

# China

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## **Change in 2005 from 2004:**

**U.S. trade deficit: Increased by \$40.2 billion (25 percent) to \$203.8 billion**

**U.S. exports: Increased by \$6.3 billion (19 percent) to \$38.9 billion**

**U.S. imports: Increased by \$46.5 billion (24 percent) to \$242.6 billion**

The U.S. merchandise trade deficit with China was \$203.8 billion in 2005, an increase of \$40.2 billion from the 2004 deficit, reflecting the continued U.S. demand for goods produced in China. As in recent years, the United States recorded a larger trade deficit with China than with any other trading partner (table US-3).

In contrast to 2004, when U.S. exports to China increased in absolute terms in all sectors except footwear, exports in 2005 decreased in a few sectors – agricultural products, energy-related products, and machinery. However, increases in U.S. exports of minerals and metals, transportation equipment, and electronic products were greater than the export declines, resulting in an overall \$6.3 billion (19 percent) increase in U.S. exports to China (table CHINA-1).

In 2005, U.S. imports increased in all sectors except for energy-related products, which decreased by \$40 million (4 percent) to slightly over \$1 billion. U.S. imports of agricultural products increased by approximately \$440 million, while U.S. imports of all other categories increased by over \$1 billion.<sup>1</sup>

Continued economic growth in China was a major factor driving the expansion in trade. Since 1989, China's real GDP has increased by over 300 percent, compared to the United States' increase of over 50 percent during the same period,<sup>2</sup> albeit from a much smaller base. Many manufacturing facilities in China across various industries are owned by foreign companies; Chinese customs data indicate foreign-owned firms account for approximately 60 percent of China's exports.<sup>3</sup>

## **U.S. exports**

U.S. exports to China continued to grow in 2005, increasing by approximately \$6.3 billion (19 percent). The largest increase in the value of U.S. exports occurred in the transportation sector, followed by minerals and metals and electronic products (table CHINA-1). Sectors experiencing the largest export increases include aircraft and related equipment, certain base metals and chemical elements, and unwrought aluminum, while sectors experiencing the greatest export declines included semiconductor manufacturing equipment and cereals (table CHINA-2).

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<sup>1</sup> U.S. imports under the special provisions category accounted for an increase of \$543 million in 2005.

<sup>2</sup> McMillion, "Economic Growth During Last 15 Years, China's Growth Far Exceeds US Rate."

<sup>3</sup> Barboza, "Some Assembly Needed: China as Asia Factory."

Table CHINA-1

China: U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by major industry/commodity sectors, 2001-2005<sup>1</sup>

Item	2001	2002	2003	2004	2005	Change, 2005 from 2004	
						Absolute	Percent
<i>Million dollars</i>							
U.S. exports of domestic merchandise:							
Agricultural products	2,101	2,128	5,129	5,879	5,648	-232	-3.9
Forest products	820	1,058	1,314	1,651	1,995	344	20.9
Chemicals and related products	2,315	3,069	3,816	5,061	5,831	770	15.2
Energy-related products	130	142	180	289	221	-68	-23.5
Textiles and apparel	261	339	405	501	629	129	25.7
Footwear	46	35	36	31	41	10	32.2
Minerals and metals	1,497	1,539	2,636	3,197	5,215	2,018	63.1
Machinery	2,356	2,730	3,091	4,729	4,275	-454	-9.6
Transportation equipment	3,198	4,293	3,757	3,835	6,440	2,606	67.9
Electronic products	4,892	4,855	5,934	6,902	7,951	1,049	15.2
Miscellaneous manufactures	136	137	143	185	222	36	19.7
Special provisions	208	228	266	346	389	42	12.2
Total	17,959	20,553	26,707	32,606	38,857	6,250	19.2
U.S. imports of merchandise for consumption:							
Agricultural products	1,489	1,896	2,470	2,925	3,365	440	15.0
Forest products	2,168	2,749	3,362	4,398	5,463	1,065	24.2
Chemicals and related products	5,333	6,262	7,438	9,287	12,240	2,953	31.8
Energy-related products	406	457	561	1,063	1,023	-40	-3.8
Textiles and apparel	11,124	12,602	15,426	18,902	26,937	8,035	42.5
Footwear	9,767	10,242	10,546	11,348	12,654	1,306	11.5
Minerals and metals	7,250	8,656	10,054	13,890	17,553	3,664	26.4
Machinery	8,620	10,467	13,922	17,585	21,314	3,728	21.2
Transportation equipment	1,773	2,302	3,072	4,548	6,072	1,524	33.5
Electronic products	27,231	36,270	47,150	69,153	86,716	17,563	25.4
Miscellaneous manufactures	25,690	31,490	35,812	40,712	46,411	5,699	14.0
Special provisions	1,218	1,401	1,808	2,348	2,891	543	23.1
Total	102,069	124,796	151,620	196,160	242,638	46,478	23.7
U.S. merchandise trade balance:							
Agricultural products	612	232	2,659	2,954	2,283	-671	-22.7
Forest products	-1,348	-1,691	-2,048	-2,747	-3,468	-720	-26.2
Chemicals and related products	-3,017	-3,193	-3,622	-4,225	-6,409	-2,184	-51.7
Energy-related products	-276	-315	-381	-774	-802	-28	-3.6
Textiles and apparel	-10,863	-12,263	-15,021	-18,401	-26,308	-7,906	-43.0
Footwear	-9,721	-10,207	-10,510	-11,317	-12,613	-1,296	-11.5
Minerals and metals	-5,754	-7,117	-7,418	-10,692	-12,339	-1,646	-15.4
Machinery	-6,265	-7,737	-10,831	-12,856	-17,039	-4,182	-32.5
Transportation equipment	1,425	1,990	686	-713	369	1,082	( <sup>2</sup> )
Electronic products	-22,340	-31,414	-41,216	-62,251	-78,764	-16,513	-26.5
Miscellaneous manufactures	-25,554	-31,353	-35,669	-40,527	-46,189	-5,662	-14.0
Special provisions	-1,010	-1,173	-1,542	-2,002	-2,502	-501	-25.0
Total	-84,110	-104,243	-124,913	-163,553	-203,781	-40,228	-24.6

<sup>1</sup>Import values are based on customs value; export values are based on f.a.s. value, U.S. port of export.<sup>2</sup>Not meaningful for purposes of comparison.

Note.—Calculations based on unrounded data.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table CHINA-2

Leading changes in U.S. exports to and U.S. imports from China, 2001–2005<sup>1</sup>

Sector/commodity	2001	2002	2003	2004	2005	Change, 2005 from 2004		
						Absolute	Percent	
	<i>Million dollars</i>							
<b>U.S. EXPORTS:</b>								
<b>Increases:</b>								
Aircraft, spacecraft, and related equipment (ET013) . .	2,429	3,367	2,447	1,948	4,338	2,391	122.8	
Minerals and metals:								
Certain base metals and chemical elements (MM041) . . . . .	29	30	47	106	545	439	414.3	
Unwrought aluminum (MM037) . . . . .	158	170	240	356	730	374	105.3	
Iron and steel waste and scrap (MM023) . . . . .	419	447	682	924	1,258	334	36.1	
Semiconductors and integrated circuits (ET033) . . . . .	946	1,238	2,025	2,303	2,676	373	16.2	
<b>Decreases:</b>								
Semiconductor manufacturing machinery (MM087A) . .	338	551	529	1,261	662	-599	-47.5	
Cereals (AG030) . . . . .	22	29	36	496	80	-417	-84.0	
<b>All other</b> . . . . .	13,617	14,721	20,701	25,213	28,567	3,355	13.3	
<b>TOTAL</b> . . . . .	17,959	20,553	26,707	32,606	38,857	6,250	19.2	
<b>U.S. IMPORTS:</b>								
<b>Increases:</b>								
Apparel (CH049) . . . . .	8,912	9,602	11,408	13,640	19,962	6,322	46.4	
Electronic products:								
Computers, peripherals, and parts (ET035) . . . . .	10,548	14,928	22,141	33,985	40,298	6,313	18.6	
Telephone and telegraph apparatus (ET017) . . . . .	3,222	4,659	5,932	9,556	14,410	4,854	50.8	
Consumer electronics (except televisions) (ET018) . .	6,229	8,168	8,761	11,581	13,634	2,053	17.7	
Prerecorded media (ET020) . . . . .	59	58	85	98	133	35	35.4	
<b>Decreases:</b>								
Coal, coke, and related chemical products (CH003) . . .	67	101	108	657	379	-278	-42.3	
Motorcycles, mopeds, and parts (ET011) . . . . .	38	59	263	499	330	-169	-33.8	
Photographic cameras and equipment (ET039) . . . . .	919	766	843	760	622	-138	-18.1	
<b>All other</b> . . . . .	72,076	86,455	102,079	125,382	152,868	27,486	21.9	
<b>TOTAL</b> . . . . .	102,069	124,796	151,620	196,160	242,638	46,478	23.7	

<sup>1</sup>Import values are based on customs value; export values are based on f.a.s. value, U.S. port of export.

Note.—Calculations based on unrounded data.

Source: Compiled from official statistics of the U.S. Department of Commerce.

In 2005, the transportation sector accounted for the largest increase in U.S. exports in absolute terms, primarily the aircraft, spacecraft, and related equipment product group. Aircraft and related equipment accounted for the largest increase in U.S. exports, increasing over \$2 billion (123 percent). Large civil aircraft accounted for approximately \$1.6 billion of the increase, primarily due to Boeing filling twice the number of orders to China as in the previous year (33 aircraft versus 16 in 2004).<sup>4</sup>

U.S. exports of minerals and metals, primarily scrap metals, have steadily increased over the past few years, boosted by factors such as China's expansion of its infrastructure.<sup>5</sup> In 2005, the United States increased its exports to China in this sector by over 63 percent to approximately \$5.2 billion. During the same period, U.S. exports of certain base metals and chemical elements increased by \$439 million (414 percent) and unwrought aluminum increased by \$374 million (105 percent) due primarily to China's demand for certain base metals and chemical elements such as waste and scrap of gallium, hafnium, indium, niobium, or rhenium. The increase in U.S. exports of unwrought aluminum was primarily attributed to the increase in exports of aluminum waste and scrap, which more than doubled in 2005.<sup>6</sup> In 2005, China's steel output increased from 272.5 million metric tons to 349.4 million metric tons, an increase of almost 30 percent from 2004, which likely increased their demand for scrap metals from sources such as the United States.

The United States continued in 2005 to increase exports of electronic products in a variety of sectors such as semiconductors and integrated circuits; computer equipment; optical goods; measuring, testing, and controlling instruments; and medical goods. Meanwhile, several sectors in this category had noticeable decreases in exports. For instance, exports of semiconductor manufacturing equipment declined for the first time in several years. The \$599 million decrease was primarily attributable to inventory overhang as Chinese semiconductor firms had over-produced less advanced chips.<sup>7</sup> As a result, many firms lowered production, focused on selling off the accumulated inventory, and purchased less semiconductor manufacturing equipment.<sup>8</sup>

## **U.S. imports**

U.S. imports from China increased by almost \$46.5 billion (24 percent) to \$242.6 billion in 2005. The three sectors that experienced the largest growth were electronic products, textiles and apparel, and miscellaneous manufactures. The combined growth in these sectors accounted for over 67 percent of the total increase in U.S. imports. Further, every sector except for energy-related products experienced an increase in imports from China (table CHINA-1).

Electronic products continued to lead the growth in U.S. imports, accounting for nearly 38 percent (\$17.6 billion) of the total growth. Sectors that experienced the largest increases in U.S. imports were computer equipment, telephone equipment, and televisions and other consumer electronics.

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<sup>4</sup> Boeing, *Orders and Deliveries*.

<sup>5</sup> See the Minerals and Metals section for more details.

<sup>6</sup> Schaffer, "A rude grade of aluminum scrap grabs the global limelight," 6; and Foster, "Beijing rolls out a new set of numbers and ups its recycling goals," 8.

<sup>7</sup> McArdle and Wang, "Semiconductor Equipment," 11.

<sup>8</sup> See the Machinery write-up for more details.

U.S. imports of computer equipment from China, primarily laptop computers, desktop systems, peripherals, and parts, increased in 2005. To some degree these imports represent a shift to China from other countries, with the location and/or investment of foreign firms in China. For example, a major producer of laptop computers, particularly for original equipment manufacturers, began shifting production to China after the Taiwan government relaxed certain restrictions on overseas production in 2001-02. U.S. imports of laptops from China in 2005 were \$10.7 billion.

U.S. imports of telecommunications products from China increased by \$4.9 billion in 2005. Factors such as converging technologies, industry consolidation, and increased wireless usage have contributed to growth in demand for telecommunications products. According to one industry source, users spent approximately 22.6 percent more on wireless devices such as cellular phones and personal digital assistants in 2005 than in 2004.<sup>9</sup> Further, many European and U.S. cellular phone manufacturers have invested heavily in China.<sup>10</sup>

Imports of television receivers and video monitors increased by \$2.7 billion (110 percent) to \$5.1 billion in 2005. Like many other industries, both U.S. and other foreign color television producers have shifted their production and assembly to China and other low cost producing countries to take advantage of cheaper labor and parts.

The majority of the 43 percent increase in the U.S. trade deficit in textiles and apparel (\$7.9 billion) occurred in the apparel sector. U.S. imports of apparel increased by over 46 percent following the elimination of the MFA quotas on textiles and apparel on January 1, 2005, which permitted China to send more apparel products to the United States than in previous years.

China is the dominant supplier of most products in the miscellaneous manufactures sector. The majority of products covered in the broad industry sector are produced in China under license from U.S. companies. U.S. import categories in this sector with the largest trade shifts in 2005 were furniture, video games, toys, lamps and lighting fixtures, luggage and handbags, seat covers, and sporting goods such as baseballs and tennis rackets.<sup>11</sup> Factors such as a strong U.S. economy, high levels of consumer confidence, low mortgage interest rates, and increased air travel contributed to increased demand and consumption of products in these sectors.<sup>12</sup>

During 2005, imports of coal, coke, and related chemical products from China decreased by \$278 million (42 percent) after several years of increases, particularly in 2004. This decrease was due in part to new coke capacity opening domestically, thus alleviating the need for imports.

Imports of motorcycles, mopeds, and parts from China declined by \$169 million (34 percent) in 2005. The decline is likely due to Chinese Government efforts to consolidate hundreds of companies into a smaller number of stronger companies and to improve the quality of products exported.

China surpassed Japan to become the largest source of U.S. imports of photographic cameras and equipment in 2005. Imports from China in this category declined 18 percent (\$138

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<sup>9</sup> Pappalardo, "Study: Telecom is over the hump."

<sup>10</sup> Technofusion, "China tech exports overtake US: Report."

<sup>11</sup> Carroll, "First Half Imports up 11 Percent; China's Growth Slows."

<sup>12</sup> Meyer, "Distribution Channels Shift As Lamp Market Size Increases;" Ellis, "U.S. Imports of Apparel and Textiles Hit Their Highest First-Quarter Level Ever;" and Trottman, "Bad Weather, Tough Choices."

million) in 2005, compared to a 30 percent decline in imports from Japan and a 36 percent decline in imports from Mexico. The decline in imports in this category was led by the 31 percent reduction in imports of 35mm analog cameras as consumer demand shifted from analog to digital. In 2000, 81 percent of U.S. camera sales were analog and 19 percent were digital, but these percentages had reversed by 2005, when 18 percent of camera sales were analog and 82 percent were digital.<sup>13</sup>

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<sup>13</sup> Photo Marketing Association International, "Photo Industry 2005."

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