U.S. DEPARTMENT of STATE

Fact Sheet
Bureau of East Asian and Pacific Affairs
Washington, DC
April 18, 2006

Economic Relations Between the United States and China

President Hu Jintao will meet with President Bush on April 20. This will be the two leaders' third meeting since last September. Economic relations between the two countries will be an important item on their agenda, as will China's ongoing economic transformation. Because the United States and China are each large and dynamic trading nations, we share a common interest in an open trading system unhindered by artificial barriers and restrictions. Completing the transition to a market-based, open economy is vital for China's continued economic growth, and for assuming a role as a responsible stakeholder in the world economy. As Secretary of State Rice has said, the U.S. "welcomes the rise of a confident, peaceful, and prosperous China."

U.S.-China Trade

American *exports* to China have more than doubled since China joined the World Trade Organization (WTO) in 2001. In 2005, total exports were $41.8 billion, up 20% over 2004. Exports by American farmers have increased dramatically; China is our 4th largest market for U.S. farm exports (after Canada, Japan, and Mexico). However, over the same period (2001-2005), U.S. ***imports*** from China have increased from $102 billion to $243.5 billion.

China is the third-largest merchandise trading nation in the world. Its 2005 global trade surplus exceeded $100 billion. In 2005, the United States took about 23% of China's exports and ran a trade deficit with China of $201.6 billion. This is our largest bilateral trade deficit worldwide; it has become a source of friction. The deficit is due to a number of factors:

- *First*, as our deficit with China has grown, our overall deficit with Asia has remained roughly the same for the past decade. East Asian economies that once shipped directly to the U.S. now do substantial processing and final assembly in China. Thus, the U.S.-China "bilateral" trade deficit is more accurately a trade deficit with East Asia.
- *Second*, strong U.S. demand for Chinese goods.
- *Third*, continued restrictions on U.S. access to some sectors of China's market.

China's trade surpluses -- plus foreign direct investment and portfolio inflows -- mean that China's holdings of foreign exchange reserves recently exceeded Japan's and are now the world's largest.

U.S. policy is to further open China's markets to U.S. firms, and to encourage China to correct imbalances within its system. The U.S. supported China's WTO membership as a big step toward eliminating market barriers to U.S. companies. The U.S. continues to work with China's leaders and reformers to achieve full and effective compliance with China's WTO commitments in order to increase U.S. exports to the PRC.

U.S.-China JCCT

On April 11 -- nine days before president Hu's visit -- the United States hosted the 2006 meeting of the **U.S.-China Joint Commission on Commerce and Trade (JCCT),** co-chaired by Chinese Vice Premier Wu Yi, and the U.S. Secretary of Commerce and U.S. Trade Representative. The JCCT, created in 1983, was elevated to supra-ministerial level following President Bush's December 2003 meeting with Chinese Premier Wen Jiabao. In conjunction with the JCCT meeting, the Chinese purchased $16.2 billion of American goods. Notable items were: 80 Boeing aircraft worth $4.6 billion; up to $1.5 billion worth of soya beans and soya oil; and $1.7 billion of computer software.

At the JCCT, China made a number of commitments to help U.S. business, farmers and workers: resume U.S. beef imports; require that all Chinese computers use legal software (boosting exports of U.S. software firms); shut plants making pirated CDs and DVDs and improve intellectual property rights enforcement (also helping U.S. companies); promote greater transparency and rule of law by publishing all trade-related measures in one official journal; and start a dialogue on its steel industry. Details can be found at http://www.ustr.gov/ in the Document Library section.

In addition to the JCCT, many U.S. Government departments and agencies have active dialogues with China aimed at supporting China's economic reforms, including: the **Senior Dialogue** led by Deputy Secretary of State Zoellick; the **Joint Economic Committee** chaired by the Treasury Department and dealing with currency and financial issues; the **State Department-National Development & Reform Commission Dialogue;** and the **U.S.-China Energy Policy Dialogue,** chaired by the Secretary of Energy.

China's Economy

The U.S. is the world's largest economy, with Gross Domestic Product of $12.7 trillion; China is the world's fourth-largest economy, or roughly 1/6 the size of the U.S. with four times the number of people, and a GDP of $2.3 trillion. The economy has grown more than 9.5% a year on average for the past 26 years; it grew 10.1% in 2004 and 9.9% in 2005. Estimates for 2006 range between 9 and 9.5%.

Behind the impressive numbers, China faces stark economic challenges. It remains a poor country. With 1.3 billion people, its per capita GDP is about $1,700; U.S. per capita income in 2004 was about $40,100. More than 200 million Chinese live on less than one dollar a day and urban incomes are about four time those of the 800 million rural residents. Rural Chinese also have worse health care and education than their urban compatriots. And rapid economic growth has come at a high cost to the environment: land degradation, falling water quality, water scarcity, serious air pollution, and widespread deforestation. In addition, the social security system is rudimentary, and fails to adequately protect about 80% of the population, including workers who lose jobs at failed state-owned enterprises and must transition to new jobs in the growing private sector. China must create about 2 million new jobs a month to keep up with the number of workers entering the job market.

Energy

China is the world's second-largest energy consumer after the United States, although per capita energy consumption is still only one-eighth that of the United States. China's energy consumption is expected to continue growing, with some experts predicting it will double by 2020.

Coal is China's main energy resource, and represents approximately 70% of its energy consumption.

China became a net importer of oil in 1993, after years of growth in consumption and stagnant production. In 2004, oil imports surged to 6.5 million barrels per day; that makes China the world's second largest petroleum consumer behind the U.S. (we use about 20 million barrels per day). The U.S. Energy Information Administration projects China's oil demand will reach 14.2 million barrels per day by 2025, with net imports of 10.9 million barrels per day. As China has grown more dependent on imported oil, its concerns over energy security and stability have become closely linked with those of the West.

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