
China

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Change in 2004 from 2003:

U.S. trade deficit: Increased \$38.6 billion (31 percent) to \$163.6 billion

U.S. exports: Increased \$5.9 billion (22 percent) to \$32.6 billion

U.S. imports: Increased \$44.5 billion (29 percent) to \$196.2 billion

- The U.S. merchandise trade deficit with China widened at an accelerated pace in 2004, reflecting growing U.S. demand for certain consumer goods from China, the leading global supplier, and slower growth in Chinese demand for the products in which the United States has a comparative advantage (food and capital goods). The U.S. trade deficit with China expanded by \$38.6 billion in 2004, compared with increases of \$20.1 billion in 2002 and \$20.7 billion in 2003 (table CHINA-1). This substantial increase accounted for 29 percent of the total growth in the U.S. merchandise deficit in 2004 (table US-3). Moreover, although the deficit with China climbed 31 percent in terms of value in 2004, the U.S. merchandise trade deficit with all other countries rose only 20 percent.¹
- Whereas some sources attribute much of the expansion in the U.S. merchandise trade deficit with China to an undervalued yuan,² others note that a significant share of China's exports is accounted for by foreign content and that a revaluation of the yuan would make imported inputs in China less expensive, lessening the effectiveness of revaluation as a tool to reduce the U.S. trade deficit.³ Some analysts have also noted that many of the goods imported from China are no longer produced competitively in the United States and a revaluation of the yuan would lead to an increase in consumer prices for such products, thereby increasing the U.S. deficit.⁴
- U.S. exports to and U.S. imports from China during 2000–2004 each approximately doubled, although export growth was from a much smaller base. China had an annual trade surplus with the United States during 2002–2004 but an annual trade deficit with the rest of the world during this period.⁵ Some of China's leading imports in 2004 included petroleum from the Persian Gulf and Africa, iron ore from Australia and Brazil, copper from Chile and Peru, logs from Russia and Canada, grains from the United States and Canada, cotton from Pakistan and the United States,

¹ In testimony before the House Financial Services Committee, U.S. Treasury Secretary John Snow indicated that the expanding U.S. trade deficit reflects growth in the U.S. economy, a low U.S. savings rate, and relatively slow economic growth in Europe and Japan. The latter dampens U.S. export performance. Brett Ferguson, "House Legislators Say Support for CAFTA Hinges on Bush Actions on China's Currency," *BNA International Trade Daily*, Apr. 20, 2005.

² See National Association of Manufacturers, *The NAM Trade Agenda for China 2005*, Feb. 1, 2005, found at http://www.nam.org/s_nam/bin.asp?CID=46&DID=233030&DOC=FILE.PDF, retrieved May 19, 2005.

³ See Douglas Holtz-Eakin, "Economic Relationships Between the United States and China," testimony before the House Committee on Ways and Means, Apr. 14, 2005, found at <http://www.cbo.gov/ftpdocs/62xx/doc6274/04-14-ChinaTestimony.pdf>, retrieved May 19, 2005.

⁴ U.S.-China Economic and Security Review Commission, *2004 Report to Congress*, June 2004.

⁵ "Economic Summary: Surprised by Fast Economic Growth? Not Us," *China Watch*, Jan. 2005, p. 3.

Table CHINA-1

China: U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by major industry/commodity sectors, 2000–2004¹

| Item | 2000 | 2001 | 2002 | 2003 | 2004 | Change, 2004 from 2003 | | |
|--|------------------------|---------|----------|----------|----------|------------------------|------------------|--|
| | | | | | | Absolute | Percent | |
| | <i>Million dollars</i> | | | | | | | |
| U.S. exports of domestic merchandise: | | | | | | | | |
| Agricultural products | 1,895 | 2,101 | 2,128 | 5,129 | 5,879 | 750 | 14.6 | |
| Forest products | 787 | 820 | 1,058 | 1,314 | 1,651 | 337 | 25.6 | |
| Chemicals and related products | 2,430 | 2,315 | 3,069 | 3,816 | 5,061 | 1,245 | 32.6 | |
| Energy-related products | 86 | 130 | 142 | 180 | 289 | 109 | 60.3 | |
| Textiles and apparel | 221 | 261 | 339 | 405 | 501 | 96 | 23.8 | |
| Footwear | 43 | 46 | 35 | 36 | 31 | -5 | -14.9 | |
| Minerals and metals | 1,333 | 1,497 | 1,539 | 2,636 | 3,197 | 561 | 21.3 | |
| Machinery | 1,898 | 2,356 | 2,730 | 3,091 | 4,729 | 1,638 | 53.0 | |
| Transportation equipment | 2,368 | 3,198 | 4,293 | 3,757 | 3,835 | 77 | 2.1 | |
| Electronic products | 3,926 | 4,892 | 4,855 | 5,934 | 6,902 | 968 | 16.3 | |
| Miscellaneous manufactures | 132 | 136 | 137 | 143 | 185 | 42 | 29.7 | |
| Special provisions | 218 | 208 | 228 | 266 | 346 | 81 | 30.4 | |
| Total | 15,335 | 17,959 | 20,553 | 26,707 | 32,606 | 5,899 | 22.1 | |
| U.S. imports of merchandise for consumption: | | | | | | | | |
| Agricultural products | 1,396 | 1,489 | 1,896 | 2,470 | 2,925 | 455 | 18.4 | |
| Forest products | 1,967 | 2,168 | 2,749 | 3,362 | 4,398 | 1,037 | 30.8 | |
| Chemicals and related products | 4,942 | 5,333 | 6,262 | 7,438 | 9,287 | 1,849 | 24.9 | |
| Energy-related products | 596 | 406 | 457 | 561 | 1,063 | 502 | 89.3 | |
| Textiles and apparel | 10,710 | 11,124 | 12,602 | 15,426 | 18,902 | 3,476 | 22.5 | |
| Footwear | 9,206 | 9,767 | 10,242 | 10,546 | 11,348 | 801 | 7.6 | |
| Minerals and metals | 6,947 | 7,250 | 8,656 | 10,054 | 13,890 | 3,835 | 38.1 | |
| Machinery | 7,742 | 8,620 | 10,467 | 13,922 | 17,585 | 3,663 | 26.3 | |
| Transportation equipment | 1,991 | 1,773 | 2,302 | 3,072 | 4,548 | 1,477 | 48.1 | |
| Electronic products | 27,588 | 27,231 | 36,270 | 47,150 | 69,153 | 22,003 | 46.7 | |
| Miscellaneous manufactures | 25,365 | 25,690 | 31,490 | 35,812 | 40,712 | 4,901 | 13.7 | |
| Special provisions | 1,132 | 1,218 | 1,401 | 1,808 | 2,348 | 540 | 29.9 | |
| Total | 99,581 | 102,069 | 124,796 | 151,620 | 196,160 | 44,539 | 29.4 | |
| U.S. merchandise trade balance: | | | | | | | | |
| Agricultural products | 499 | 612 | 232 | 2,659 | 2,954 | 295 | 11.1 | |
| Forest products | -1,180 | -1,348 | -1,691 | -2,048 | -2,747 | -700 | -34.2 | |
| Chemicals and related products | -2,512 | -3,017 | -3,193 | -3,622 | -4,225 | -604 | -16.7 | |
| Energy-related products | -510 | -276 | -315 | -381 | -774 | -393 | -103.1 | |
| Textiles and apparel | -10,489 | -10,863 | -12,263 | -15,021 | -18,401 | -3,380 | -22.5 | |
| Footwear | -9,163 | -9,721 | -10,207 | -10,510 | -11,317 | -807 | -7.7 | |
| Minerals and metals | -5,614 | -5,754 | -7,117 | -7,418 | -10,692 | -3,274 | -44.1 | |
| Machinery | -5,844 | -6,265 | -7,737 | -10,831 | -12,856 | -2,025 | -18.7 | |
| Transportation equipment | 377 | 1,425 | 1,990 | 686 | -713 | -1,399 | (²) | |
| Electronic products | -23,662 | -22,340 | -31,414 | -41,216 | -62,251 | -21,035 | -51.0 | |
| Miscellaneous manufactures | -25,233 | -25,554 | -31,353 | -35,669 | -40,527 | -4,858 | -13.6 | |
| Special provisions | -914 | -1,010 | -1,173 | -1,542 | -2,002 | -460 | -29.8 | |
| Total | -84,245 | -84,110 | -104,243 | -124,913 | -163,553 | -38,640 | -30.9 | |

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

²Not meaningful for purposes of comparison.

Note.—Calculations based on unrounded data.

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

and electronic components from other countries in East Asia, mostly for use in the assembly of products for export to the United States and Europe.

U.S. exports

- U.S. exports to China grew by \$5.9 billion (22 percent) in 2004, compared with 12 percent growth for global U.S. exports. The continuation of China's decade-long rapid gross domestic product (GDP) growth attracted investments in fixed assets from foreign and domestic sources.⁶ Demand for imported building materials for the construction industry and capital equipment and components for the export sector contributed to 36 percent growth in China's total imports.⁷
- The leading increases in U.S. exports to China in 2004 were in capital goods (semiconductor manufacturing equipment and measuring, testing, and controlling instruments), intermediate industrial inputs (chemicals and semiconductors), agricultural products (cotton and cereals), and aircraft engines (table CHINA-2). The largest decreases in U.S. exports to China were in oilseeds and aircraft.
- Much of the foreign investment and technology in China's electronics products sector has come from Taiwan. The establishment of additional semiconductor foundries in China has increased the demand in China for semiconductor manufacturing machinery, with U.S. exports more than doubling to \$1.3 billion in 2004. Semiconductors produced in China, however, reportedly are commodity-type articles, forcing China to import semiconductors incorporating the latest technology to maintain China's rapidly expanding production of personal computers, cell phones, and televisions. As such, U.S. exports of semiconductors and integrated circuits to China rose \$279 million (14 percent) to \$2.3 billion in 2004.
- Strong growth in 2004 was recorded in other categories of intermediate goods used in the manufacture of products for domestic consumption in China and for export processing. U.S. exports of cotton nearly doubled to \$1.4 billion as China's own cotton production could not satisfy the demand for cotton fabric as China's apparel industry added production capacity in anticipation of the end of apparel quotas under the WTO Agreement on Textiles and Clothing. Collectively, U.S. exports of certain organic and miscellaneous inorganic chemicals rose by \$445 million (67 percent) to \$1.1 billion.⁸
- Accelerated production of power-generating plants to combat China's shortages of electricity⁹ and increased demand for parts to maintain and upgrade existing power plants led to a \$216 million rise in U.S. exports of parts for gas turbine engines.
- A \$460 million increase (13-fold) to \$496 million in U.S. exports of wheat to China failed to offset a \$500 million decline in U.S. exports of soybeans (18 percent) to \$2.3

⁶ China's State Statistical Bureau reported that the country's GDP grew by 9.5 percent in 2004. However, the same agency also reported that GDP was \$1.649 trillion in 2004 compared with \$1.409 trillion in 2003. That translates to an increase of 17.0 percent. *Ibid.*, p. 1.

⁷ Although China's total imports grew by 36 percent in 2004 to \$561 billion, its exports to the world increased by 35 percent to \$593 billion. *Ibid.*, p. 3.

⁸ The products accounting for the largest increases in U.S. exports of chemicals to China in 2004 were aluminum oxide (by \$105 million) and ethanediol (by \$78 million).

⁹ Peter Goodman, "Power Drain: Surging Coal Prices Sour Energy Investments in China," *Washington Post*, May 3, 2005, p. E1.

Table CHINA-2

Leading changes in U.S. exports to and U.S. imports from China, 2000–2004¹

| Sector/commodity | 2000 | 2001 | 2002 | 2003 | 2004 | Change, 2004 from 2003 | |
|---|------------------------|--------|--------|--------|--------|------------------------|---------|
| | | | | | | Absolute | Percent |
| | <i>Million dollars</i> | | | | | | |
| U.S. EXPORTS: | | | | | | | |
| Increases: | | | | | | | |
| Semiconductor manufacturing machinery (MM087A) . . . | 293 | 338 | 551 | 529 | 1,261 | 732 | 138.3 |
| Agricultural products: | | | | | | | |
| Cotton, not carded or combed (AG049) | 46 | 43 | 138 | 733 | 1,407 | 674 | 91.9 |
| Cereals (AG030) | 28 | 22 | 29 | 36 | 496 | 460 | 1,285.6 |
| Electronic products: | | | | | | | |
| Semiconductors and integrated circuits (ET033) . . . | 686 | 946 | 1,238 | 2,025 | 2,303 | 279 | 13.8 |
| Measuring, testing, and controlling instruments (ET043) | 388 | 518 | 592 | 782 | 996 | 215 | 27.5 |
| Chemicals and related products: | | | | | | | |
| Certain organic chemicals (CH012) | 275 | 216 | 276 | 469 | 717 | 248 | 53.0 |
| Miscellaneous inorganic chemicals (CH013) | 119 | 131 | 179 | 196 | 393 | 197 | 100.3 |
| Iron and steel waste and scrap (MM023) | 216 | 419 | 447 | 682 | 924 | 242 | 35.5 |
| Aircraft engines and gas turbines (ET001) | 97 | 139 | 157 | 237 | 453 | 216 | 91.5 |
| Decreases: | | | | | | | |
| Oilseeds (AG032) | 1,013 | 1,014 | 890 | 2,832 | 2,333 | -500 | -17.6 |
| Aircraft, spacecraft, and related equipment (ET013) . . | 1,689 | 2,429 | 3,367 | 2,447 | 1,948 | -499 | -20.4 |
| All other | 10,484 | 11,743 | 12,689 | 15,740 | 19,375 | 3,635 | 23.1 |
| TOTAL | 15,335 | 17,959 | 20,553 | 26,707 | 32,606 | 5,899 | 22.1 |
| U.S. IMPORTS: | | | | | | | |
| Increases: | | | | | | | |
| Electronic products: | | | | | | | |
| Computers, peripherals, and parts (ET035) | 10,670 | 10,548 | 14,928 | 22,141 | 33,985 | 11,844 | 53.5 |
| Telephone and telegraph apparatus (ET017) | 2,942 | 3,222 | 4,659 | 5,932 | 9,556 | 3,624 | 61.1 |
| Consumer electronics (except televisions) (ET018) . . | 6,252 | 6,229 | 8,168 | 8,761 | 11,581 | 2,820 | 32.2 |
| Television receivers and video monitors (ET022) . . . | 186 | 263 | 849 | 1,490 | 2,438 | 949 | 63.7 |
| Textiles and apparel: | | | | | | | |
| Apparel (CH049) | 8,528 | 8,912 | 9,602 | 11,408 | 13,640 | 2,232 | 19.6 |
| Home furnishings (CH048) | 702 | 729 | 1,158 | 1,737 | 2,434 | 697 | 40.1 |
| Miscellaneous manufactures: | | | | | | | |
| Furniture (MM054) | 4,060 | 4,608 | 6,396 | 7,964 | 9,773 | 1,809 | 22.7 |
| Luggage, handbags, and flat goods (MM046) | 2,208 | 2,208 | 2,815 | 3,209 | 3,997 | 788 | 24.6 |
| Household appliances, including commercial applications (MM073) | 2,374 | 2,845 | 3,422 | 4,063 | 4,947 | 884 | 21.8 |
| Steel mill products (MM025) | 457 | 285 | 264 | 269 | 1,104 | 835 | 310.5 |
| Footwear (CH051) | 9,206 | 9,767 | 10,242 | 10,546 | 11,348 | 801 | 7.6 |

Table CHINA-2—*Continued*

Leading changes in U.S. exports to and U.S. imports from China, 2000–2004¹

| Sector/commodity | 2000 | 2001 | 2002 | 2003 | 2004 | Change, 2004 from 2003 | |
|-------------------------------|--------|---------|---------|---------|---------|------------------------|---------|
| | | | | | | Absolute | Percent |
| <i>Million dollars</i> | | | | | | | |
| U.S. IMPORTS—Continued | | | | | | | |
| Decreases: | | | | | | | |
| Dolls (MM058) | 1,295 | 1,073 | 1,160 | 1,119 | 925 | -194 | -17.3 |
| All other | 50,700 | 51,380 | 61,132 | 72,981 | 90,430 | 17,449 | 23.9 |
| TOTAL | 99,581 | 102,069 | 124,796 | 151,620 | 196,160 | 44,539 | 29.4 |

¹Import 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.

billion. Sharp swings in U.S. exports of such products are common as demand in China is influenced by the size of China's own production of those crops.

- The trend in U.S. exports of aircraft to China is influenced by delivery schedules included in long-term contracts between U.S. producers and customers in China, as well as intense competition from Airbus. The decrease in U.S. exports to \$1.9 billion in 2004 follows a decline in 2003 from a peak of \$3.4 billion in 2002 (for the period 2000–2004).

U.S. imports

- Electronic products led the growth in U.S. imports from China in 2004, rising \$22 billion (47 percent) to \$69.2 billion. These products accounted for nearly one-half of the total increase in U.S. imports from China (\$44.5 billion) (see table CHINA-1). Electronic products represented 35 percent of total U.S. imports from China. Although imports of textiles and apparel rose \$3.5 billion (22 percent) to \$18.9 billion, that sector's share of total U.S. imports from China slipped to 10 percent in 2004. Growth in U.S. imports from China in 2004 was topped by computer and telephone equipment, televisions and other consumer electronics, apparel, furniture, household appliances, and steel (see table CHINA-2).¹⁰
- The computer equipment industry in China has benefited from Taiwanese, U.S., European, Japanese, and Korean companies that have transferred production to joint ventures, subsidiaries, and contractors in China. U.S. imports of computer hardware and peripherals from China climbed \$11.8 billion (54 percent) to \$34.0 billion in 2004 (see table CHINA-2). That increase accounted for 96 percent of the growth in total U.S. imports of computer hardware and peripherals in 2004. China increased its share of total U.S. imports of computer hardware and peripherals to 38 percent in 2004 from 12 percent in 2000.
- The world's leading producers of cell phones have established subsidiaries or joint ventures in China. With the rapid transfer of technology in the industry, wholly owned Chinese companies are challenging the multinationals for global market share. Reflecting these developments, U.S. imports of telephone equipment from China rose \$3.6 billion (61 percent) to \$9.6 billion in 2004. Imports from China accounted for nearly one-quarter of all U.S. imports in the category.
- Collectively, U.S. imports of consumer electronics and televisions from China rose \$3.8 billion (38 percent) to \$14.0 billion in 2004. Japanese, Korean, Taiwanese, and European consumer electronics companies are continuing to shift production or assembly to subsidiaries, joint ventures, or contract manufacturers in China in hopes of lowering their costs of production and eventually selling their products to the growing consumer market in China.
- U.S. imports from China of color television receivers, video monitors, and video projectors with flat-panel screens more than doubled in 2004, from \$647 million to \$1.6 billion, reflecting the shift in the U.S. market toward home entertainment systems based on more advanced technology. U.S. imports from China of certain non-high definition color television receivers declined by \$325 million (60 percent) to \$219 million in 2004, following issuance of a U.S. antidumping duty order in April 2004 on U.S. imports of

¹⁰ Computer hardware and peripherals accounted for 17 percent of total U.S. imports from China in 2004, followed by apparel (7 percent), consumer electronics (6 percent), footwear (6 percent), furniture (5 percent), and telephone equipment (5 percent).

such televisions from China.¹¹ Total U.S. imports from China in the television receivers and video monitors category, however, grew \$949 million (64 percent) to \$2.4 billion in 2004.

- Products leading the growth in U.S. imports of consumer electronics from China were televisions; sound recording apparatus, other than magnetic tape recorders, up \$1.1 billion (392 percent) to \$1.4 billion; and digital still image video cameras, up \$758 million (59 percent) to \$2.0 billion. For many consumer electronic products, there is little or no production remaining in the United States, with the growth in imports from China reflecting both increased demand in the United States and a shift in sourcing to China from other countries in East Asia.
- The continued phaseout of global textile and apparel quotas contributed to the \$2.2 billion (20 percent) increase in U.S. imports of Chinese apparel to \$13.6 billion and the \$697 million rise (40 percent), to \$2.4 billion, in imports of home furnishings from China in 2004. The sharpest growth came in categories for which the quotas were eliminated on or before Jan. 1, 2004, such as socks, curtains, blankets, and pillows.
- U.S. imports of furniture from China rose \$1.8 billion (23 percent) to \$9.8 billion in 2004. The expansion reflects a shift in worldwide production to China as furniture companies have sought to reduce costs. Although some U.S. and Taiwanese furniture companies have established joint ventures in China, others have supplied contract manufacturers in China with designs, specifications, and production technology.
- China has become the leading supplier of countertop appliances to global markets. U.S. imports of household appliances from China grew by \$884 million (22 percent) to \$4.9 billion in 2004. The leading increases were in miscellaneous electrothermic heating appliances, up \$139 million (36 percent) to \$527 million; electric shavers, up \$111 million (128 percent) to \$197 million; and microwave ovens, up \$100 million (31 percent) to \$419 million.
- Steel imports from China increased fourfold, from \$269 million in 2003 to \$1.1 billion in 2004. The increase reflects a strong U.S. economy relative to its trading partners and substantial global price increases for steel products as a result of increases in the costs of raw materials and energy used in steel making. In addition, the weakening of the dollar made Chinese steel more price-competitive relative to steel from other countries as the yuan is pegged to the dollar.

¹¹ 69 FR 31347.