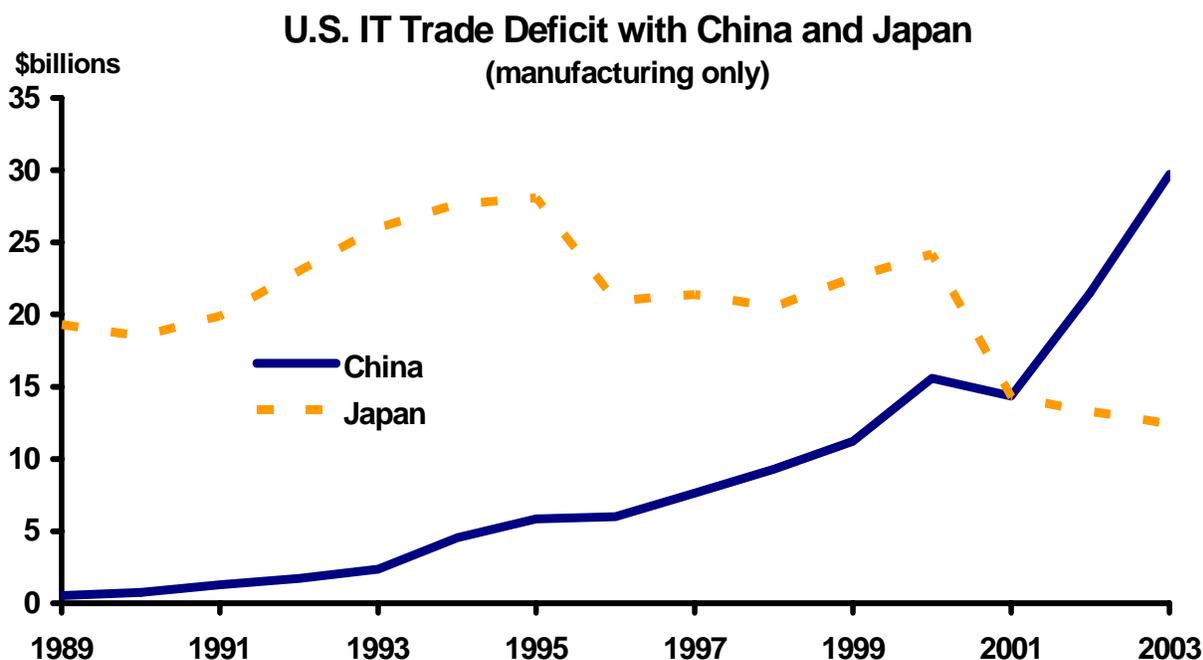


## China and U.S. IT

The United States arguably is the world's foremost producer of information technology (IT) products, and for many of these products the U.S. defines the "leading edge," or most advanced technology. In 2002, however, the U.S. trade deficit for IT products increased substantially, suggesting some erosion of our competitive advantage. Much of this shift is associated with the growing role of China: as of 2002, the U.S. IT manufacturing trade deficit with China exceeded that with Japan by a substantial margin. This shift reflects a combination of factors, including the severity of the worldwide downturn in business IT spending and China's successful development as a low-cost production alternative within East Asia. Some U.S. companies—especially those located in the Twelfth District—are well-positioned to take advantage of the production shift to China; in fact, several District states have seen their IT exports to China grow rapidly in recent years. However, given China's growing skill base and the tax advantages conferred on foreign IT manufacturers that locate there, these production shifts may point to the need for a renewed focus on economically sound policies to ensure the U.S. IT sector realizes its full potential in the years ahead. Such policies may include, but are not limited to, enhanced protection of intellectual property internationally, a continued focus on education and training programs, and federal and state tax policies that take into account the unique features of IT manufacturing activities.



Source: FRBSF tabulations of data from US International Trade Commission.

For more information see [Is Our IT Manufacturing Advantage Drifting Overseas?](#) FRBSF EL 2003-30 or [Rising IT Production in China: Challenges and Opportunities](#), [CSIP Viewing Room](#).