

EXECUTIVE SUMMARY

The U.S.-China trade agreement reached in November 1999 and the recent granting to China of permanent normal trade relations status by the U.S. Congress would pave the way for China's entry into the World Trade Organization. Since the United States has long complained about the huge trade deficit with China, this accord should improve the bilateral trade balance in favor of the United States. Nevertheless, many long-standing trade issues between the United States and China remain unresolved.

The major issue is the totally different estimates of the bilateral trade imbalance by the two countries. According to U.S. data, the United States runs a staggering merchandise deficit with China, whereas China puts this figure much lower. The main reason for the big discrepancy is how to treat Chinese exports to the United States and U.S. exports to China via Hong Kong. Many American and Chinese economists argue that the U.S. estimates grossly understate the real value of U.S. exports to China, distort the bilateral trade balance, and swell the U.S. trade deficit with China. Another factor is the influence of capital flow. Most Chinese export goods to the United States are produced by outward-processing firms. Most returns accrue to the United States and other foreign owners of these firms, whereas China earns only a negligible processing fee. Taking into account these factors, the U.S. trade imbalance with China is significantly smaller than the U.S. official data suggest. There is no reason to make this issue a hostage in the U.S. domestic partisan struggle and thus poison U.S.-China political relations.

Other trade issues include U.S. export control and sanctions against China, China's alleged currency manipulation, and linking human rights to trade. If both countries can settle them through negotiations on an equal footing, U.S.-China economic cooperation will have a bright future. American capital, technology, and managerial skills combined with China's huge market, low-cost labor, and resources will bring tremendous benefits to both countries.