December 2005

CHINA TRADE

U.S. Exports, Investment, Affiliate Sales Rising, but Export Share Falling

GAO Accountability·Integrity·Reliability
Highlights

Highlights of GAO-06-162, a report to congressional committees

Why GAO Did This Study

China is important to the global economy and a major U.S. trading partner. By joining the World Trade Organization (WTO) in 2001, China pledged to further liberalize its trade regime and follow global trade rules. While U.S.-Chinese commercial relations have expanded, controversies have emerged, including the size and growth of the U.S. trade deficit with China, China's lack of intellectual property protection, and China's implementation of its WTO obligations. Despite these challenges, China's vast consumer and labor markets present huge opportunities for U.S. exporters and investors. GAO (1) analyzed U.S. goods and services exports to China, (2) assessed how U.S. exports to China have fared against those of other major trading partners, and (3) analyzed U.S. investment and affiliate sales in China.

We provided the Office of the U.S. Trade Representative, the Departments of Agriculture and Commerce, and the International Trade Commission with a draft of this report for their review and comment. These agencies chose to provide technical comments from their staff. We incorporated their suggestions as appropriate.

www.gao.gov/cgi-bin/getrpt?GAO-06-162.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4128 or yagerl@gao.gov.

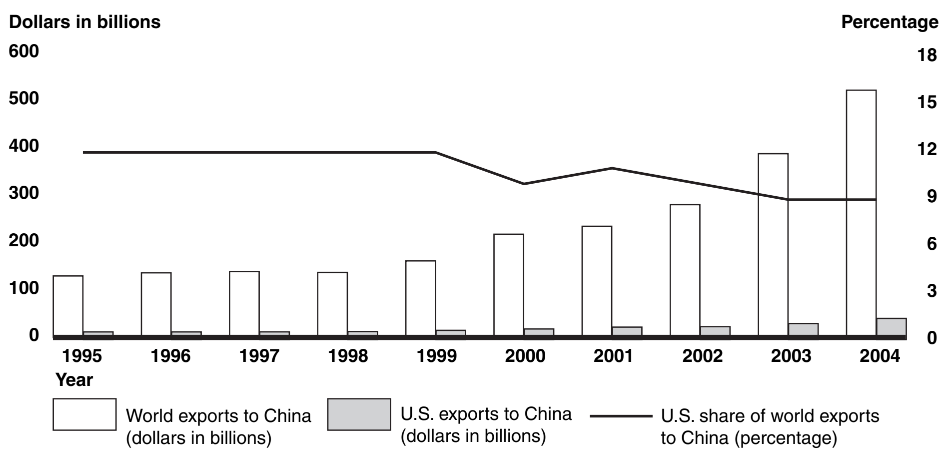
What GAO Found

China is a rapidly growing market for U.S. goods and services. Although still small, accounting for only 4 percent of U.S. goods exports in 2004, U.S. goods exports to China tripled, from $11 billion to $33 billion, and increased across virtually all major categories from 1995 to 2004. Over the same period, China went from the ninth-largest to the fifth-largest U.S. market for goods behind Canada, the European Union, Mexico, and Japan. Although smaller, U.S. services exports grew from $3 billion to $7 billion, from 1995 to 2004. Economic growth in China and liberalization of its market, including joining the WTO, are among the factors driving the impressive export growth.

Despite rapid growth, U.S. goods exports to China have not kept pace with those of other countries, particularly exports from Asia. The U.S. share of world goods exports to China declined from 12 percent to 9 percent, from 1995 to 2004, while South Korea and Taiwan's shares increased and at times surpassed that of the United States. The decline is partly due to increased integrated production among China's neighbors; growing resource-based exports, such as oil, from smaller countries; and macroeconomic factors, including exchange rates.

Sales to China by U.S. affiliates located in China grew faster and exceeded U.S. exports to China in 2003, $38 billion versus $35 billion, while U.S. foreign direct investment grew from $2 billion to $15 billion from 1995 to 2004. Growth in U.S. investment and affiliate sales, particularly for goods, is due at least in part to China's attraction as a growing economy, including its burgeoning domestic market, high productivity and low labor costs, and developing infrastructure.

U.S. and World Goods Exports to China Are Rising, but U.S. Share of World Goods Exports to China Is Falling (1995-2004)



Source: GAO analysis of official Chinese trade statistics.