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CRS Report for Congress

China's Trade Patterns

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July 15, 1991



CHINA'S TRADE PATTERNS

SUMMARY

Trade between the United States and China has expanded rapidly since the two nations established diplomatic relations in 1979. Over the past five years, however, the United States has experienced a growing trade deficit with China. The U.S. trade deficit with China rose from \$6.2 billion in 1989 to \$10.4 billion in 1990, a 68.5 percent increase, making China the third largest deficit country for the United States (behind Japan and Taiwan). Some trade analysts project that the U.S. trade deficit could reach as high as \$15 billion in 1991. The growing U.S. trade deficit with China has become a significant source of tension between the two nations.

In 1990, China's balance of trade with the world went from a \$6.6 billion deficit to a \$11.1 billion surplus. The large change in China's balance of trade resulted in part from efforts by the Chinese government to boost exports and to limit foreign imports. As a result, the balance of trade of many of China's trading partners has worsened in recent years.

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CHINA'S TRADE PATTERNS

Trade between the United States and China has expanded rapidly since the two nations established diplomatic relations in 1979. Over the past five years, however, the United States has experienced a growing trade deficit with China. The U.S. trade deficit with China rose from \$6.2 billion in 1989 to \$10.4 billion in 1990, a 68.5 percent increase, making China the third largest deficit country for the United States (behind Japan and Taiwan). The U.S. trade deficit with China for the first four months of 1991 was 14.1 percent higher than the comparable period in 1990, indicating that the trade deficit is continuing to increase in 1991. Some trade analysts project that the U.S. trade deficit could reach as high as \$15 billion in 1991.¹ The growing U.S. trade deficit with China has become a significant source of tension between the two nations, and has become a factor in the congressional debate over extending most favored nation (MFN) status to China.

Chinese officials dispute U.S. official trade figures of the U.S.-Chinese trade imbalance. Official Chinese trade statistics for 1990 show a \$1.8 billion trade deficit with the United States, rather than the trade surplus reported by the U.S. Department of Commerce.

In 1990, China's balance of trade with the world went from a \$6.6 billion deficit in 1989 to a \$11.1 billion surplus. The large change in China's balance of trade resulted in part from efforts by the Chinese government to boost exports and limit foreign imports. As a result, several of China's major trading partners, including the United States, experienced a significant deterioration in their balance of trade with China in 1990.

This report examines China's trade patterns in recent years, including a discussion of its major trading partners, leading exports and imports, and factors which have affected its balance of trade. A detailed description of U.S. trade with China is also provided.

CHINA'S WORLD TRADE STATISTICS

Table 1 provides data on China's world trade from 1985-1990. Over this period, according to statistics reported by China to the International Monetary Fund (IMF), China's exports increased by 143.4 percent. China's imports over

¹U.S. Reexamining Trade Relationship With China. *Washington Post*, April 23, 1991, p. D1.

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this period increased by 30.4 percent. China's world trade balance went from a \$15.2 billion deficit in 1985 to a \$11.1 billion surplus in 1990.

TABLE 1. China's Trade With the World: 1985-1990*
(\$ millions)

Year	1985	1986	1987	1988	1989	1990
Exports	27,329	31,367	39,464	47,663	51,754	66,518
Imports	42,480	43,247	43,222	55,352	58,316	55,378
Trade Balance	-15,151	-11,881	-3,758	-7,689	-6,562	11,141
Total Trade	69,809	74,614	82,686	103,014	110,069	121,896

*As reported by China to the International Monetary Fund.
Total trade is exports plus imports.

Source: International Monetary Fund, *Direction of Trade Statistics*.

China's world trade has grown rapidly over the past ten years. In 1979, China was the world's 34th largest exporter and 24th largest importer. In 1989 China was the world's 14th largest exporter and 14th largest importer of merchandise goods.² In 1980, China's foreign trade totalled 12.8 percent of its gross domestic product (GDP). By 1990, this figure nearly doubled to 25.3 percent.

China's top five exports to the world (based on 1989 data) are (1) textile yarn, fabrics and related products (13.3 percent of total exports); (2) clothing and accessories (11.7 percent); (3) petroleum and petroleum products (6.8 percent); (4) vegetables and fruit (3.1 percent); and (5) textile fibers and waste (2.9 percent). China's top five imports from the world are (1) industrial machinery (17.6 percent of total imports); (2) iron and steel (9.8 percent); (3) cereals (5.0 percent); (4) electrical machinery (4.1 percent); and (5) fertilizers (4.0 percent).³

²General Agreement on Tariffs and Trade (GATT). *GATT International Trade 89-90*. Volume I, 1990, p. 30-31.

³The Economist Intelligence Unit. *China, North Korea Country Profile: 1990-1991*. 1990, p. 49. Quoted from China's Customs statistics.

MAJOR TRADING PARTNERS

Based on Chinese trade statistics, China's top five trading partners (in terms of total trade) in 1990 were: Hong Kong (\$42.5 billion), Japan (\$16.7 billion), the United States (\$10.9 billion), West Germany — now part of the united Germany — (\$5.1 billion), and the Soviet Union (\$3.7 billion). Together, total trade (exports plus imports) of these five nations comprised 65.8 percent of China's reported total world trade.

China's trade with Taiwan, which is conducted indirectly via Hong Kong and not counted officially in either Taiwan's or China's official trade reports, has grown sharply over the past few years. Indirect trade between China and Taiwan (via Hong Kong) totalled approximately \$3.5 billion in 1989 and grew to \$4.0 billion in 1990, according to Hong Kong customs statistics. Taiwan's investment in China is estimated at \$1.4 billion.⁴ Trade between the two nations is expected to continue to increase in 1991 as both move toward establishing closer economic ties.

CHINESE RESTRICTIONS ON IMPORTS

Despite the introduction of various economic reforms over the past decade, the Chinese government continues to closely regulate the level and composition of China's trade. China has sought to import capital equipment (especially from Japan and the United States) in order to modernize the Chinese economy, but has also sought to avoid incurring large trade deficits in order to preserve its foreign exchange holdings.

Chinese government control over imports is closely related to its control over the Chinese economy. Each year the government issues an import plan outlining a list of priority products which the government seeks to import for the development of the economy. In developing the priority list, the government attempts to identify the domestic demand for various products and the ability of the domestic economy to provide these products. Any (projected) shortfall in domestic production is made up through imports. During periods of economic downturns, the government often seeks to limit imports in order redirect domestic demand to domestically produced goods. The Chinese government utilizes import bans, high tariffs, restrictive import regulations, and foreign exchange controls to control the level and composition of imports.⁵

Over the past decade, the Chinese government took a number of steps to decentralize its control of foreign trade. These steps included reducing export subsidies, increasing the authority of local governments, independent trading

⁴Increased Trade Links May Lead to Closer Ties For China and Taiwan. *Journal of Commerce*, March 21, 1991, p. 5A.

⁵U.S. Department of State. *Country Reports on Economic Policy and Trade Practices*. February 1991, p. 74.

companies, and export producing factories to sign trade and investment contracts (without approval from the central government), and allowing local entities to retain a certain portion of their foreign exchange earnings. However, during years in which China incurred a large trade deficit, the Chinese government has responded by reasserting its control over foreign trade. For example, China's balance of trade went from a \$1.1 billion deficit in 1984 to a \$15.2 billion deficit in 1985, due largely to a sharp increase in imports of consumer goods. The Chinese government responded to its deteriorating trade balance by tightening restrictions on imports (such as higher tariffs and import bans) and by asserting the central government's right to approve all trade agreements. Due largely to these policies, China's imports in 1986 grew by only 1.8 percent and fell slightly in 1987, while exports continued to increase sharply, hence reducing the trade deficit. Some trade restrictions were relaxed by the central government in 1987 and early 1988, however, imports (and the trade deficit) surged in 1988, prompting the Chinese government to take additional steps to restrict imports.

The largest change in China's trade balance over the past decade occurred over the 1989-1990 period when its trade balance went from a \$6.6 billion deficit to an \$11.1 billion surplus. This resulted from a number of factors. First, the Chinese economy slowed significantly during the past few years, due largely to austerity measures imposed by the Chinese government in 1988 to reign in inflation. China's GNP growth rate went from 11.2 percent in 1988 to 3.9 percent in 1989 (it grew by 5.0 percent in 1990), thus dampening the demand for foreign imports. Second, the Chinese government made large devaluations in its currency in December 1989 and November 1990 in order to boost exports and reduce foreign imports. Third, the Chinese government ordered a sharp curtailment of imports on such products as grain, sugar, steel, fertilizers, crude oil, rubber, timber, polyester fiber, tobacco, cotton, and pesticides, expanded the number of products requiring import licenses from the central government, and sharply increased tariffs and bans on a variety of imports (especially consumer goods).⁶ Fourth, in an effort to boost exports, the Chinese government gave export-producing firms priority access to domestic resources and credit and increased export subsidies. In addition, tariffs and other restrictions on imports of products used as inputs for exports were reduced. Fifth, the Chinese government placed tighter restrictions on the availability and use of foreign exchange, hence increasing the central government's control over the level and composition of trade. Finally, the Chinese government ordered imports from the United States, France, and Australia curtailed in response to sanctions imposed by these countries because of China's human rights abuses.⁷ As a result of these factors, China's (officially reported) total imports fell from \$58.3 billion in 1989 to \$55.4 billion in 1990 — a 5.0 percent decline. China's (officially

⁶Import restrictions were further tightened following the Chinese government's June 1989 crackdown in Tiananmen Square. This was done in order to preserve China's foreign exchange holdings in the face of international sanctions.

⁷DRI/McGraw-Hill. *World Markets Report: China*. August 1990, p. 12.

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reported) world exports, on the other hand, increased by 28.5 percent over this period from \$51.8 billion to \$66.5 billion (see table 1).

UNITED STATES TRADE WITH CHINA

HISTORICAL STATISTICS

U.S. trade with China rose rapidly after the two nations established diplomatic relations (January 1979) and signed a bilateral trade agreement (July 1979). In February 1980, China was granted MFN status by the United States which significantly lowered tariffs on a variety of Chinese products. As a result, total U.S. trade with China in 1980 doubled over the previous year's level to \$4.8 billion. According to the U.S. Department of Commerce, U.S. exports to China rose from \$1.7 billion to \$3.8 billion, while imports from China increased from \$592 million to \$1.1 billion. In 1980, the United States maintained a \$2.7 billion surplus with China. In terms of total trade, China was the 24th largest trading partner of the United States in 1980.

From 1981-1983 U.S. exports to China dropped, while imports from China steadily increased (except for 1983), causing the U.S. trade balance with China to fall to a slight deficit (\$71 million) in 1983. During 1984 and 1985, both U.S. exports to, and imports from, China increased sharply; the U.S. trade deficit with China fell to \$10 million in 1985. By 1985, China had become the United States' 16th largest trading partner.

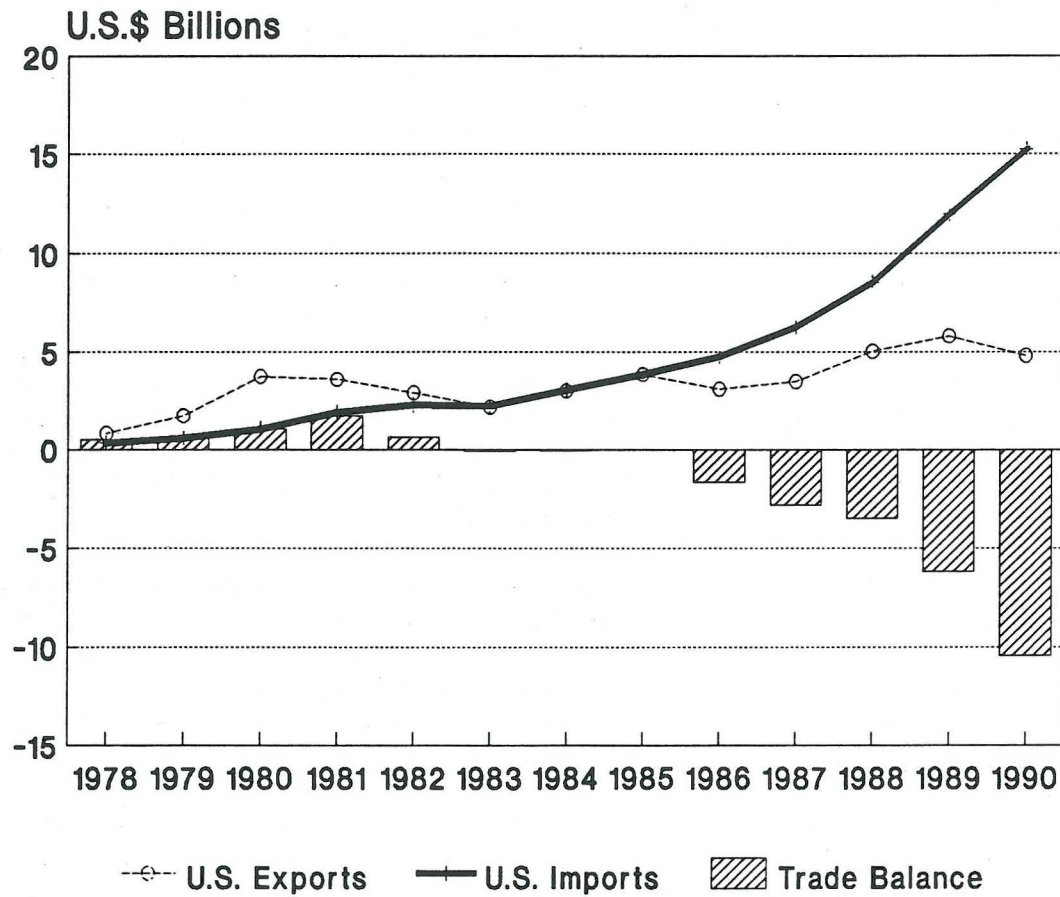
In 1986, the U.S. trade deficit with China rose sharply to \$1.7 billion, as U.S. exports to China declined and imports from China surged. In 1987, the U.S. trade deficit rose to \$2.8 billion, and by 1988 it had risen to \$3.5 billion, as Chinese imports continued to increase sharply. In 1989 U.S. exports to China rose by 15 percent to \$5.8 billion, while U.S. imports from China surged by nearly 41 percent to \$12.0 billion. As a result, the 1989 trade deficit with China nearly doubled over the previous year's level to \$6.2 billion.

In 1990, the U.S. trade deficit with China jumped by 68.5 percent to \$10.4 billion, making China the third largest deficit country for the United States (behind Japan and Taiwan). U.S. exports to China decreased by \$1.0 billion (or 17.2 percent) to \$4.8 billion, while imports increased by \$3.2 billion (or 27.0 percent) to \$15.2 billion (see figure 1). Total U.S. trade with China in 1990 was \$17.8 billion, making China the 10th largest U.S. trading partner.

The trade deficit with China during the first four months of 1991 increased by 14.1 percent over the same period in 1990 (see table 2). Some trade analysts predict that the 1991 trade deficit with China could rise as high as \$15 billion, which would make China the second largest deficit trading partner of the United States after Japan.

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FIGURE 1. U.S. Merchandise Trade with China: 1978-1990



Source: U.S. Department of Commerce.

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TABLE 2. U.S. Merchandise Trade With China: 1978-1990
(\$Millions)

Year	U.S. Exports	U.S. Imports	Trade Balance
1978	821	324	497
1979	1,724	592	1,132
1980	3,754	1,058	2,696
1981	3,603	1,895	1,707
1982	2,912	2,284	628
1983	2,173	2,244	-71
1984	3,004	3,065	-61
1985	3,852	3,862	-10
1986	3,105	4,771	-1,666
1987	3,488	6,293	-2,805
1988	5,033	8,512	-3,479
1989	5,807	11,989	-6,181
1990	4,807	15,224	-10,417
Jan-April 1990	1,600	4,107	-2,504
Jan-April 1991	1,808	4,666	-2,858

General imports, Customs basis.
Trade balance is exports minus imports.
Source: U.S. Department of Commerce.

U.S.-CHINA DISPUTE OVER TRADE STATISTICS

While official U.S. trade statistics show that the United States incurred a \$10.4 billion trade deficit with China in 1990, official Chinese trade statistics report that China incurred a \$1.8 billion deficit with the United States. A large part of this statistical discrepancy is explained by the fact that a significant amount of China's exports are shipped to Hong Kong and then re-exported to other countries. The U.S. Commerce Department counts Chinese products (to the extent possible) which are exported from Hong Kong to the United States as Chinese exports. Chinese trade officials do not count Chinese products which are re-exported from Hong Kong to the United States as part of China's exports to the United States -- they are recorded as Chinese exports to Hong Kong. The large discrepancy in trade reporting has become a contentious issue in talks between China and the United States over the extent of the U.S.-Chinese trade imbalance. In addition, the United States has accused China of seeking to circumvent U.S. textile quotas by re-exporting textile products from Hong Kong and other third countries and labelling those products as originating from those countries.

U.S. TRADE WITH CHINA BY MAJOR COMMODITY

U.S. merchandise exports to China in 1990 totalled \$4.8 billion, compared to \$5.8 billion in 1989 — a 17.2 percent decline. Of the total 1990 U.S. exports to China, \$3.5 billion (73.7 percent) were manufactures (defined as SITC commodities 5-9), \$723 million (15.0 percent) were crude materials, \$527 million (11.0 percent) were food and live animals, and \$15 million (0.3 percent) were all other commodities.⁸ The drop in U.S. exports to China in 1990 was largely accounted for by a \$617 million decline in U.S. food and live animal exports (mainly wheat) and a \$372 million drop in sales of manufactured goods (see table 3).

U.S. merchandise imports from China rose from \$12.0 billion in 1989 to \$15.2 billion in 1990 — a 27.0 percent increase. Manufactured goods accounted for \$13.8 billion (90.6 percent) of total imports from China in 1990; mineral fuels, \$661 million (4.3 percent); food and live animals, \$541 million (3.6 percent); and other commodities, \$229 million (1.5 percent). The surge in U.S. imports from China in 1990 was mostly accounted for by manufactured goods, which rose by \$3.0 billion, or 22.1 percent (see table 4).

TABLE 3. U.S. Exports to China by Major Commodity (SITC 1): 1988-1990
(\$ Millions)

SITC Commodity	1988	1989	1990
Total all commodities	5,033	5,807	4,807
0--Food and live animals	724	1,144	527
1--Beverages and tobacco	5	43	8
2--Crude materials, inedible, except fuels	51	689	723
3--Mineral fuels, lubricants and related materials	15	14	5
4--Animal and vegetable oils, fats and waxes	2	0*	2
5--Chemicals and related products, n.e.s.**	1,310	1,138	1,055
6--Manufactured goods classified chiefly by material	362	548	247
7--Machinery and transport equipment	1,482	1,906	1,942
8--Miscellaneous manufactured articles	274	295	251
9--Commod. & transact. not class. elsewhere in SITC	108	29	49

*Less than \$1 million.

** Not elsewhere specified.

Source: U.S. Department of Commerce. Data obtained by CRS Using Tradenet.

⁸SITC stands for Standard Industrial Trade Classification.

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TABLE 4. U.S. Imports From China by Major Commodity (SITC 1): 1988-1990
(\$Millions)

SITC Commodity	YEAR	1988	1989	1990
Total all commodities		8,512	11,989	15,224
0--Food and live animals		480	489	541
1--Beverages and tobacco		12	10	9
2--Crude materials, inedible, except fuels		186	234	218
3--Mineral fuels, lubricants and related materials		428	504	661
4--Animal and vegetable oils, fats and waxes		5	2	1
5--Chemicals and related products, n.e.s.		230	273	337
6--Manufactured goods classified chiefly by material		1,139	1,331	1,480
7--Machinery and transport equipment		1,152	1,984	2,423
8--Miscellaneous manufactured articles		4,735	7,014	9,395
9--Commod. & transact. not class. elsewhere in SITC		146	147	158

Source: Compiled from official statistics of the U.S. Department of Commerce by CRS using Tradenet.

Major U.S. Exports to China

China is a relatively small market for U.S. exports, although it is a significant market for certain U.S. commodities. U.S. exports to China in 1990 totalled \$4.8 billion, accounting for 1.2 percent of total U.S. exports to the world, and making China the 17th largest market for U.S. exports. Based on the SITC classification system (two-digit level), the top five exports to China in 1990 were (1) transport equipment (mainly airplanes), (2) fertilizers, (3) cereals and cereal preparations (mainly wheat), (4) textile fibers (mainly cotton), and (5) specialized machinery. Together, these five commodities totalled over \$2.5 billion, accounting for more than half of total U.S. exports to China (see table 5).⁹

In 1990, U.S. exports of transport equipment (SITC 79) to China accounted for 2.3 percent of total U.S. exports of transport equipment to the world. The world share for the other top four U.S. exports to China were as follows: fertilizers (SITC 56), 21.0 percent; cereals and cereal preparations (SITC 04), 4.1 percent; textile fibers (SITC 26), 9.9 percent; and specialized machinery (SITC 72), 2.1 percent. China was the 10th largest market for U.S. transport equipment exports, first for fertilizers, sixth for cereals and cereal preparations, third for textile fibers, and 13th for specialized machinery (see table 6).

⁹A more detailed breakdown of U.S. exports to, and imports from, China is provided in appendices A and B.

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TABLE 5. Major U.S. Exports to China (SITC 2): 1988-1990
(\$Millions)

SITC Commodity	1988	1989	1990
Total all commodities	5,033	5,807	4,807
79--Transport equipment, n.e.s. (mainly airplanes)	341	541	755
56--Fertilizers (except crude of group 272)	182	487	544
04--Cereals and cereal preparations (mainly wheat)	698	1,127	513
26--Textile fibers & their wastes (exc. wool tops etc).	913	563	385
72--Machinery specialized for particular industries	329	361	323
51--Organic chemicals	281	287	245
71--Power generating machinery and equipment	142	202	204
87--Professional scient & control inst & apparatus n.e.s.	209	239	191
74--General industrial machry. & equip., n.e.s. & pts.	167	270	179
24--Cork and wood	447	179	178
57--Plastics in primary forms	576	197	152
75--Office machs. and automatic data processing machs.	200	153	138
77--Electrical machry, apparatus & appliances, n.e.s	79	140	137
64--Paper, paperboard and articles thereof	79	106	84
28--Metalliferous ores and metal scrap	8	38	84
76--Telecomm. & sound record & reprod. app. & equip.	100	82	81
73--Metalworking machinery	84	104	75
65--Textile yarn, fabrics, made-up articles, n.e.s.	128	62	58
25--Pulp and waste paper	5	88	58
78--Road vehicles (inc air-cushion vehicles)	39	54	50
Total of items shown	4,295	5,072	4,433
Total other	738	735	374

Note: top 20 commodities sorted by total exports, f.a.s. value in 1990.

Source: U.S. Department of Commerce. Data obtained by CRS using Tradenet.

Washington State was the largest exporter (based on the State origin of exported products) of merchandise goods to China among the 50 States (including the District of Columbia). Washington State exports to China in 1990 totalled \$795 million. Other major State exporters to China included Louisiana (\$677 million), California (\$656 million), Texas (\$651 million), and Florida (\$456 million). Together, exports from these five States totalled over 53 percent of total U.S. exports to China.¹⁰ A listing of U.S. exports by State is included in appendix C.

¹⁰U.S. Department of Commerce, Bureau of the Census, Foreign Trade Division.

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TABLE 6. Top Five U.S. Exports to China as a Share of Total U.S. Exports of Each Commodity: 1990

SITC Commodity	U.S. Exports to China (\$Millions)	Exports to China as a % of Total U.S. Exports	China's World Rank For Selected U.S. Commodity Exports
79--Transport equipment, n.e.s.	755	2.3	10
56--Fertilizers (except crude of group 272)	544	21.0	1
04--Cereals and cereal preparations	513	4.1	6
26--Textile fibers & their wastes (exc. wool tops etc.)	385	9.9	3
72--Machinery specialized for particular industries	323	2.1	13

Source: U.S. Department of Commerce. Data obtained by CRS using Tradenet.

Major U.S. Imports From China

U.S. imports from China accounted for 3.1 percent of total U.S. imports in 1990, making China the 8th largest supplier of U.S. imports. The top five U.S. imports from China in 1990 were (1) clothing and apparel, (2) miscellaneous manufactured articles (such as toys, games, etc.), (3) footwear, (4) telecommunications equipment and sound recording and reproducing equipment (such as radios, tape recorders and players, televisions, VCRs, etc.), and (5) travel goods, handbags, and similar containers. Together, imports of these five commodities totalled over \$10 billion and accounted for two-thirds of total U.S. imports from China (see table 7).

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TABLE 7. Major U.S. Imports From China (SITC 2): 1988-1990
(\$Millions)

SITC Commodity	1988	1989	1990
Total all commodities	8,512	11,989	15,224
84--Articles of apparel and clothing accessories	2,034	2,895	3,469
89--Miscellaneous manufactured articles, n.e.s.	1,693	2,538	3,243
85--Footwear	342	721	1,477
76--Telecomm. & sound record. & reprod. app. & equip.	508	1,052	1,163
83--Travel goods, handbags and similar containers	434	555	696
33--Petroleum, petroleum products & related materials	27	496	661
65--Textile yarn, fabrics, made-up articles, n.e.s.	566	619	658
77--Electrical machry, apparatus & appliances, n.e.s.	393	138	657
03--Fish (except marine mammal) crustaceans, etc., preps.	318	304	400
69--Manufactures of metals, n.e.s.	219	313	381
74--General industrial machry. & equipmt., n.e.s. & pts.	20	213	286
88--Photo appt., equip. & optical goods n.e.s.; watch & clk.	92	971	95
66--Nonmetallic mineral manufactures, n.e.s.	126	152	176
82--Furniture & pts.; bedding, mattresses, etc.	86	104	145
75--Office machs. and automatic data processing machs.	35	70	118
52--Inorganic chemicals	53	57	99
29--Crude animal and vegetable materials, n.e.s.	77	100	96
81--Prefab buildings; sanitary, plumb. etc. fix. n.e.s.	26	49	94
68--Nonferrous metals	108	86	81
98--Estimate of low valued import transactions	26	43	81
Total of items shown	7,683	11,003	14,177
Total other	829	985	1,047

Top 20 commodities sorted by general imports, Customs value in 1990.

Source: U.S. Department of Commerce. Data obtained by CRS using Tradenet.

Clothing and apparel imports from China (SITC 84) accounted for 13.6 percent of total U.S. imports of clothing and apparel from the world. The share of total U.S. imports for each of the other four top U.S. imports from China were as follows: miscellaneous manufactured articles (SITC 89), 13.0 percent; footwear (SITC 85), 15.2 percent; telecommunications equipment and sound recording and reproducing equipment (SITC 76), 5.2 percent; and travel goods, handbags, and similar containers (SITC 83), 31.3 percent. China was the second largest source for U.S. imports of clothing and apparel, second for miscellaneous manufactured articles, third for footwear, seventh for telecommunications equipment and sound recording and reproducing equipment, and first for travel goods and handbags (see table 8).

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**TABLE 8. Top Five U.S. Imports From China As a Share of
Total U.S. Imports of Each Commodity: 1990**

SITC Commodity	U.S. Imports From China (\$Millions)	Imports From China as a % of Total U.S. Imports	China's World Rank For Selected U.S. Commodity Imports
84--Articles of apparel and clothing accessories	3,469	13.6	2
89--Miscellaneous manufactured articles, nes.	3,243	13.0	2
85--Footwear	1,477	15.2	3
76--Telecommun. & sound record. & reprod. app. & equip.	1,163	5.2	7
83--Travel goods, handbags and similar containers	696	31.3	1

Imports, Customs value.

Source: U.S. Department of Commerce. Data obtained by CRS using Tradenet

**U.S. TRADE TRENDS WITH CHINA COMPARED TO THOSE OF
OTHER INDUSTRIALIZED NATIONS**

The United States, West Germany, and Japan, are China's three largest trading partners among the world's industrialized nations, commonly classified as the 25 industrialized countries belonging to the Organization for Economic Cooperation and Development (OECD).¹¹ According to IMF trade data, the combined trade of these three nations accounted for 63.1 percent of total OECD exports to China and 70.6 percent of OECD imports from China in 1990. The United States was the largest importer among OECD nations of total OECD

¹¹OECD nations include: the United States, Canada, Japan, Australia, New Zealand, Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, the United Kingdom, Iceland, Norway, Sweden, Switzerland, Finland, Turkey, and Yugoslavia.

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imports from China (34.7 percent), while Japan was the largest exporter to China among OECD nations at 28.8 percent (see table 9).

The level of total trade in 1990 between the United States and China on a c.i.f. basis¹² (\$21.1 billion) was roughly equivalent to the total level of trade between the twelve nations comprising the European Community (EC) and China (\$19.0 billion), however, the composition of trade was markedly different.¹³ EC exports to China (\$6.7 billion) in 1990 were 40.0 percent higher than U.S. exports (\$4.8 billion). On the other hand, U.S. imports from China (\$16.3 billion) in 1990 were 32.8 percent higher than those of the EC (\$12.3 billion). The U.S. trade deficit with China (-\$11.5 billion) was more than twice the size of the EC's trade deficit (-\$5.5 billion).

The direction of OECD trade with China appears to have changed in recent years. For example, in 1985, 51.0 percent of total OECD exports to China were from Japan, while 42.5 percent of OECD imports from China went to Japan. In 1990, however, only 28.8 percent of total OECD exports to China were from Japan, while 25.6 percent of OECD imports from China went to Japan. Some of this trade appears to have shifted to the United States and the European Community. U.S. exports as a percentage of total OECD exports rose from 15.6 percent in 1985 to 22.6 percent in 1990. U.S. imports from China as a percentage of total OECD imports rose from 27.5 percent in 1985 to 34.7 percent in 1990. Exports of the EC countries to China over this period went from 22.2 percent to 31.6 percent of total OECD exports, while EC imports from China rose from 19.3 percent to 26.1 percent of total OECD imports.

The IMF data indicate that the United States has not been alone in sustaining a significant decrease in its trade balance with China in recent years. Several other major trading partners of China have experienced stagnant (or decreasing) growth in exports to China while experiencing sharp increases in imports from China, and hence a deteriorating balance of trade over the past five years. For example, Japan's trade balance with China went from a \$6.1 billion trade surplus in 1985 to a \$5.9 billion deficit in 1990. Japan's exports to China in 1990 were less than half their 1985 level, while imports from China were nearly twice their 1985 level. Likewise, West Germany's trade with China went from a \$1.4 billion surplus in 1985 to a \$2.4 billion trade deficit in 1990. West German exports to China over this period increased by only 11.8 percent while imports surged by 458.9 percent. The combined trade balance of the EC

¹²The c.i.f. import data include the value of insurance, freight, and other charges incurred in bringing merchandise to the port of entry. IMF import and trade balance data are reported on a c.i.f. basis. For the sake of comparisons, table 9 lists U.S. import and trade balance data on a c.i.f. basis, rather than on a customs basis, as was the case in previous tables.

¹³The twelve members of the EC presently include Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom.

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countries went from a \$2.5 billion surplus in 1985 to a \$5.5 billion trade deficit in 1990.

Several U.S. officials have expressed concern that China's restrictive trade policies over the past few years (especially since 1988) have disproportionately affected the United States. The Central Intelligence Agency (CIA) reportedly noted in a recent report to Congress that China has made exporting a top economic priority and that the United States was a central target of China's export drive.¹⁴ The IMF trade data indicate that U.S. imports from China between 1988 and 1990 rose faster in absolute and percentage terms than most other OECD nations. Over the past two years, U.S. imports from China rose by over \$7.0 billion, representing 43.8 percent of the rise in imports from China by all OECD nations. Over this period, U.S. imports from China rose by 80.0 percent, compared to 58.9 percent for the EC nations (West Germany's rose by 97.6 percent, France's by 53.5 percent, the United Kingdom by 32.3 percent, and Italy's by 28.1 percent) and Japan by 22.3 percent.

One explanation for the sharp rise in U.S. imports from China in recent years vis-a-vis other industrialized nations is the growing level of foreign investment in China. Nations such as Hong Kong and Taiwan have transferred production of various commodities to the Chinese mainland in order to increase their price competitiveness. Many of these commodities were originally targeted to the U.S. market before production was transferred to China and continue to be produced primarily for shipment to the United States.¹⁵

China's recent restrictions on imports may have disproportionately affected Japan. Between 1988 and 1990, Japan's exports to China fell by 35.2 percent. U.S. exports to China over this period fell by 4.2 percent while EC exports dropped by only 0.6 percent.

¹⁴Bureau of National Affairs (BNA), Reuters, June 28, 1991.

¹⁵U.S. Department of Treasury. *Report to the Congress on International Economic and Exchange Rate Policy*. May 1991, p.25.

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**TABLE 9. Trade With China of Selected Nations:
1985-1990 (U.S.\$ Millions)***

Year	1985	1986	1987	1988	1989	1990
OECD						
Exports	24,688	22,579	21,784	25,858	24,429	21,300
Imports	15,386	17,169	23,561	31,007	38,629	47,002
Trade Balance	9,948	6,224	-61	-3,525	-12,034	-23,244
EC12						
Exports	5,484	6,403	6,430	6,772	6,904	6,732
Imports	2,973	4,108	5,948	7,722	9,164	12,272
Trade Balance	2,511	2,295	481	-950	-2,260	-5,542
United States						
Exports	3,855	3,106	3,497	5,017	5,807	4,807
Imports	4,224	5,241	6,910	9,261	12,901	16,296
Trade Balance	-368	-2,134	-3,413	-4,245	-7,094	-11,489
Japan						
Exports	12,590	9,936	8,337	9,486	8,477	6,145
Imports	6,534	5,727	7,478	9,861	11,083	12,057
Trade Balance	6,057	4,210	859	-375	-2,606	-5,912
W. Germany						
Exports	2,230	2,863	2,797	2,786	2,458	2,494
Imports	871	1,251	1,928	2,463	3,088	4,868
Trade Balance	1,359	1,612	869	323	-630	-2,373

*As reported to the IMF by reporter countries.

Note, import and trade balance data for all nations are on a c.i.f. basis.

Source: IMF, *Direction of Trade Statistics*. Data obtained by CRS using Tradenet.

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APPENDIX

Appendix A. Major U.S. Exports to China (SITC 3): 1988-1990 (\$Millions)

SITC rev 3 commodity	YEAR	1988	1989	1990
Total all commodities		5,033	5,807	4,807
792--Aircraft & associated equipmt.; spcecraft. veh.; & pts.		335	536	749
562--Fertilizers (except crude of group 272)		182	487	544
041--Wheat (including spelt) and meslin, unmilled		691	1,093	497
263--Cotton textile fibers		25	25	977
874--Measuring/checking/analysing & contr. inst. & appt.		189	222	177
247--Wood in the rough or roughly squared		438	175	176
513--Carboxylic acids etc., halides etc., & derivatives		147	166	150
728--Machry. etc. specialized for particular industries n.e.s.		161	157	146
723--Civil engineering & contractors' plant & equipment		88	110	117
752--Automatic data process machs. & units thereof		153	126	113
267--Manmade fibers n.e.s. for spinning; manmd. fiber waste		3	74	88
714--Engines and motors, nonelect. & pts., n.e.s.		74	116	88
641--Paper and paperboard		76	104	82
575--Plastics, n.e.s., in primary forms		326	91	78
764--Telecommunications equipment, n.e.s. & pts, n.e.s.		99	77	78
251--Pulp and waste paper		95	88	58
716--Rotating electric plant and parts thereof, n.e.s.		8	16	52
741--Heating & cooling equipment and pts. thereof, n.e.s.		50	79	50
283--Copper ores & conc.; cooper mattes; cement copper		19	8	50
571--Polymers of ethylene, in primary forms		144	52	47
Total of items shown		3,304	4,035	3,618
Total other		1,729	1,772	1,189

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

Top 20 commodities sorted by exports, f.a.s. value in 1990.

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Appendix B. Major U.S. Imports From China (SITC 3): 1988-1990
(\$ Millions)

SITC rev 3 commodity	YEAR	1988	1989	1990
Total all commodities		8,512	11,989	15,224
894--Baby carriages, toys, games and sporting goods	1,074	1,760	2,215	
851--Footwear	342	721	1,477	
842--Women/girls coats, capes etc., tex. fabric, not knit	632	883	1,204	
845--Articles of apparel of textile fabrics n.e.s.	602	1,034	1,063	
831--Trunks, suitcases, vanity cases, briefcases, etc.	434	555	696	
841--Men's or boy's coats, jackets etc., text., not knit	342	485	668	
333--Crude oil from petroleum or bituminous minerals	373	460	627	
762--Radiobroadcast receivers	265	476	500	
899--Miscellaneous manufactured articles, n.e.s.	337	431	471	
775--Household type elec. & nonelec. equipment, n.e.s.	259	393	446	
764--Telecommunications equipment, n.e.s. & pts., n.e.s.	143	327	429	
036--Crustacean etc. fresh, ch., fz., drd., salted, etc..	285	286	381	
893--Articles, n.e.s. of plastics	110	196	346	
658--Made-up articles of textile materials, n.e.s.	270	270	309	
848--Apparel & cl. acc. exc. textile; headgear, all materl.	252	238	272	
743--Pumps, air or other gas compressors and fans	75	124	166	
763--Sound recorders, tv recorders, recording media unr.	82	146	164	
652--Cotton fabrics, woven (not narrow or spec. fabrics)	98	130	153	
821--Furniture & pts.; bedding, mattresses, etc.	86	104	145	
666--Pottery	94	102	122	
Total of items shown		6,154	9,123	11,856
Total other		2,358	2,865	3,368

Note: Data before 1989 are estimated.

Source: Compiled from official statistics of the U.S. Department of Commerce. Top 20 commodities sorted by general imports, Customs value in 1990.

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Appendix C. Ranking of U.S. Exports to China by State of Origin: 1990
(\$thousands)

State	Exports
Washington	\$795,437
Louisiana	677,390
California	655,858
Texas	651,465
Florida	456,372
New York	146,321
Pennsylvania	120,418
Tennessee	104,640
Virginia	102,426
Ohio	92,293
Illinois	90,505
Massachusetts	86,123
North Carolina	80,531
Alaska	79,639
South Carolina	75,081
New Jersey	65,955
Connecticut	60,212
Oklahoma	54,023
Georgia	49,192
Utah	47,252
Oregon	37,162
Michigan	31,957
Mississippi	31,728
Wisconsin	26,591
Minnesota	25,937
Indiana	19,534
Alabama	16,694
Missouri	16,306
Arizona	16,015
Maryland	14,494
Colorado	11,793
Wyoming	8,245
Kentucky	7,934
Iowa	7,260
Arkansas	6,768
Kansas	6,627
West Virginia	6,620
Nevada	4,660
Vermont	4,395
Rhode Island	3,793
District of Columbia	2,462
New Hampshire	2,292
Maine	1,761
New Mexico	1,697
Hawaii	1,358
Nebraska	1,083
Delaware	718
Montana	405
North Dakota	69
South Dakota	55
Idaho	23

Source: U.S. Department of Census.