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UNITED STATES – CHINA TRADE-ECONOMIC RELATIONS

Very important aspects to present China's economic status and prospects for future development are economic and political relations with other countries. Beijing is practicing foreign policy which is creating conditions to open for the world. It is based on such assumptions as: creating a relation of friendship and cooperation with every country, regardless of its political and ideological system.

The political and economic relations between the U.S. and the People's Republic of China play a very important role in shaping force arrangement in the world economy. U.S. – PRC trade relations have developed since the end of the seventies, practically from the beginning of the initiation of Chinese reforms. The new economic strategy in China began in the end of 1978 and consisted of releasing prices and trade, and openness of the economy, which was called "open door policy"[1]. The rapid economic growth of China since the beginning of the economic reforms has captured the imagination of Western commentators and researchers. China's reforms have also had a significant impact on accelerating U.S. – China trade relations and on the U.S. economy.

Trade between China and the United States is characterized by rapid growth, which was 5 billion USD in 1980, what means seventy time growth to the end of 2007.Currently the People Republic of China is the second-largest U.S. trading partner, its main source of import and the fastest-growing market for the United States (its third export market). The aim of

[1] *Sachs J.D.*, Woo W.T. Understanding China's economic performance // Development Discussion Paper. – No 575. – Harvard Institute for International Development, 1997. – 2000. – P. 9-15.

this article is to analyze the impact of economic relations between U.S. and China on both countries.

Problems with mutual relations. The mutual relations of U.S. and PRC are strained by a number of problems, such as raising Chinese trade surplus with the United States, lack of protection of U.S. intellectual property rights, trade barriers and Chinese "currency manipulation". With China's accession in December 2001 to the World Trade Organization (WTO), the Chinese government has begun adopting global rules of trade and Chinese businesses have increasingly been adopting global best practices in their operations. WTO membership requires from PRC reducing or even eliminating tariff and non-tariff barriers on imported goods and services. According to the report presented by U.S. Trade Representatives there is still a substantial distance for China to go in this area, however much progress has been made in the terms of growing transparency. The major objection concerns intellectual property rights protection, services, agriculture, industrial polices, trading rights, distribution and transparency of the law [2].

The United States have primarily paid an attention to rapidly growing bilateral trade deficit with China. The trade deficit has caused a great deal of concern of the government and industry representatives. Unfair Chinese trade practices are mentioned as a main source of these problems. There is raising fear against unfair Chinese competition, especially in connection to the loss of manufacturing jobs, and deterioration of American industry condition. Anxiety against trading relations with PRC is mainly connected with its potentially bad influence on selected economic sectors, such as textiles, garments, tools, plastics and furniture, which are forced to compete on domestic market with low-priced import from China. For example in 2004 the U.S. – China Economic and Security Review Commission estimated that approximately 100,000 jobs would move from the United States to Mexico, China, India and some other Asian countries, as a result of production shifts.

Therefore there was a pressure on U.S. government to take more aggressive attitude towards China, which could take a form of expending tariffs imposed on imported from PRC goods and services. Washington tries to force Beijing to change their pegged currency policy. There is thought that its currency should be stocked on market what could help to appreciate it and limit the pressure in U.S. of Chinese import.

Beijing arguments that their fixed exchange-rate policy is not intended to favor exports over imports but to maintain long term economic stability of the country. Government of PRC also expresses a fear that elimination of currency exchange-rate control could cause economic crisis in the country, especially because China is still continuing an economic transformation (in

[2] *Morrison W.M.* China – U.S. Trade Issues, CRS Issue Brief for Congress. – The Library for Congress, 2005. – P. 1-5.

the form of closing of ineffective state-owned manufactories and restructuring the banking system). In PRC economic stability is essential to maintain political stability. The appreciation of domestic currency causes concerns about redundancy and reducing wages in a number of sectors what could lead to internal disorders. Especially that China has experienced the loss of almost 15 million jobs in industrial sector since 1995 which was a result of state-owned-enterprise reforms that were taken to adjust to the requirements of the market and international competition [3].

In order to improve mutual relations Beijing in 2005 accepted an inconsiderable revaluation of the renminbi (RMB). But the United States tried to put pressure on the Chinese government to further revaluation of Yuan. PRC purchases the American Treasury bonds issued to cover their budgetary deficit. U.S. is now a leading market for Chinese export therefore to maintain this absorptive market Beijing takes over part of American debt.

The analysis of mutual U.S. – China relations should also take into consideration the fact that China is still a developing economy and it is still able to accumulate massive foreign reserves. Therefore PRC obtains the resources which enable them to maintain the stability of its currency even if it were fully convertible. In some opinions appreciating of the Yuan would greatly benefit PRC by lowering the cost of imports for its consumers and producers who use imported parts of machinery [4].

On the other hand there are also some opinions warning against putting a pressure on China to make their currency fully convertible. They pay attention that a significant share of China exports to U.S. is created by foreign corporations that are increasingly shifting production to PRC in order to take advantage of low labor costs there. The change in their currency policy could cause a reverse in above mentioned trend.

Presently the arrangement in the international economy is varying with the downturn in the United States housing market in 2007, and the associated credit squeeze in the U.S. It appeared that the credit squeeze would bring the unexpected correction to the imbalance constituted by the large U.S. current account deficit and that the U.S. dollar would sink, even relative to the Chinese Yuan. Therefore China's peg does not cause such fear as it used to.

At present, the large acquisition of the United States dollar assets by foreign central banks has helped to keep American interest relatively low, what is helping to stimulate US investments. According to East Asian purchasers' estimations of US government bonds may have lowered long term rates by around 60 basis points. The large circulation of US currency outside the United States indirectly adds to the US government revenues [5].

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[3] *Wang R.* China's economic growth: Source of Disorder? // Foreign Service Journal, 2005. – P. 21.

[4] *Morrison W. M.* … P. 6-7.

[5] *Dobson W.,* Masson P.R. Will the renminbi become a world currency? // ITP Paper. – December 2007. – P. 3.

However, international use of currency also makes the monetary policy of the country's central bank less effective in controlling domestic activity and inflation. Nevertheless, currently the main anxiety of American Congress is an announcement of Beijing of the alteration of China reserves policy. PRC had a foreign exchange reserve of over 1.43 trillion USD in 2007, with approximately 75 % in US dollars mainly in low interest government securities. The People's Bank of China (PBC) announced not to enlarge their currency reserves or exchanging them from USD to other currencies. It could cause further depreciation of American dollar and force The Federal Reserve System to raise interest rates what could deteriorate the state of American economy. But it could also affect Chinese economic performance. Considering that exports make up almost half of China's GDP and most of these are directed to North America, negative financial shocks in this region might be expected to retard China's growth [6].

Very important for the stabilization of the economic position of both countries is to reference proper relations, in which very important event was granted China at the end of 2001, by American Congress, position of Eternal Normal Relations. The creator of a new American strategy towards PRC was Deputy Secretary of State Robert Zoellick [7]. He has been charged with leading the Senior Dialog on highest-level diplomatic discussion with China. In the year 2005 he detailed the United States questions and concerns that follow China's successful integration into the global economy. Zoellick suggested that it is time for the United States to "foster constructive action by transforming thirty-year policy of integration: We need to encourage China to become a responsible stakeholder. As a responsible stakeholder, China would be more than just a member – it would work with us to sustain the international system that has enabled its success" [8].

U.S. – China trade. U.S. trade with China increased rapidly after establishment of bilateral diplomatic relations in January 1979, signed a bilateral trade agreement in July 1979 and provided mutual most-favored-nations treatment beginning in 1980 [9].

U.S trade policy toward PRC is based upon the assumption that trade between two countries has economic and political benefits [10]:

• Trade with China takes an advantage for both economies and enables more efficient resources allocation;

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[6] *Tyers R.,* Bain I. American and European Financial Shocks: Implications for Chinese Economic Performance, ANU, College of Business and Economics, Australian National University, April 2008. – P. 14.

[7] *Zoelick R.* Whither China: From Membership to Responsibility, NBR Analysis, The National Bureau of Asian Research, December 2005. – P. 6-15.

[8] *Ellings R.J.* Foreword*, NBR Analysis,* The National Bureau of Asian Research, December 2005. – P. 3-5.

[9] *Rousseau D.*, American and Japanese Perceptions of the Rise of China, Department of Political Science, University of Pennsylvania, 2002. – P. 2-7.

[10] *Lum T.,* Nanto D.K. China's Trade with the United States and the World, CRS Report for Congress, January 2007. – P. 1-10.

• The rapidly developing Chinese economy affords a rare opportunity U.S. business to become a part of a huge rapidly expanding market.

Data on bilateral trade between U.S. and PRC have long been beset by measurement problems. United States figures on the amount of imports from China have been as much as twice the amount of that China reports as exports to U.S., with much to the discrepancy attributed to differences in how the two economies account for the trade flows going through Hong Kong (PRC treats a huge share of its exports through Hong Kong as Chinese export through Hong Kong, while many countries that import Chinese goods and services through Hong Kong generally attribute their origin to PRC) [11].

American trade deficit has increased rapidly for a few recent years, especially since Beijing acceded to the World Trade Organization [12]. It is an effect of relatively bigger growth of Chinese exports to U.S. in relation to import. Beijing's surplus increased rapidly from 3.5 billion in 1989, reaching 30 billion in 1994, to approximately 256 billon in 2007 (*table 1*).

Table 1

China – U.S. trade 1994–2007 (billions USD) [13]

Year	Chinese import	Chinese export	Chinese balance of trade
1994	9.3	38.8	29.5
1995	11.7	45.6	33.8
1996	12	51.5	39.5
1997	12.8	62.6	49.7
1998	14.3	71.2	56.9
1999	13.1	81.8	68.7
2000	16.3	100.1	83.8
2001	19.2	102.3	83.1
2002	22.1	125.2	103.1
2003	28.4	152.4	214
2004	34.7	196.7	162
2005	41.8	243.5	201.6
2006	55.2	287.8	232.5
2007	65.2	321.5	256.3

In 2006 U.S. trade deficit with China has grown by 15.4 % percent since the previous year, while through November 2007 rose 10 %. Currently American deficit with PRC is the biggest in relation to any other U.S. trading partner including Japan (82.8 billion USD), Mexico (74.3 billion USD) and Canada (64.2 billion USD). China fulfills a very important function in trading relations with U.S.: in 2003 they left behind Japan,

[11] *The China Effect*: Assessing the Impact on U.S. Economy of Trade and Investment in China, A Report by Oxford Economist and The Signal Group, The China Business Forum, USCRS, 2006. – P. 7.

[12] *Brown C.P.*, Crowley M.A., McCulloch, Nakajima D.J. The U.S. trade deficit: Made in China?, 4Q/2005 Economic Perspectives, 2005. – P. 9-14.

[13] *U.S. – China Business Council*, USCBC, 2008. // Internet: *http://www.uschina.org*

occupied third position after Canada and Mexico, as a main trading partner of Washington. In 2005 trading value of U.S. and PRC reaching 285 billion USD, almost leveled with that of U.S. and Mexico (290 billion USD). In 2007 they left behind Mexico, and they reached the second position as a main trading partner of U.S. (*table 2*).

Table 2

Total trade of United States in 2007 (billion USD)[14]

Country	Export	Import	Total	% share in total trade	Balance
Canada	248.90	313.10	562.0	18.0	–64.20
China	65.20	321.50	386.7	12.4	–256.30
Mexico	136.50	210.80	347.3	11.1	–74.30
Japan	62.70	145.50	208.1	6.7	–82.80
Germany	49.70	94.40	144.0	4.6	–44.70
United Kingdom	50.30	56.90	107.2	3.4	–6.60
South Korea	34.70	47.60	82.3	2.6	–12.90
France	27.40	41.60	69.0	2.2	–14.20
Taiwan	26.40	38.30	64.7	2.1	–11.90
Netherlands	33.00	18.40	51.4	1.6	14.60

Chinese trade surplus is very important not only because of its value but also because of huge disproportion between imports and exports to the United States. In comparison to other countries Japan exports 2.3 times more than imports from U.S., Canada and Mexico respectively 1.3 and 1.5 times more. In case of China this disproportion is much bigger; in 2007 its export was 5 times more than import. These estimations revealed that appreciable backwardness of China as a market of destination for American products. As follows from mentioned in *table 3* data U.S. occupy the forth position after Japan, South Korea and Taiwan, among main suppliers of goods to China.

Table 3

Main directions of Chinese export and import destination, Jan. – Nov. 2007 (billion USD)[15]

Country	Export	*change in %	Country	Import	*change in %
USA	295.8	12.2	Japan	121.5	16.4
Hong Kong	166.7	19.6	South Korea	94.7	16.2
Japan	92.3	11.0	Taiwan	91.6	15.6
South Korea	50.5	25.3	USA	63.5	17.5
Germany	44.2	20.9	Germany	40.7	18.1
Netherlands	37.5	35.2	Malaysia	25.8	21.5
United Kingdom	28.9	31.6	Australia	23.2	33.4
Singapore	26.9	29.8	Philippines	21.0	31.9
Russia	26.0	81.3	Thailand	20.4	25.6

[14] *FTD WebMaster*, Foreign Trade Division, U.S. Census Bureau, Washington D.C., 20233.

[15] *China's Customs Statistics*, PRC General Administration of Customs, 2008.

India	21.6	66.5	Russia	17.6	8.6

* Percent change over Jan. – Nov. 2006.

On the other hand the United States constitute the main market for Chinese goods. In November 2007, U.S. imports from China was the highest among the United States' top suppliers and was enough to push China past Canada as the largest source of imports. China's top three trading partners in 2007 were the United States (276.2 billion USD), Japan (213.8 billion USD) and Hong Kong (178.5 billion USD) (*table 4*).

Table 4

China's top trade partners Jan. – Nov. 2007 (billion USD) [16]

Country	Volume	% change*
USA	276.2	15.7
Japan	213.8	14.0
Hong Kong	178.5	19.5
South Korea	145.2	19.2
Taiwan	112.8	14.9
Germany	84.9	19.5
Russia	43.7	42.7
Singapore	42.8	16.4
Netherlands	41.9	34.8
Malaysia	41.6	24.2

* Percentage change over Jan. – Nov. 2006.

The main reason for U.S. increasing bilateral trade deficit with PRC is not the lack of access to its market, as there is the large demand of the American consumer for low-priced manufactured goods from Asia, now increasingly being sourced from China. Estimations suggest that the growth of U.S. import from China do not cause an additional threat to U.S. industries and employees because it mostly represents a shift of investment and production from other Pacific Rim countries. PRC's share of U.S. imports has been growing while those of other Pacific Rim countries and European Union have been declining or staying mostly flat. In terms of absolute values, until recently, U.S. imports from major Pacific Rim countries continued to grow, although at slower rates than imports from China. U.S. trade deficit with China has fallen as a percentage of American global trade deficit since 1997, as the deficit with other countries has increased even faster due to U.S. growing imports and stagnant or declining exports to those economies. In sectors such as footwear, handbags, apparel, furniture, building and lighting fixtures, China import to U.S. has been displacing those from Hong Kong, South Korea, Taiwan, and Mexico and reducing imports those from other developing Asian economies [17].

[16] *China's Customs Statistics* … 2008.
[17] *Lum T.,* Nanto D.K. … P. 13.

Structure of U.S. – China trade. China's economy is characterized by abundant and cheap labor, low capital intensity, and low, medium and high technology in manufacturing and agriculture. On the other hand U.S. economy is characterized by high technology, extensive farmland with high agricultural yields, expensive labor, and deep capital. Significant wage and cost differentials between the United States and developing countries cause shifting of low value-added production to lower wage countries such as China, just as U.S. and other developed countries' industrial sectors continue their strength in higher-end, higher value-added manufacturing. Therefore China exports both labor-intensive manufactures, such as textiles, apparel, shoes, toys but also goods produced under the tutelage of foreign companies that have invested in China (household appliances, tools, electronic, automobiles parts).

In 2007 China trade deficit with U.S. in such goods as air and spacecraft, iron and steel and cooper rose significantly. To the top United States export categories to China, from January to November 2007, have been included: electrical machinery and equipment and power generation equipment, which have remained in the number of and two rank, respectively, for the past several years (*table 5*). The growth rates declined in 2007 for each of these categories, however. It is unexplained why exactly PRC' import increase has slowed down, there are speculations that domestic production may be replacing import. U.S. export of electrical machinery and equipment rose only 5.1 %, in the first months of 2007, compared with 54 % over the same period in 2006. Plastics became the fourth largest United States export to China, which up 39.1 % in 2007, compared with 12.8 % over the same period in 2006 [18]. The another reason of the above mentioned trends could be a limitation of the difference between USD and RMB caused by depreciation of American dollar.

Table 5

Top U.S. export to China, Jan. – Nov. 2007 (billion USD)[19]

Commodity Description	Volume	% change *
Electrical machinery and equipment	9.7	5.1
Power generation equipment	8.1	15.2
Air and spacecraft	6.3	16.3
Plastics and articles thereof	3.3	39.1
Oil seeds and oleaginous fruits	3.1	39.7
Optics and medical equipment	3	11.7
Iron and steel	2.5	29
Inorganic and organic chemicals	2.5	29.3
Copper and articles thereof	2.0	26.7

[18] *China Trade Performance.* Forecast 2008. The U.S. – China Basiness Council, USCBC, 2008. – P. 3-5.

[19] Ibid. – P. 3-5.

Vehicles other than railway	1.8	53.2

*Percentage change over Jan. – Nov. 2006.

However a number of economists suggest that Beijing in a future could play a significant role in American export. This country is currently one of the fastest growing economies of the world, which, as it is estimated, would continue its development on condition that it will still be implementing reforms. As the results of its aims in the form of modernizing infrastructures and upgrading its industries China is generating huge demand for foreign goods and services. According to U.S. Department of Commerce unsatisfied demand of PRC is growing very fast and its unmet infrastructural needs are staggering. Finally, there is observed an improved purchasing power of Chinese citizens, which is also characterized by collecting money in the form of savings [20].

Growth rates for PRC export to U.S. hit a new post-WTO entry low this year, reaching 12.2 % for eleven months of 2007. It is unexplained whether this change is attributable to a slowdown of the U.S. economy. According to data, it is revealed that Chinese toy and food export to the United States have not dropped, despite media attention and consumer concerns about the quality of those products (*table 6*). The main U.S. import categories from China were unchanged through November 2007 compared with the same period in 2006. In 2007, toy and game imports showed strong increase, growing 27 % year by year through November. Iron and steel imports, meanwhile, rose at just 15 % for January to November 2007, down sudden from 42.4 % increase in 2006 [21].

Table 6

Top China export to U.S., Jan. – Nov. 2007 (billion USD)[22]

Commodity Description	Volume	% change *
Electrical machinery and equipment	70.3	18.7
Power generation equipment	58.8	2.7
Toys and games	23.9	27
Apparel	22.6	24.0
Furniture	18.7	5.6
Shoes and parts thereof	13.2	2.4
Iron and steel	11.0	15.0
Plastics and articles thereof	7.6	10.7
Leather and travel goods	6.7	5.9

[20] *Horioka C.Y,* Wan J. The Determinants of Household Saving in China: A Dynamic Panel Analysis of Provincial Data, Federal Reserve Bank of San Francisco, WPS, 2007. – P. 2-17.

[21] Ibid. – P. 2-5.

[22] *China Trade Performance* … P. 3-5.

Vehicles other than railway	5.6	18.5

*Percentage change over Jan. – Nov. 2006.

At the beginning China exported to U.S. mostly low-priced and labor intensive products such as toys, games shoes, textiles and apparels [23]. But in recent years the growing share of Chinese export constitutes technological advanced goods, such as computers.

Conclusion. United States constitute the most important Chinese market and the second source of Chinese foreign direct investments. PRC has become one of the biggest exporters to the United States. It forces U.S. Congress to pay a particular attention not only to the access to Chinese market, but also to the protection of intellectual property rights or growing trade deficit with this country. China started exporting not only low-value added goods but they are started strengthening their position in the advanced technology market. China is charged of "currency manipulation" due to its fixed exchange-rate policy, dumping treatments or using own employees in economical purposes. The above mentioned practices create unfair access to foreign markets relatively to Chinese export.

On the other hand it is suspected that the United States admit to rise a trade deficit with China because its import from China have been displacing those from Hong Kong, South Korea, Taiwan, and Mexico and reducing import those from other developing Asian economies. The rising competition from PRC could also have a favorable influence on American market because it forces U.S. producers to increase their efficiency and reduce prices.

China obtains huge reserves in the form of U.S. securities bonds, which sale could cause depreciation of American dollar and forces Washington to raise the interest rates what could bring significant problems for American economy. Mutual economic relations, and fear against loosing main supply market should suppress Beijing from this king of policy.

Man could say, that the dependence of U.S. from Chinese economy and on the other hand the importance American supply market for Chinese producers is a guarantee that both countries will be aiming to retain status quo in mutual relation. It is necessary to remember that still tighten economic relations between these countries case that China becomes not only main trading partner of U.S. but also a dangerous rival.

У статті Д. Хохул "Торгово-економічні відносини між Сполученими Штатами Америки і Китаєм" підкреслено, що важливим аспектом економіки Китаю є перспективні відносини зі Сполученими Штатами Америки, оскільки вони представляють собою найважливіший ринок для КНР. США є джерелом прямих іноземних інвестицій, а Китай – одним з найбільших експортерів до США. Китай розпочав експортувати не тільки низькозатратні товари, а й став посилювати свої позиції на високотехнологічному ринку. Це змушує США приділяти також значну

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[23] *Maritn M.F.* U.S. Clothing and Textile Trade with China and the World: Trends Since the End of Quotas, CRS Report for Congress, 2007. – P. 2-28.

увагу захисту прав інтелектуальної власності. Торговельна політика обох країн уможливлює отримання переваг для обох економік у формі ефективнішого розміщення ресурсів. Економіка Китаю, яка розвивається, надає також виняткову можливість бізнесу США стати частиною ринку, що неймовірно швидко зростає. Хоча, у торговельних відносинах між США та Китаєм існують певні проблеми, міцна взаємна економічна залежність є гарантією того, що обидві країни будуть намагатися дотримуватися статусу кво у взаємних відносинах.