PRESS RELEASE

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China's Trade Surplus with United States is over-rated as less than a third of the export value is retained in China

China has come under criticism in the United States for having a large trade surplus with the US. In reality, little of the gross surplus (as little as 30%) is retained in China. Thus, the trade surplus that China enjoys with the United States is over-rated.

This finding is contained in a Research Paper produced by the South Centre, "Export Dependence and Sustainability of Growth in China and the east Asian Production Network." It is authored by the Centre's Special Economic Advisor and Chief Economist, Dr. Yılmaz Akyüz .

The paper can be accessed at the South Centre website (www.southcentre.org) or at following internet link:
http://www.southcentre.org/index.php?option=com_content&view=article&id=1326%3Aexport-dependence-and-sustainability-of-growth-in-china-and-the-east-asian-production-network&catid=142%3Aglobal-financial-and-economic-crisis&Itemid=67&lang=en

The South Centre paper shows why only 30% of China's exports to the US was actually retained by China.

In China, the average import content of exports is high, about 45-53%, according to several recent studies, using separate input-output tables for domestically produced and processing exports.

In China processing exports refer to a special category of goods produced by assembling and/or processing intermediate inputs that are exempted from tariffs because the final products are sold only in foreign markets.

Processing exports accounted for about 55-60 per cent of total Chinese exports in the first half of this decade. Their import content is several times that of non-processing exports; in 2002 it was around 75 per cent against 11 per cent.

Import content is particularly high − over 80 per cent − in sectors processing high-end manufactures such as electronics compared to low skill exports. Foreign firms are active in export processing and have particularly higher import content in their exports than do domestic firms.

The estimates made for the first half of the 2000s show that the average foreign value-added content of Chinese exports was between 40 and 50 per cent. A very large proportion of foreign content of exports consisted of imported parts and components directly used in sectors producing exportables. This proportion was particularly high in export processing sectors.

Chinese exports to the US are found to have greater import contents than its exports to the rest of the world in large part because a very high proportion of exports to the US − about 78 per cent in 2002 − are processing exports.

In 2002 the foreign value-added content of exports to the US was around 63 per cent compared to less than 50 per cent for total Chinese exports. By contrast US exports to China have very high domestic value-added content (around 87 per cent in the same year) and very low foreign value-added content (13 per cent).

As a result, while in gross value terms the bilateral trade surplus of China with the US was estimated to be some $172 billion in 2005, in value added terms this figure comes down to less than $40 billion. In other words, China's exports to the US contain large amounts of value-added generated elsewhere, including in its Asian trading partners and even the US itself.

The paper also shows that of this already reduced trade surplus in value added terms is not all retained in China. A relatively important part of the domestic value-added generated by Chinese exports accrue to foreign firms. This is particularly the case for processing exports where foreign firms are dominant.

It is estimated that of the total domestic value-added generated by Chinese exports in 2002 to the US, around two-thirds went to capital income, some 18 per cent to labour and 14 per cent to indirect taxes.

About 60 per cent of these exports were by foreign firms, including firms from the US. Even if it is assumed that such firms shared only in the direct capital income, it can be estimated that an additional 7 per cent of the value of total Chinese exports to the US went to foreign firms.

The paper concludes that as a result, income left in China was no more than 30 per cent of total value of exports to the US.

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