Committee on Ways and Means

U.S. Trade Deficit with China

- China is the sixth largest export market for U.S. goods and services and by the end of 2003 the second largest source of imports into the United States.

- The U.S. trade deficit with China was approximately $125 billion for calendar year 2003. The U.S. trade deficit with China is about one-fourth of the total U.S. trade deficit.

- Exports to China are increasing more rapidly than U.S. exports generally. For the last decade, China has been the fastest growing large export market for the United States. Increased exports are the key to reducing trade deficits.

- The principal reason for the recent increases in the overall U.S. trade deficit is the relative strength of the U.S. economy. Strong consumer demand has lead to an increase in imports while slower growth in much of the industrialized world has limited export growth.

- Although the U.S. trade deficit with China has increased, U.S. exports to China have increased and imports from other East Asian countries have decreased.

    - While U.S. imports from China increased by 48% between 2001 and 2003, U.S. exports to China increased by the same percentage and imports from the rest of East Asia fell by nearly $8 billion.

    - The size of the U.S. trade deficit with China is misleading because China has become an assembler of other countries' component parts, not a producer from scratch. In the past, Asian countries exported directly to the United States. Now, other Asian countries increasingly export partially finished goods to China, and China assembles, finishes, and exports the final products to the United States.

    - Imports provide U.S. manufacturers with the opportunity for international sourcing, which allows them to stay competitive in meeting domestic and export demands by keeping final prices down. In addition, by exerting downward pressure on prices, imports lead to lower prices and wider choices for American consumers, thus raising real income for American workers.

- Part of China's trade surplus is generated by U.S. companies in China doing business with U.S. companies in the United States. In fact, about half of China's exports are produced by foreign invested companies.

- What should be done about the U.S. trade deficit with China?

    - Press China to open its markets for U.S. goods and services. U.S. exports to China have grown well over 125% since 1996, but China must do more to comply with its WTO obligations so that U.S. exports keep pace with increased U.S. imports from China. China's potential as a market is underscored by the fact that U.S. exports to China have increased by three-fourths since 2000, while U.S. exports to the rest of Asia have fallen 14% over the same period.

    - Encourage China to adopt stable, pro-growth fiscal policies. A growing Chinese economy will lead to an increasingly large export market.

    - Adopt policies to encourage competitiveness of U.S. exporters. For example, provisions in the *American Jobs Creation Act* recently passed by the Committee will lower the corporate tax rate on manufacturers, the predominant source of U.S. exports.