

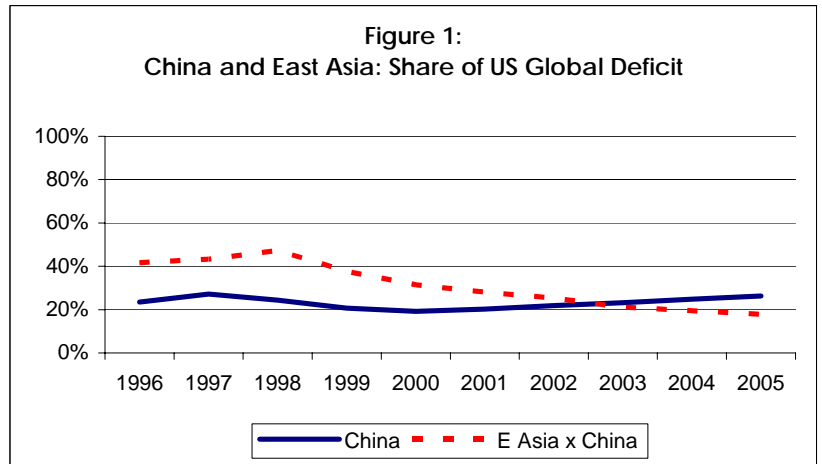
## US-China Trade in Context

The US trade imbalance with China has attracted much attention from US policymakers. The US government certainly needs to engage with the PRC government to boost US exports and address unfair practices that contribute to the trade deficit, with the support of trade associations and US companies.

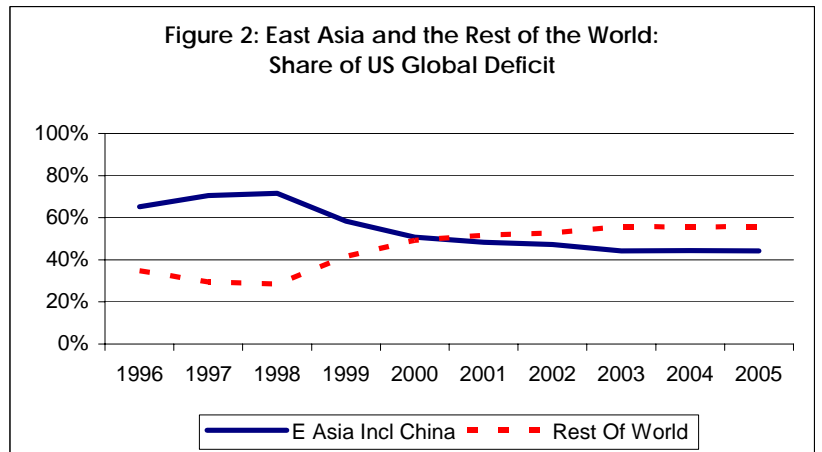
But focusing on the bilateral trade deficit with China misses a bigger story and could lead to poor policy choices. The US trade balance with China should be viewed in a global context and over many years to understand the defining trends.

### US Trade Trends— With China and Globally

- Over the past 10 years, China's share of the US global trade deficit grew from 23 percent to 26 percent (see Figure 1). During the same period, the rest of East Asia's share of our global trade deficit declined sharply from 42 percent to 18 percent. Why did this happen? During that period, East Asian economies invested heavily in China, thereby shifting much of their manufacturing capacity and therefore their long-standing trade surpluses with the United States to China.
- Over the past 10 years, the share of the US global trade deficit accounted for by East Asia—including China—has actually dropped significantly, from 65 percent to 44 percent (see Figure 2).
- These shifts in the US global trade deficit are borne out by the numbers. Over the past 10 years, the US trade deficit with East Asia grew by \$225 billion. The US trade deficit with the rest of the world grew by \$369 billion. Less than half of this trade deficit surge with the rest of the world was a result of high oil prices. In fact, petroleum's share of the US trade deficit has remained fairly steady at 20–30 percent during the past 10 years.



East Asia's share of the US trade deficit has declined as China's share has risen.



East Asia's (including China) share of the US trade deficit has been overtaken by the US trade deficit with the rest of the world.

Sources: Data compiled from US Department of Commerce (DOC), US Department of the Treasury, and US International Trade Commission (ITC) tariff and trade data; exports on a free alongside ship basis; imports on a general customs value basis.

### US Exports to China

In addition, while US imports from China have raised concerns, less understood is that US exports to China have grown rapidly, too. In fact, China is the fastest growing of our major export markets (see Figure 3).

- US exports to China grew about 20 percent in 2005.
- Since China entered the World Trade Organization in 2001, US exports have more than doubled (up 118 percent).
- China and Hong Kong combined are now the third-largest US export market, trailing only Canada and Mexico, our two immediate neighbors with which we have a free-trade agreement (see Table).

### Addressing Trade Issues

The bilateral trade deficit is large and needs to be addressed. The Bush administration should continue to engage the PRC government on issues such as intellectual property rights enforcement, market access barriers, financial reforms, and allowing greater market influences to determine China's exchange rate.

But focusing solely on the bilateral deficit with China misses the changing pattern of our trade with East Asia. More important, it misses the story of a trade deficit growing at a similar pace with the rest of the world.

Canada	211.4
Mexico	120.0
Japan	55.4
<b>China</b>	<b>41.8</b>
United Kingdom	38.6
Germany	34.1
South Korea	27.7
The Netherlands	26.5
France	22.4
Taiwan	22.0
Singapore	20.6
Belgium	18.6
<b>Hong Kong</b>	<b>16.3</b>

China is our third-largest export market when combined with Hong Kong, reflecting actual trade patterns.

Sources: US DOC, US Department of the Treasury, US ITC

