

US-China Trade in Context

The United States certainly has a large trade deficit with China. But focusing on the bilateral trade balance misses a bigger and more important story:

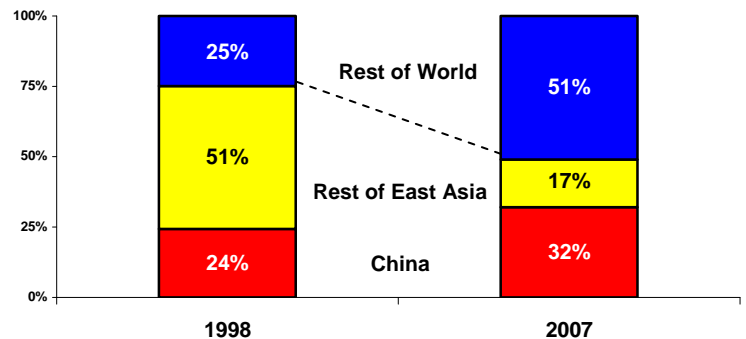
- The US trade imbalance with China is largely a result of the shifting of US trade with East Asia.
- The US trade deficit with the rest of the world has grown more than with China and East Asia.
- China is now the third-largest US market for goods and growing far faster than any other major export market.

The US government should continue to engage the PRC government to address market access barriers and unfair practices that contribute to the trade deficit, with the support of trade associations and US companies. But the US trade balance with China should be viewed in a global context over time to understand the defining trends – and avoid the wrong policy choices.

US Trade Trends

- **The share of the US trade deficit accounted for by China and East Asia has declined dramatically:** The share of the US global trade deficit accounted for by East Asia – including China – dropped significantly over the last decade, from 75 percent to 49 percent (see Figure 1).
- **China is taking East Asia’s share of the US trade deficit:** China’s share of the US global trade deficit over the past ten years rose from 24 percent to 32 percent. During the same period, the rest of East Asia’s share of the US global trade deficit declined sharply, from 51 percent to 17 percent. Why? During that period, East Asian economies invested heavily in China, shifting much of their manufacturing capacity – and therefore their long-standing trade surpluses with the United States – to China.
- **The rest of the world’s share of the US trade deficit has ballooned:** Meanwhile, the US trade deficit with the rest of the world has grown dramatically and with all regions. Over the past decade, the US trade deficit with East

Figure 1: Composition of the US Global Trade Deficit



Sources: Data compiled from US Department of Commerce (DOC), US Department of the Treasury, and US International Trade Commission (ITC) tariff and trade data. Notes: Exports on a free alongside ship basis; imports on a general customs value basis. Totals may not add up because of rounding.

Table: Top US Export Markets in 2007 (\$ billion)

Canada	248.4
Mexico	136.5
China	65.2
Japan	62.7
United Kingdom	50.3
Germany	49.7
South Korea	34.7
The Netherlands	33.0
France	27.4
Taiwan	26.4
Singapore	26.3
Belgium	25.3
Brazil	24.6
Hong Kong	20.1
Australia	19.2

US Exports to China and Hong Kong—a throughput for US goods bound for China—combined reached \$85.3 billion in 2007.

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

Asia (including China) grew by \$223 billion; the US trade deficit with the rest of the world grew by \$334 billion. Petroleum is a big share of this deficit growth, but the United States has also seen its non-oil trade deficit grow across the board with its major trading partners, including Europe, Canada, and Mexico.

US Exports to China

US exports to China have grown rapidly in recent years; in fact, US net exports to the world are now helping to keep the US economy from slowing even more than it already is. China is now the United States' third-largest export market – and if combined with Hong Kong, US exports reached \$85.4 billion in 2007 (see Table, previous page).

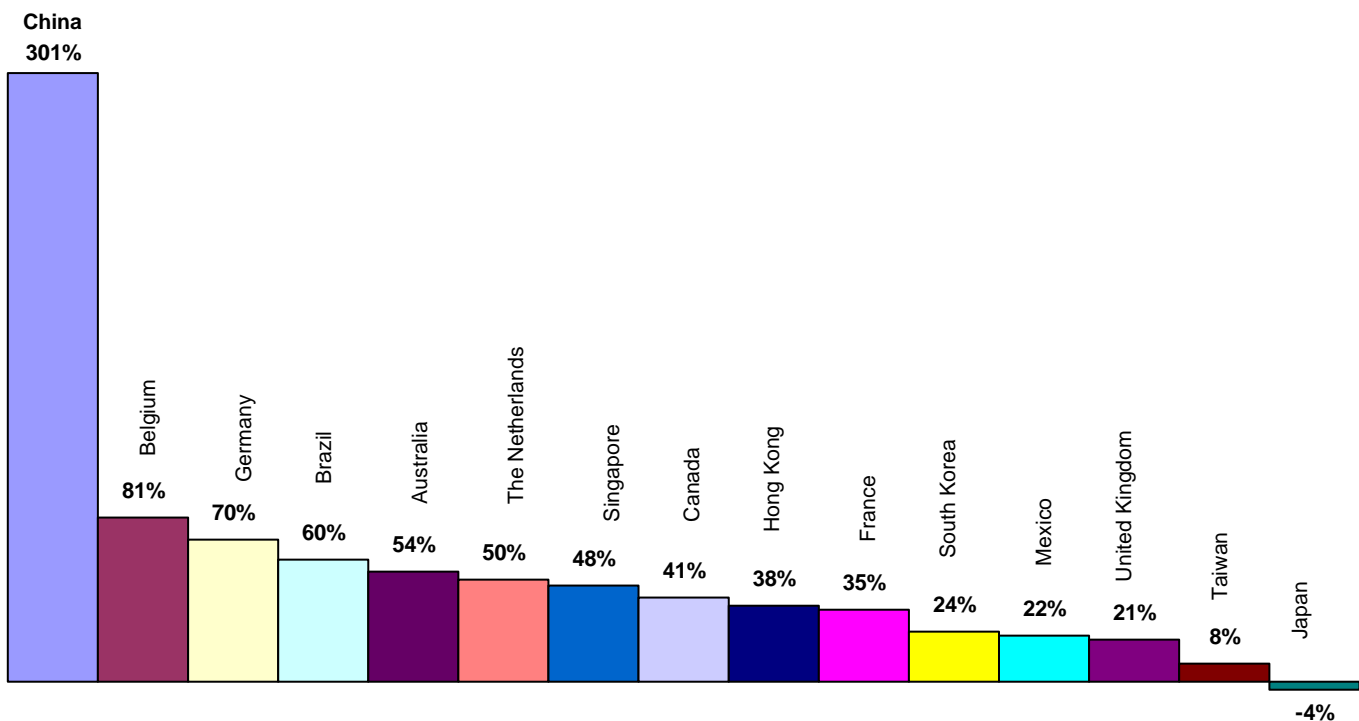
Moreover, China is the fastest growing of the United States' major export markets (see Figure 2). US exports to China grew about 18 percent in 2007 and have grown 301 percent since 2000, the year before China entered the World Trade Organization and began dismantling market barriers keeping out US products.

Addressing Trade Issues

The bilateral trade deficit is still large and needs to be addressed. The Bush administration – and the new administration in 2009 – should continue to engage the PRC government on issues such as improving intellectual property rights enforcement, lowering market access barriers, implementing financial reforms, and allowing greater market influences to determine China's exchange rate. We also need to ensure we have the right policies in place on education, healthcare, and innovation, to maintain and improve US competitiveness. Such policies will be the keys to our economic future.

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 US trade deficit that has grown dramatically with the rest of the world, too.

Figure 2: Growth in US Exports to Top 15 Markets, 2000–07



Note: Top 15 markets based on 2007 US exports

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