Comptroller of the Currency and regulated by the Federal Reserve Bank and the Office of the Comptroller of the Currency.

Delivered by Creative Conduct Limited, London UK

### Looking To Export Or Expand Internationally?

HSBC was born from one simple idea – a local bank serving international needs. In March 1865, HSBC opened its doors for business in Hong Kong, and today we serve around 54 million customers in 75 countries and territories. Throughout our history we have been where the growth is, to help connect businesses with opportunities. HSBC recognizes San Francisco's role as a leading city for international trade, and we see the inherent possibilities in the Bay Area's expanding prominence as a technology hub and US corridor to Asia. San Francisco provides the ideal setting for businesses to innovate and thrive, and it is our goal to help connect clients in this dynamic city with opportunities around the world.

HSBC has a team of international experts in San Francisco, ready to help you grow your business.

Contact **James M. Bryski**

Email [james.m.bryski@us.hsbc.com](mailto:james.m.bryski@us.hsbc.com)

Phone 415 678 3037

Contact **Jeff French**

Email [jeff.a.french@us.hsbc.com](mailto:jeff.a.french@us.hsbc.com)

Phone 415 264 5285

Issued by

HSBC Bank USA

[www.us.hsbc.com](http://www.us.hsbc.com)