

The US Trade Deficit: Is China the Problem?

It seems like a given that China is the cause of the massive US trade deficit, but a smart trade policy has to be based on facts. Though there is no disputing that we buy more goods from China than we sell there, a look at the facts presents a more complex picture—and a more accurate one.

Three key trends help to put the US-China trade picture into perspective:

First, many of the goods the United States used to get from Japan, Taiwan, and other Asian economies now come from China because Asian companies have shifted their export manufacturing base there. As China's share of the US trade deficit has risen with this shift, the share of the US deficit from the rest of East Asia has declined (see figure below).

Think of it this way: Ten years ago when you bought a Sony TV, the label probably read "Made in Japan" and the TV was an import. Today, the TV is "Made in China" – and is still an import.

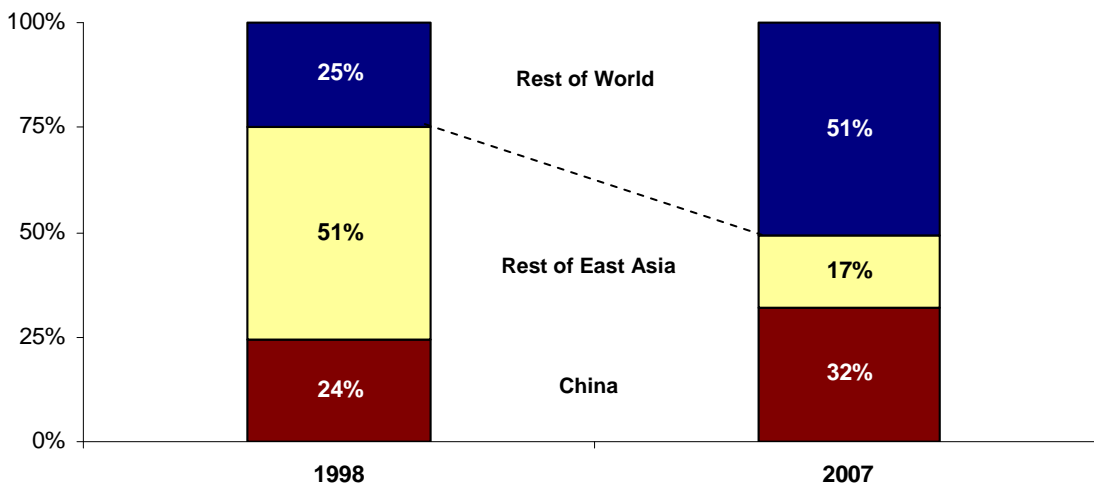
To suggest, as some have, that if an item were not imported from China, it would be made in the United States is misleading, at best.

In addition, East Asia's share (including China) of the US global trade deficit has declined as our trade deficit has increased dramatically with all regions of the world. 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.

Second, though a lot of what China exports is manufactured in China, a significant amount is just assembled there from materials and components shipped into China from elsewhere, including the United States. The trade figures say the full value was imported from China, but the money flow says otherwise.

For example, do you know someone who owns an Apple iPod? It was assembled in China, but assembly accounts only for a fraction of the product's value. Much of an iPod's value is made up of components made in the United States and other Asian locations and shipped to China. According to one study, fully half of the value is in the design and marketing work of Apple employees in the United States. Yet, the full value of an iPod shows up as an import from China in US trade statistics.

Composition of the US Global Trade Deficit



The US trade deficit increase is largely from outside China and East Asia.

Sources: Data compiled from US Department of Commerce, US Department of the Treasury, and US International Trade Commission (ITC) tariff and trade data.

Or, back to that Sony TV example, “Made in China” ...but the factory is still owned by Sony, and much of what is paid to import that TV from China actually ends up in Japan.

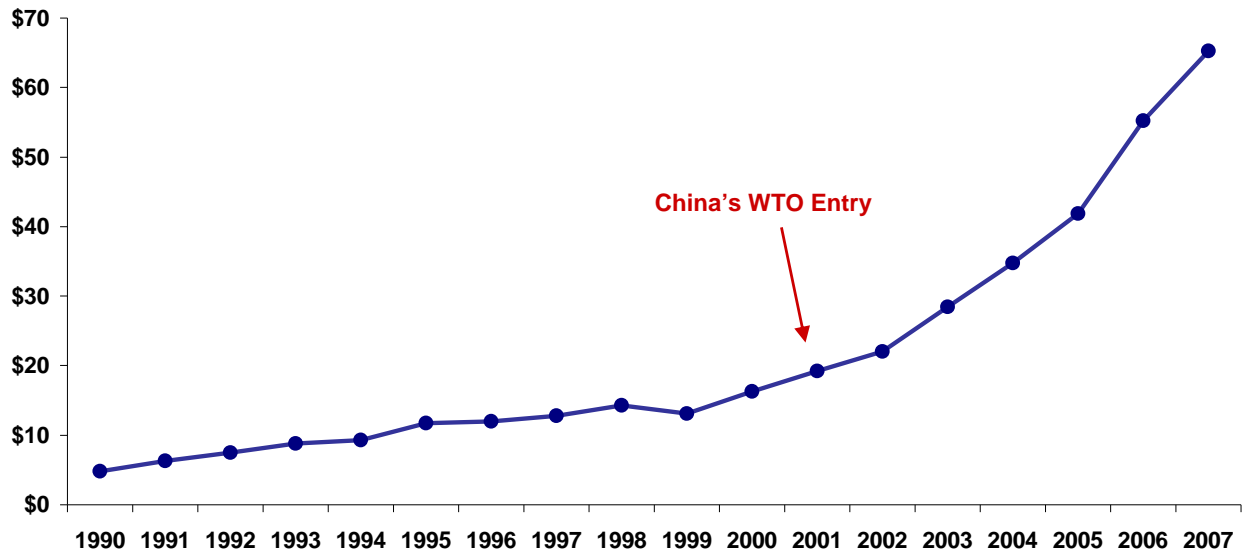
Third, while we fixate on burgeoning imports from China, we sometimes miss the fact that US exports to China are booming as well, notwithstanding the negative impact of the global economic downturn on trade flows during the past few months. In fact, China is now America’s third-largest export market – \$85 billion in 2007, when Hong Kong is included. Every state has seen a dramatic increase in exports to China – often approaching or exceeding 300 percent – since 2000. For information on exports from all 50 states and 435 congressional districts, see www.uschina.org/public/exports/congressional.

At a time of economic challenge, encouraging and supporting export expansion to the fastest growing market for US products makes sense – for manufacturers, service providers, farmers, and workers.

Action Plan

- Prioritize the continuation of a regular, top-level bilateral dialogue that focuses on issues of strategic and economic importance such as energy, the environment, food and product safety, financial and currency policies, global economics, and open investment environments.
- Work at all levels to continue the opening of China’s economy to US companies and exports in both the manufacturing and services sectors.
- Use multilateral dispute settlement mechanisms, such as WTO cases when appropriate and winnable, and bilateral trade remedy tools consistent with international rules to eliminate unfair advantages and level the playing field for US companies.

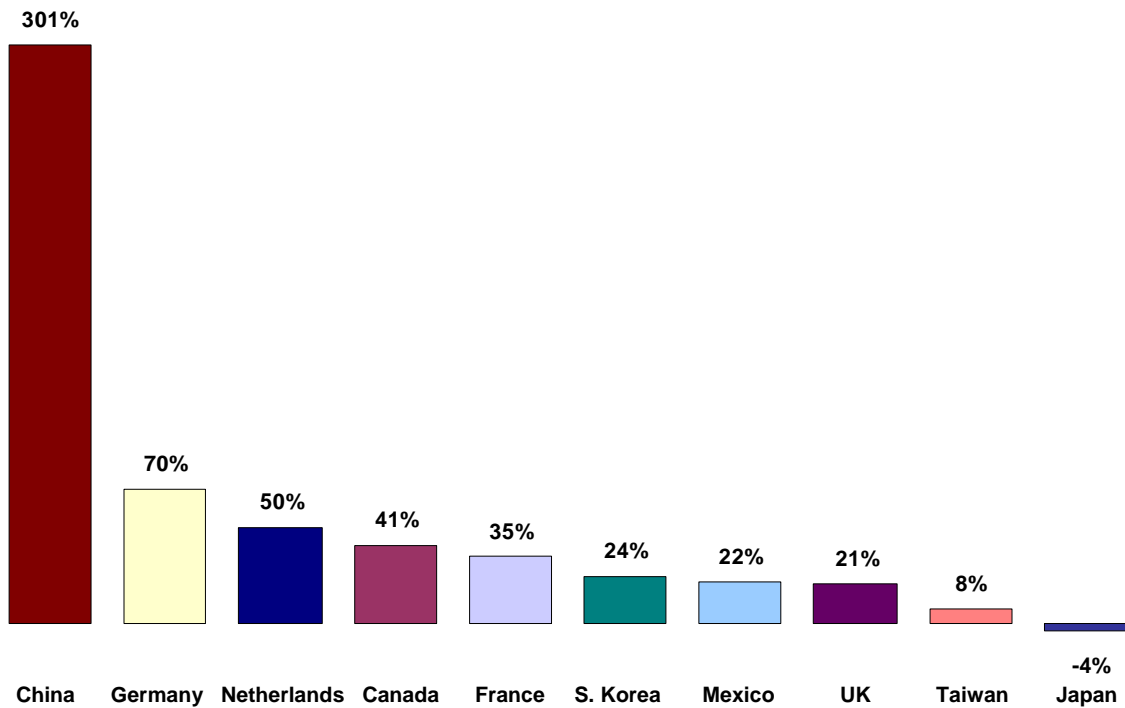
US Exports to China (\$ billion)



China's WTO entry has accelerated US export growth.

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

Growth in US Exports to Top 10 Markets, 2000–07



US exports to China are growing far more rapidly than those to other markets.

Note: Top 10 markets based on exports in 2007

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

Top 10 US Export Markets, 2007 (\$ billion)

China & Hong Kong Listed Separately			China & Hong Kong Combined		
1	Canada	\$248.4	1	Canada	\$248.4
2	Mexico	\$136.5	2	Mexico	\$136.5
3	China	\$65.2	3	China & Hong Kong	\$85.4
4	Japan	\$62.7	4	Japan	\$62.7
5	United Kingdom	\$50.3	5	United Kingdom	\$50.3
6	Germany	\$49.7	6	Germany	\$49.7
7	South Korea	\$34.7	7	South Korea	\$34.7
8	The Netherlands	\$33.0	8	The Netherlands	\$33.0
9	France	\$27.4	9	France	\$27.4
10	Taiwan	\$26.4	10	Taiwan	\$26.4

China is now the third-largest US export market.

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

What the United States Buys from and Sells to China

Products the US buys from China		Products the US sells to China	
1	Electrical machinery and equipment, including consumer electronics	1	Electrical machinery and equipment, including components
2	Power generation equipment	2	Power generation equipment
3	Toys and games	3	Air and spacecraft
4	Furniture	4	Oil seeds and oleaginous fruits
5	Footwear	5	Plastics
6	Apparel	6	Optics and medical equipment
7	Iron and steel	7	Iron and steel
8	Plastics	8	Copper
9	Leather and travel goods	9	Organic chemicals
10	Vehicles and parts	10	Wood pulp

Integrated trading relationship: US imports from China often have US content

Source: US ITC