US-China Trade in Perspective: Asia's Emerging Union and Implications for the United States

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EXECUTIVE SUMMARY

■ Asian integration, based on the opening of China and other geopolitical changes, is creating a fundamentally and genuinely more competitive Asian economy, as capital from more-advanced regional partners is combining with China's large, low-cost environment.

■ This is evident in major shifts in Asian investment and trade. China is quickly becoming the largest export market for other Asian nations. Since the turn of the new century, Asian investors have been opening 20,000 manufacturing facilities a year in China, representing a huge shift of regional manufacturing capacity. China is becoming the main market for most Asian economies.

■ China is also going through a period of extraordinarily rapid trade growth, both as an exporter and as an importer. In 2004, China's trade growth, combining imports and exports, reached 35 percent. Between 1999 and 2004, US imports from China grew from $82 billion to just under $200 billion, accounting for a quarter of all America's import growth.

■ On the other hand, US exports to China nearly tripled in the five years after 1999, far exceeding forecasts prior to China's World Trade Organization entry. America's exports to China have risen about 10 times as fast as exports to the world during that time, but are still far below China's exports to the United States.

■ In this context, a series of US-China trade and macroeconomic disputes have emerged, leading to new stresses in US-China trade relations and exacerbating some existing points of friction. These need attention in their own right, but also must be viewed in the context of the larger transformation of the Asian economy.

■ US imports from Asia (including China) since 1992 have grown at roughly the same pace as imports from Europe, Canada, and Mexico. Asia's share of the US total trade deficit has actually declined significantly during this time (though growing in absolute terms) as our trade deficit with the rest of the world has risen dramatically.

■ The United States needs to improve its competitiveness and productivity in response to the challenge of Asian integration. Priorities should include restoring control over government finances and raising national savings; adopting new measures to open markets and enforce trade agreements; strengthening government commitments to basic science; ensuring that education reforms, worker training, and visa policies allow American businesses and universities to attract international talent; and seeking continued improvements to high-tech and traditional infrastructure.

US-China Trade in Perspective: Asia's Emerging Union and Implications for the United States

by Edward Gresser

It has been three decades since President Nixon renewed US relations with the People's Republic of China. Each of the six US presidents since that time has supported the development of Sino-American trade—sometimes in the face of considerable controversy, as trade policy became a vehicle for debate on strategic relations, Taiwan policy, human rights, arms transfers, and other issues. Each of these administrations has encouraged China to join global economic institutions, open its markets, and integrate itself into Pacific and world trade. To many observers, the end of the annual debate over the renewal of China's Most Favored Nation trade status with the approval of permanent Normal Trade Relations for China in 2000, followed a year later by China's accession to the World Trade Organization (WTO), marked a transition point. But by 2004, US trade policy toward China had already begun to face new pressures.

In the intervening years, domestic reform, geopolitical change, and market-opening through China's WTO accession had combined to reshape Pacific trade patterns. Flows of investment capital from Japan, South Korea, Taiwan, Hong Kong, and Singapore into China have grown to massive scales, as all these economies continue to shift processing, assembly, research, and other work to the mainland. This trend has made Asia generally much more competitive in a short period of time, accelerated China's export growth, and shifted exports from smaller Asian economies away from the United States and toward China. Meanwhile, American trade and current account deficits and Chinese trade and current account surpluses have escalated, along with a series of bilateral disputes over trade and macroeconomic policy.

The result has been to revive controversy in US-China trade relations. Early this year, the US Senate voted to consider a 27.5 percent tariff on all Chinese-made goods, unless the Chinese government were to revalue the *renminbi* (RMB) by some roughly equivalent percentage. More specific complaints about Chinese trade policy range over many different fields:

- *Trade Balances and Currency Matters*: As America's global trade imbalance has grown, from over $400 billion in 2000 to well over $600 billion in 2004, the imbalance with China has risen above $160 billion. Beijing's currency policy has become central to the American discussion of this issue, with the fixed rate of the RMB often cited as the main cause of the growth of the bilateral deficit.

About the Author

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- *Textiles*: In the months following the abolition of global textile quotas on January 1, 2005, the Bush administration "self-initiated" an investigation of Chinese clothing imports and imposed a new set of quotas on Chinese-made clothes.
- *Labor*: The AFL-CIO in 2004 filed two Section 301 cases against China (both of which the Bush administration turned down), arguing that workplace abuses and in particular the absence of free unions has grossly inflated Chinese exports and extinguished 727,000 American jobs.
- *Intellectual Property*: US firms, along with other international companies, point to pervasive and unpunished intellectual property violations in China, affecting products that range from movies to medicines and even cars.
- *WTO Commitments*: The Office of the US Trade Representative in 2004 argued that Chinese implementation of WTO commitments has "lost momentum."

The United States is intensely debating the merit of these complaints, and their balance against the advantages of imports from China for American households buying consumer goods and businesses buying industrial inputs. This paper will not focus on either question, but instead will focus on a simultaneous phenomenon of structural change in Asia, little recognized in the United States, that intensifies all such debates. Since China's entry into the WTO, intra-Asian trade and investment have transformed Asia in some ways into a single large economy comparable in size to that of the United States or Europe, rather than the collective of productive centers it was in the 1980s and 1990s. Thus, Asia as a region is a far more competitive global player than it was a few years ago, and American firms find import competition far more stressful.

In this context, actions to resolve trade disputes and address macroeconomic imbalances remain important on their own merits, but are unlikely to eliminate the pressures on American businesses. In some cases these pressures might become still more intense. The United States, therefore, needs to find ways to ensure that its workers and companies "raise their game," both through efficiencies in the private sector and through government commitments to basic research, infrastructure, and education reform, to compete more effectively in the years ahead.

I. THE US-CHINA TRADE RELATIONSHIP

Shifts in intra-Asian trade and investment usually get little attention in debates on the US-China trade relationship. In the past, this may have deprived American trade discussions of some depth, but was not an oversight of basic importance. Today, however, these shifts are an essential element of the US relationship with China. One can see this through an analysis beginning with the perspective dominating the US debate—that of import growth, competitive pressure, and bilateral deficits on one hand, and the less widely publicized trends in American exports on the other—and then by stepping back to view both in a wider frame.

1. Rising US Imports and a Rising Trade Deficit

The rapid expansion of imports from China is the most obvious phenomenon in US trade since the turn of the new century. Between 1999 and 2004, imports from China grew from $82 billion to just under $200 billion, accounting for a quarter of all America's import growth. In 2004 alone, US imports from China grew by $45 billion—again a quarter of the total growth in US imports.

Chinese-made products now dominate the American consumer manufacturing market, a reality that is visible in any department store, and in the daily lives of American families. A closer look into the figures shows that imports from China also are rapidly beginning to compete with American factories in industrial products. Toys, shoes, clothes, consumer electronics, and other light goods remain the top Chinese exports, but products like auto parts, plastics, industrial electronics, computer parts, and other advanced manufacturing products are growing at faster rates.

Table 1 records import growth by value overall and by volume for a few visible types of products, and also records the growth of the bilateral trade imbalance. (All the data are reported as recorded by American statistics; Chinese data are of course different, and neither side does a very good job of accounting for trade via Hong Kong.) As the table shows, "traditional" exports to the United States like shoes seem to be growing more slowly than newer exports like child safety seats, TV sets, perfumes, and auto parts.

Evidently, China's exports to the United States are growing fast and diversifying quickly into areas that compete more directly with American production than in the past. American trade statistics also show a rapid growth in bilateral trade imbalances, with China's trade surplus doubling every four years since the early 1990s. China's bilateral trade surplus rose from $18 billion in 1992 to $40 billion in 1996, $80 billion in 2000, and just over $160 billion in 2004. Stress and friction may be the predictable results.

Table 1:
US Imports From China, 1999 and 2004

Product	1999	2004	% Change
Total (by value)	$82 billion	$196 billion	139%
Perfume	22,000 kilos	1.99 million kilos	8,945%
Child safety seats for autos	134,000	4.6 million	3,332%
Wooden beds	584,000	3.1 million	431%
Television sets	3.6 million	15.1 million	319%
Auto parts	$305 million	$1.46 billion	379%
Integrated circuits	$470 million	$890 million	89%
Shoes	1.26 million pairs	1.8 million pairs	42%
Dolls	460 million	395 million	-14%
Bilateral Imbalance	$69 billion	$162 billion	

Source: US International Trade Commission.

2. Rising US Exports and Greater Diversification

Without doubt, the data in Table 1 have helped fuel the debates in 2004 and 2005 over trade with China. But a different picture emerges with a closer look at American exports. US exports, in fact, have been considerably stronger than many of the more optimistic forecasts of the 1990s. Before the conclusion of the WTO accession agreements five years ago, for example, the US International Trade Commission tended to predict that US exports to China might grow 10 percent more rapidly than they would in the absence of the agreement.[1]

This prediction now seems rather modest. In the five years after 1999, US exports to China nearly tripled, rising from $13 billion to $35 billion. China passed Germany as a market for America's merchandise exports, came level with the United Kingdom (though inclusion of services exports would keep the UK above China),

1. See, for example, US International Trade Commission Investigation 332-403, "Assessment of the Economic Effects of China's Entry into the WTO," September 1999, at http://hotdocs.usitc.gov/docs/pubs/332/PUB3229.PDF.

Table 2:
US Exports to China and Other Markets, 1999 and 2004

Country	1999 Exports	2004 Exports	% Change
World	$693 billion	$817 billion	18%
Japan	$57 billion	$54 billion	-5%
UK	$38 billion	$36 billion	-5%
China	$13 billion	$35 billion	169%
Germany	$27 billion	$31 billion	15%

Source: US International Trade Commission.

and even drew within sight of Japan. As shown in Table 2, page 4, US exports to China have risen about ten times as fast as US exports to the world at large.

These aggregate statistics may disguise a faster rate of growth in the exports most affected by implementation, even if imperfect, of China's WTO commitments. China's market for civil aircraft, for example, has been open for some time, with no tariffs and few regulatory barriers. In the 1990s, a large fraction of the value of American exports to China reflected airplane deliveries. As recently as 1999, in fact, planes accounted for almost a fifth of US exports to China. By 2004, airplane revenue remained high in absolute terms, but had fallen to about 5 percent of the overall value of US exports to China. According to US Department of Commerce figures, power generating equipment ($6.2 billion), electrical machinery ($6 billion), oil seeds ($2.4 billion), and optics and medical equipment ($2 billion) were the top US exports to China in 2004.

Table 3 illustrates these trends by recording export data for a variety of manufactured goods, food products, and industrial inputs between 1999 and 2004. Several of these product categories benefited from tariff cuts, quota elimination, or revised phytosanitary regulations.

An alternative set of set of statistics appears in the analysis of US exports to China by geographic origin rather than by product. Here again the US Department of Commerce data are remarkable, showing very rapid growth in exports to China from New England, the South, the Rocky Mountain West, and other regions (*see selected states in Table 4*).

The US data, therefore, show a rapidly growing and diversifying bilateral relationship. US imports from China have risen from a larger base and thus have grown faster in dollar terms, and likely pushed as well by currency factors, as the research from the Institute for International Economics and much political debate suggest. But US exports to China have also grown very strongly, across a variety of products. Given the rapid growth of exports to China as well as imports from China, attributing China's export success solely to "unfair" trade and currency policies thus seems inadequate.

Table 3:
US Exports to China by Product, 1999 and 2004

Product	1999 Exports	2004 Exports	% Change
Total	$13 billion	$35 billion	169%
Airplanes	$2.3 billion	$1.9 billion	-17%
Oranges	$174,000	$13.8 million	7,831%
Lenses, prisms & mirrors	$600,000	$63 million	10,400%
Textile fabrics	$80 million	$270 million	237%
Furs	$1 million	$37 million	3,600%
Fish & other seafood	$86 million	$250 million	191%
Semiconductor chips	$700 million	$2.4 billion	243%

Source: US International Trade Commission. Some SITC categories have been combined.

II. ASIA'S CHANGING TRADE PATTERNS

A different approach altogether begins by analyzing Chinese data, as well as statistics from other Asian nations. The Chinese data, published monthly by the Ministry of Commerce, give a fuller picture of

Chinese trade growth and of the evolving Chinese relationships with Asian trade partners. Two points in particular are important to note.

1. Chinese Trade Growth

First, China is going through a period of extraordinarily rapid trade growth, both as an exporter and as an importer. In 2004, China's trade growth, combining imports and exports, reached 35 percent. China's total exports jumped from under $440 billion to nearly $600 billion, while its imports rose from $413 billion to $560 billion. This followed a year of even faster growth in 2003, at 40 percent import growth and 35 percent export growth. The statistics for 2005 seem more modest, reflecting efforts by the Chinese government to slow economic growth, but China's projected trade growth in 2005 still is likely to outstrip those of most other major economies.

The unusual scale of this trade growth emerges by comparison with the American experience. The last year in which America's trade grew by 30 percent or more was in 1946. Similar statistics appear in 1866, 1916, 1919, and 1942. In essence, in the American context 30 percent trade growth usually reflects wartime emergency measures (e.g., the launch of the Lend-Lease program in 1942), or revivals of trade in the aftermath of war. Only once has the United States strung two such years together—in 1815 and 1816, after the end of Britain's naval blockade of the Atlantic and Gulf coasts imposed during the War of 1812.

2. Asia's Changing Trade Patterns

Obviously one should be careful with economic comparisons across centuries and among countries with very different histories. China is entering the global economy from a position of much greater isolation than the United States ever experienced, and has been liberalizing its trade and investment policies faster in the early years of the twenty-first century than the United States, Europe, and Japan did in the early years of the the General Agreement on Tariffs and Trade (GATT) system. China also, of course, finds a far more open and easily accessible global economy than American businesses and workers found as the GATT system developed in the 1950s and 1960s. But even more profound changes are emerging in the trade patterns of other Asian countries.

Japan, for example, reports trading more with China than with the United States last year, and may *export* more in 2005 to China than to the United States. (This projection includes Japanese exports to Hong Kong as well as mainland China.) Using the broader definition of "Greater China," which includes Taiwan and Hong Kong as well as Macao, Japan actually did export more to China than to the United

Table 4:
US Exports to China by State, 1999 and 2004

State	1999 Exports	2004 Exports	% Change
Total	$13 billion	$35 billion	169%
Arizona	$150 million	$650 million	333%
California	$2.4 billion	$6.8 billion	183%
Hawaii	$2 million	$33 million	1,550%
Iowa	$37 million	$128 million	246%
Louisiana	$660 million	$2.2 billion	233%
Massachusetts	$331 million	$875 million	164%
Michigan	$198 million	$607 million	207%
Montana	$1 million	$15 million	1,400%
Pennsylvania	$275 million	$780 million	184%
South Dakota	$2 million	$33 million	1,550%
Texas	$900 million	$4.5 billion	400%

Source: US Department of Commerce. Numbers have been rounded.

2. Analysis based on data from the Japan External Trade Relations Organization.

Table 5:
Asian Exports, 2000 and 2004

Country	2000	2004	% Change
Japan			
to United States	$144 billion	$131 billion	-9%
to South Korea	$31 billion	$46 billion	48%
to China/Hong Kong	$57 billion	$113 billion	98%
Mainland	*$30 billion*	*$76 billion*	
Hong Kong	*$27 billion*	*$37 billion*	
South Korea			
to United States	$38 billion	$43 billion	13%
to Japan	$20 billion	$22 billion	10%
to China/Hong Kong	$29 billion	$68 billion	135%
Mainland	*$18 billion*	*$50 billion*	
Hong Kong	*$11 billion*	*$18 billion*	
ASEAN			
to United States	$80 billion	$85 billion	6%
to Japan	$57 billion	$57 billion	0%
to China/Hong Kong	$37 billion	$74 billion	100%
Mainland	*$16 billion*	*$40 billion**	
Hong Kong	*$21 billion*	*$34 billion**	

Source: Table uses data from IMF, Korea International Trade Association, JETRO, and Southeast Asian statistical agencies.
*ASEAN data for 2004 are unavailable for some member nations, so total ASEAN exports have been calculated using 2003 data and the 2003-2004 import growth rate reported by PRC Ministry of Commerce.

States as early as 2003. Again, for historical context, Japan has not relied more heavily on China than the United States as an export market (if the World War II years are excluded as anomalous) since the year 1873.[2]

Similar trends are under way all across Asia. For both South Korea and Singapore, mainland China alone has now passed the United States to become the largest single export market. As shown in Table 5, combined exports to China from the 10 members of the Association of Southeast Asian Nations (ASEAN)—again including Hong Kong—already have surpassed exports to Japan, and seem likely soon to surpass exports to the United States. It seems likely that China has not been Southeast Asia's main export market since the opening of the colonial era early in the nineteenth century.

Trade patterns have been changing all across Asia over the past five years. China's exports to the United States have grown; Japan, Southeast Asia, and South Korea have meanwhile redirected exports from the United States to China. In effect, the postwar era of Asian development—in which countries and economies along an arc from Japan to Singapore relied directly on the United States for export markets, employment, and growth—appears to be coming to an end.

3. Asian Economic Integration

What explains such dramatic shifts? Here we need to relate trade patterns to investment, and investment to geopolitics and history.

Over the four decades after 1949, the Chinese Revolution and the Korean War effectively separated mainland China from its neighbors. This circumstance is certainly rare in Asian history, and may be unprecedented. During these four decades, Japan, South Korea, Taiwan, Hong Kong, and Singapore industrialized and became financial and technological powers, while China remained an isolated, relatively poor economy.

The separation meant powerful and unrealized complementarities emerged as soon as China began to re-engage with the outside world. Mainland China's low costs, large and relatively well-educated workforce, and rapidly developing infrastructure were a natural match for the capital and technology of its smaller, wealthier neighbors.

During the 1990s, a series of geopolitical and economic events removed the barriers between China and the rest of Asia. These events included the normalization of relations between China and South Korea in 1992; Taiwan's removal of limits on mainland investment in the mid-1990s; and Hong Kong's reversion to Chinese sovereignty in 1997, following a long period of Hong

Kong-led development of the manufacturing industry in Guangdong. The final event, China's WTO accession in 2001, marked a new step in the liberalization—and globalization—of the Chinese economy.

The result is in retrospect obvious, but was not foreseen at the time and still is not widely recognized in the United States. The richer Asian economies are integrating with a large, low-cost neighbor, and all the parties are becoming more efficient and competitive global producers as a result.

The scale and speed of this integration appears perhaps even more clearly in investment data than in trade statistics. Each year since 2000, China has been the recipient of the world's largest or second-largest flows of foreign direct investment (FDI). American debates often seem to assume that a very large proportion of FDI in China represents investments by American companies. But while US companies have made substantial investments, FDI in China is above all Asian FDI.

The PRC figures for 2004 are revealing, as shown in Table 6. China received nearly $61 billion in FDI flows in 2004, second among major nations to the United States, with roughly three-quarters of the flow coming from its Asian neighbors.

American FDI statistics for 2004 provide an instructive comparison: American FDI in China, India, Mexico, South America, Africa, and the Middle East combined for just over $20 billion.[3] Even if one discounts inflows from tax havens, Asian investment in China was nearly double total US investment in all developing countries combined.

Another perspective comes from China's Ministry of Commerce, which has presented the inflows of Asian capital as responsible for the opening of about 20,000 mainland "manufacturing facilities" per year. Such a "facility" may not be the equivalent of a "factory" elsewhere in the world. But the fact that the United States has a total of 350,000 operating factories suggests that the addition of 20,000 new facilities in China each year is probably enough to affect the global manufacturing economy.

Even a fairly cautious analysis of the FDI picture should indicate two things. First, Asian investment in China has created a large increase in global manufacturing capacity. Second, it has meant a qualitative change in the Pacific economy, merging the strengths of the smaller and wealthier Asian economies with the complementary strengths of China's economy. In practical terms, though without any formal legal or administrative apparatus, East Asia has undergone in five years an integration process that took Europe three decades to accomplish. In effect, there is now an informal, private-sector-driven Asian counterpart to the European Union.

Table 6:
FDI in China, 2004

Total:	$60.6 billion
Asia and Tax Havens:	$46.6 billion
Hong Kong	$19.0 billion
South Korea	$6.2 billion
Japan	$5.5 billion
Taiwan	$3.1 billion
Singapore	$2 billion
Other ASEAN	$0.8 billion
Tax havens*	$10 billion
United States	$3.9 billion
European Union	$3.9 billion
Other	$6 billion

Source: PRC Ministry of Commerce.
Numbers may not add up due to rounding.
* Usually believed to include Taiwan investment and "round-trip" investment from the mainland.

3. Based on US Department of Commerce's Bureau of Economic Analysis figures on US direct investment overseas, available at http://bea.doc.gov/bea/di/usdiacap.htm.

Table 7:

US Imports From Asia and the World, 1999 and 2004

Country	1999	2004	% Change
World	$1,017 billion	$1,460 billion	44%
East Asia*	$367 billion	$503 billion	37%
All others:	$650 billion	$957 billion	47%
Africa/Middle East	$43 billion	$100 billion	133%
Other Latin America	$56 billion	$98 billion	75%
European Union +	$194 billion	$270 billion	39%
Canada/Mexico	$307 billion	$410 billion	34%

Source: US International Trade Commission.

* Mainland China, Hong Kong, Taiwan, Japan, South Korea, and the 10 ASEAN members.

+ Data for the 15 EU members prior to 2004; does not include the 10 newest members.

IV. A NEW PERSPECTIVE ON THE AMERICAN DEBATE

1. Imports and Deficits Re-Examined

In this context, American views on imports and trade imbalances look considerably different. When China is examined not on its own, but as part of a larger East Asian region, US imports from Asia are not growing faster than imports from other areas; they have grown at roughly the same pace as imports from Europe, Canada, and Mexico (*see Table 7*). The fastest-growing US imports, in fact, are from oil exporters in Africa, Latin America, and the Middle East.

Measuring growth rates from different base years can change these percentages. It does not, though, lead to strikingly different results. Comparing 2004 data against 2003, for example, reveals that imports from East Asia grew by 17.2 percent, while US imports from the world at large grew by 16.8 percent. Thus, Asian imports did outpace other imports that year, but not by an unusual extent. Using 2000 as the base year, in contrast, yields a figure of 38 percent import growth from Asia, and 47 percent from the rest of the world.

Trade deficit figures behave in a similar way. The US trade imbalance with Asian countries has risen considerably, roughly in lockstep with the overall American trade imbalance. But, as Table 8 indicates, the Asian "fraction" of the total American trade imbalance actually has diminished in comparison to the contributions of other countries.

Regardless of structural change in Asia, some American complaints appear well-grounded. There surely is merit in charges of high rates of intellectual property piracy, for instance. Independent scholars and the directors of the International Monetary Fund (IMF) have argued that fixed currency rates in China (and other medium-income Asian states), especially as they are joined with high fiscal deficits and low savings rates in the United States and weak growth in Europe and Japan, are contributing to a potentially dangerous inflation of global trade and current account imbalances. WTO dispute settlement options, IMF-led discussions, and bilateral diplomacy offer ways to address such issues. Former Treasury Secretary Larry Summers, for example, has suggested a major coordinated initiative for the United States, China, other emerging Asian economies, Japan, and Europe to address the financial issues imbalances.[4]

But as American officials address these issues, they should also remember that the global economy is changing rapidly. The preceding discussion of Asian integration and its implications may suggest two points for the debate on US-China trade.

First, the stress of competition from manufacturing based in China

4. "The US Current Account Deficit and the Global Economy," Per Jacobsson Lecture by Hon. Larry Summers, October 2004, available at http://www.perjacobsson.org/2004/100304.pdf.

is real, and the anxieties of American businesses and their workers are likely to continue to be potentially divisive issues. This stress reflects the fact that Asian integration, rather than Chinese economic strength alone, is creating a fundamentally and genuinely more competitive Asian economy. American officials debating China trade policy should recognize this general fact, and seek to inform the American public about it as they work on specific trade or macroeconomic disputes.

Second, competitive stress is unlikely to vanish—and may not even diminish—even if many of the current complaints about Chinese trade policy are resolved. Barring some unforeseen financial or security upheaval, Asian economic integration is permanent, and American businesses and workers will need to adjust by improving their own competitiveness and productivity.

It is of course easier to advise Americans to adapt to change than to tell them how to do so. In general terms, however, scholars agree that a successful competitiveness policy ought to include examination of several different issues. These include regaining control over America's government finances and raising national savings rates; adopting new measures to open overseas markets and enforce trade agreements; strengthening government commitments to basic science; pursuing education reforms, worker training, and visa policies that protect security but also allow American businesses and universities to attract international talent; and seeking continued improvements to both high-tech and traditional infrastructure in the United States.

We can remember that the United States has faced similar economic challenges in the past. In the 1960s, for example, Europe began to emerge as a single economy, posing new questions to the Kennedy administration about the durability of the undisputed American economic leadership of the 1950s. In the 1980s and 1990s, American businesses adapted to new challenges posed by Japanese innovations in heavy industry and high-technology manufacturing. The issues raised by China's success and Asia's integration today differ in some important ways from those of these earlier periods—but there is no reason to believe America now lacks the capacity to overcome the challenge.

Table 8:
US Merchandise Trade Deficits, 1992-2004

	1992	1996	2000	2004
Global deficit	$85 billion	$168 billion	$436 billion	$653 billion
East Asia	$92 billion	$114 billion	$232 billion	$305 billion
East Asian deficit as percent of total	108%	68%	53%	47%

Source: US International Trade Commission.

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