



U.S.-China Economic and Security Review Commission

Monthly Summary of U.S.-China Trade Data

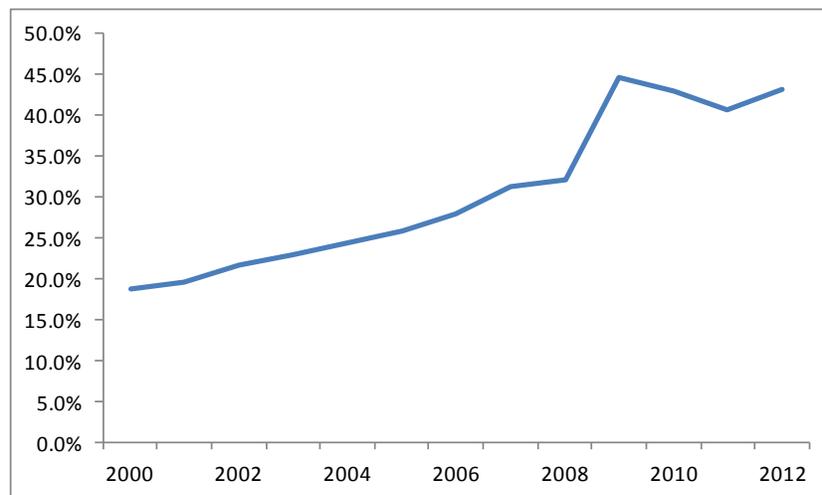
February 8, 2013

The U.S. Balance of Trade with China

The U.S. trade deficit in goods with China in 2012 reached a record \$315 billion. The deficit was nearly \$20 billion higher than the previous year. China's share of the U.S. deficit continued its climb, following a slight decrease between 2009 and 2011. Since 1979, the United States has accumulated trade deficits of \$2.98 trillion with China.

Other Asian economies are being replaced by China as a supplier of goods to the United States, according to the figures released by the U.S. Census Bureau. China remains an export powerhouse and key supply chain hub. China's share of the U.S. global trade deficit continues to climb. Without China included, Asia's share of the U.S. trade deficit is falling while other regions remain largely unchanged.¹

China's Share of the U.S. Trade Deficit with the World (%)



Source: U.S. Census Bureau, *Exports, Imports and Trade Balance by Country, Monthly totals, 1985-present* (Washington, DC: U.S. Department of Commerce, Foreign Trade Division, February 2013). <http://www.census.gov/foreign-trade/statistics/country/>

Note: Exports in this report are based on F.A.S. values, and imports are based on Customs values.

U.S. exports to China grew to \$111 billion in 2012, \$7 billion higher than in 2011. U.S. imports from China grew to \$426 billion in 2012, an increase of \$26 billion over 2011. The figures reflect the growing interdependence between the world's two largest economies.

¹ The next release for this data will be in March, and will be analyzed in subsequent trade bulletins.

China's Share of U.S Exports and Imports
(%)

	2000	2002	2004	2006	2008	2010	2011	2012
U.S Exports	2.1%	3.2%	4.3%	5.3%	5.5%	7.3%	7.1%	7.1%
U.S. Imports	8.1%	10.7%	13.3%	15.4%	15.9%	18.9%	17.9%	18.7%

Source: U.S. Census Bureau, *Exports, Imports and Trade Balance by Country, Monthly totals, 1985-present* (Washington, DC: U.S. Department of Commerce, Foreign Trade Division, February 2013). <http://www.census.gov/foreign-trade/statistics/country/>

Top Exports and Imports

Agricultural products continued to be the top performing U.S. export to China in 2012, accounting for nearly a fifth of all exports, and growing strongly over the equivalent period of 2011. Transportation equipment also made notable gains in 2012, illustrating the rising importance of China's market for the U.S. automotive and aircraft sectors. (see Sector Spotlight section below).

Computer and electronic products accounted for over a third of U.S. imports from China, by far the largest import. The top-five U.S. imports from China witnessed steady single-digit growth, whereas the top U.S. exports to China either expanded by double digits or contracted.

Top Exports and Imports through December 2012
(in US\$ millions)

U.S. Top-Five Exports to China				U.S. Top-Five Imports from China			
	Exports	Share of total (%)	Change over Dec'11 (%)		Imports	Share of total (%)	Change over Dec'11 (%)
<i>Monthly (December 2012)</i>				<i>Monthly (December 2012)</i>			
Agricultural Products	2,301.1	22.2%	21.9%	Computer and Electronic Products	13,937.4	40.0%	7.0%
Transportation Equipment	1,812.6	17.5%	29.9%	Miscellaneous Manufactured Commod	2,737.6	7.9%	5.6%
Computer and Electronic Products	1,264.6	12.2%	2.6%	Electrical Equipment, Appliances, and C	2,650.2	7.6%	11.2%
Chemicals	1,154.5	11.1%	-11.6%	Apparel and Accessories	2,293.9	6.6%	5.5%
Machinery, Except Electrical	856.6	8.3%	-3.0%	Leather and Allied Products	1,805.9	5.2%	11.9%
Other	2,992.7	28.8%	-	Other	11,409.9	32.8%	-
Total	10,382.0	100.0%	6.8%	Total	34,835.0	100.0%	6.0%
<i>Year-to-date (thru December 2012)</i>				<i>Year-to-date (thru December 2012)</i>			
Agricultural Products	20,831.8	18.8%	42.0%	Computer and Electronic Products	158,416.5	37.2%	8.6%
Transportation Equipment	15,719.0	14.2%	19.4%	Miscellaneous Manufactured Commod	36,587.2	8.6%	0.5%
Computer and Electronic Products	13,910.0	12.6%	1.2%	Apparel and Accessories	32,104.3	7.5%	-1.1%
Chemicals	12,962.5	11.7%	-4.5%	Electrical Equipment, Appliances, and C	30,452.0	7.2%	5.6%
Machinery, Except Electrical	9,893.3	8.9%	-7.7%	Leather and Allied Products	24,565.0	5.8%	3.3%
Other	37,273.5	33.7%	-	Other	143,518.6	33.7%	-
Total	110,590.1	100.0%		Total	425,643.6	100.0%	

Source: U.S. Census Bureau, NAICS database (Washington, DC: U.S. Department of Commerce, Foreign Trade Division, February 2013). http://censtats.census.gov/cgi-bin/naic3_6/naicCty.pl

Sector Spotlight

Advanced Technology Products

The U.S. trade deficit with China in advanced technology products widened in 2012 by nearly \$10 billion. The largest deficits continue to be in Information & Communications and

Opto-Electronics. Yet, U.S. ATP exports to China continue to make notable gains in biotechnology, life science, and aerospace. One area in which the U.S. trade surplus has declined since last year is flexible manufacturing. U.S. nuclear technology has gone from trade deficit to surplus over the past year.

U.S. Trade with China in Advanced Technology Products (ATP) through December 2012
(in US\$ millions)

	Monthly			Cumulative year-to-date			
	Exports	Imports	Balance Dec'12	Exports	Imports	YTD Balance Dec'12	YTD Balance Dec'11
TOTAL	2,261	12,564	-10,303	22,157	141,207	-119,050	-109,354
(01) Biotechnology	29	5	24	284	67	217	157
(02) Life Science	286	189	97	2,782	2,034	748	553
(03) Opto-Electronics	35	449	-414	328	7,026	-6,698	-7,591
(04) Information & Communications	382	11,537	-11,155	3,920	126,964	-123,044	-110,722
(05) Electronics	340	235	105	4,004	3,099	905	1,497
(06) Flexible Manufacturing	126	68	58	1,995	860	1,135	1,300
(07) Advanced Materials	26	17	9	294	211	83	40
(08) Aerospace	1,003	52	951	8,440	696	7,744	5,792
(09) Weapons	0	12	-12	1	165	-164	-159
(10) Nuclear Technology	33	0	33	109	85	24	-218

Source: U.S. Census Bureau, *U.S. Trade with China in Advanced Technology Products - Monthly and Cumulative Data* (Washington, DC: U.S. Department of Commerce, Foreign Trade Division, February 2013).
<http://www.census.gov/foreign-trade/statistics/product/atp/2012/12/ctryatp/atp5700.html>

The Automotive Sector

In 2009, at the height of the global financial crisis, China surpassed the United States to become the world's largest consumer of automobiles. Many argue that China's rising demand is linear rather than cyclical and therefore likely to continue its rapid expansion. The country boasts the world's largest population, a growing middle class, and sprawling cities. According to the World Bank, China in 2010 had just 58 vehicles per 1,000 people, compared with 797 vehicles in the United States. A survey of China's key cities shows that even Beijing and Shanghai – when compared to their total *permanent* residents – have just 191 and 100 vehicles per 1,000 inhabitants, respectively. In tier-2 cities like Lanzhou in Gansu province and Kaifeng in Henan province, there are still only around 30 to 40 vehicles per 1,000 inhabitants.

The lure of the Chinese market for U.S. automakers is evident. General Motors, through its joint ventures in China, is now the market leader in China's sedan market, increasing its market share over the past five years. Ford is not far behind, ranking sixth overall, with increased market share as well.

But for foreign automakers in China, business prospects are not all rosy. For one, China's auto market remains very volatile, with consumer demand fluctuating on a regular basis. China's demand surged in 2010, when the government introduced several consumer-side stimulus measures. Since then, however, the increase in demand has tapered off although in absolute terms, more cars are being sold in China than ever before. One big question is whether China's roads have the capacity to absorb more cars. China's heavily polluted cities and high population density also constrain the auto market.

China's Top-10 Sedan Makers by Sales
Year-on-year growth (year-to-date)
 (Units)

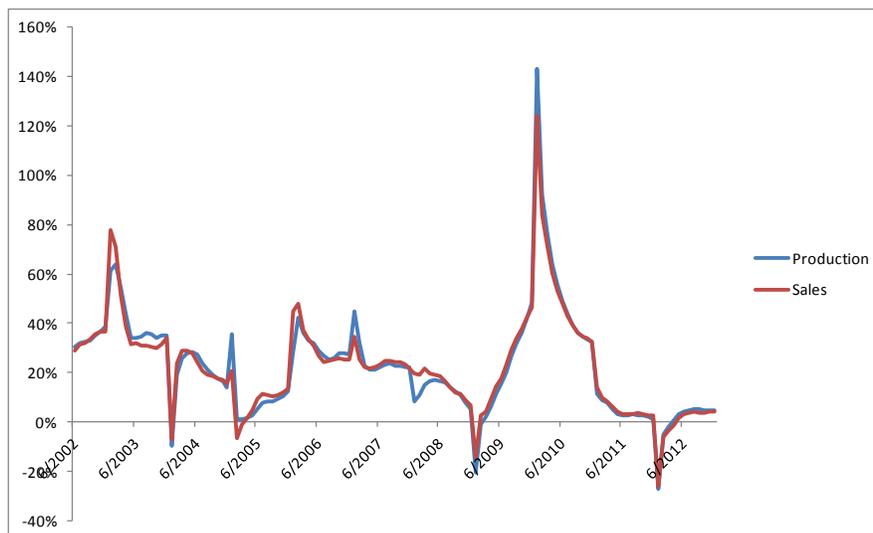
	2006	2008	2010	2011	2012
1 Shanghai-GM	360,580	395,715	956,656	1,118,676	1,269,915
2 FAW-Volkswagen	338,467	498,908	837,496	973,582	1,238,742
3 Shanghai-Volkswagen	337,537	478,059	908,865	1,010,480	1,070,902
4 Beijing Hyundai	261,162	253,296	583,203	584,014	688,137
5 Dongfeng Motor Co	202,577	318,785	563,078	665,158	642,180
6 Changan-Ford	136,809	200,756	406,444	412,792	491,798
7 Geely	203,456	221,823	416,181	432,918	460,147
8 Dongfeng-Citroen	201,803	178,059	373,366	407,415	440,028
9 Chery	273,074	286,569	502,103	474,638	406,645
10 FAW-Toyota	210,011	347,663	386,431	400,153	373,284

Share of Top-20 Sedan Makers

	2006	2008	2010	2011	2012
1 Shanghai-GM	12.2%	10.6%	13.9%	14.4%	15.6%
2 FAW-Volkswagen	11.5%	13.4%	12.2%	12.5%	15.2%
3 Shanghai-Volkswagen	11.4%	12.8%	13.2%	13.0%	13.2%
4 Beijing Hyundai	8.8%	6.8%	8.5%	7.5%	8.5%
5 Dongfeng Motor Co	6.9%	8.5%	8.2%	8.6%	7.9%
6 Changan-Ford	4.6%	5.4%	5.9%	5.3%	6.1%
7 Geely	6.9%	5.9%	6.0%	5.6%	5.7%
8 Dongfeng-Citroen	6.8%	4.8%	5.4%	5.2%	5.4%
9 Chery	9.2%	7.7%	7.3%	6.1%	5.0%
10 FAW-Toyota	7.1%	9.3%	5.6%	5.1%	4.6%

Source: China Association of Automobile Manufacturers, via CEIC data.

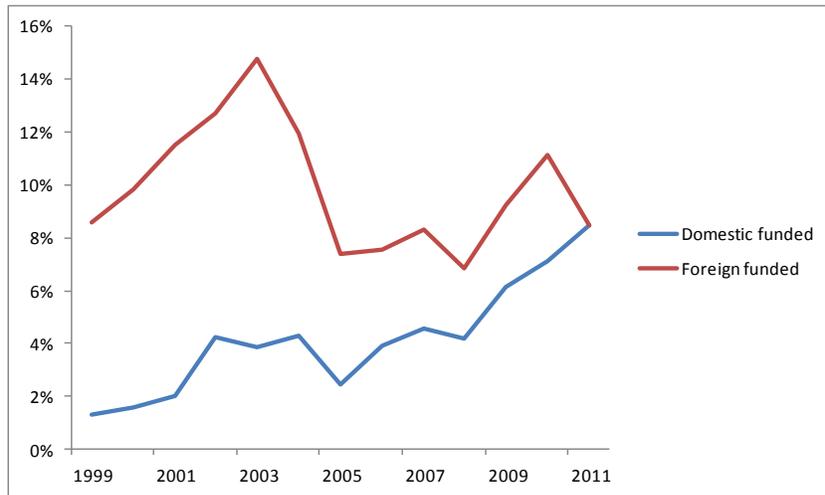
Automobile Production and Sales in China:
Year-on-year growth (year-to-date)
 (%)



Source: China Association of Automobile Manufacturers, via CEIC data.

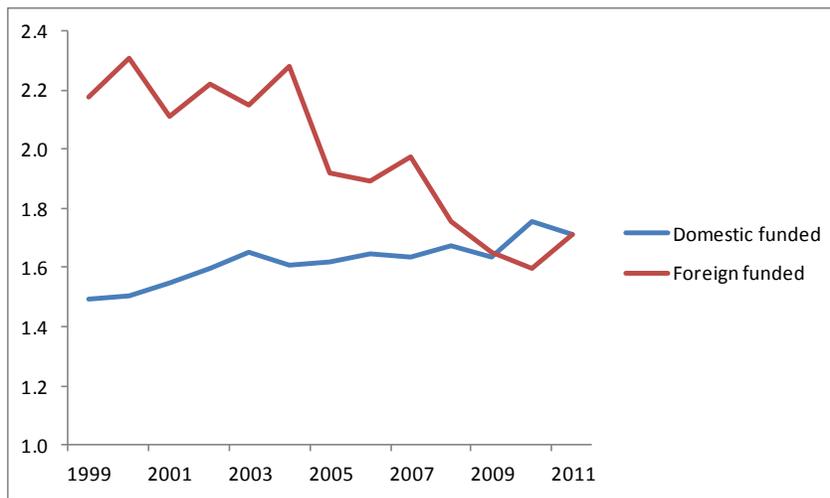
Another worrying trend for foreign-funded enterprises is that, in spite of record sales in China, they are earning fewer profits than in the past. According to the China Association of Automobile Manufacturers, the profitability of foreign-funded automakers, measured as total profit over sales revenue, reached its peak in the early 2000s. At that time, there was less competition from domestic automakers, and cars were still a luxury good procured by the Chinese government and the wealthiest households. Today, however, foreign automakers must compete with domestic rivals and offer lower prices to China's middle class consumers. That may explain the convergence in profit margins, as well as assets to liabilities, among foreign and domestic companies in the Chinese auto market.

*Profitability of Auto Enterprises in China
(Total Profit / Sales Revenue)*



Source: China Association of Automobile Manufacturers, via CEIC data.

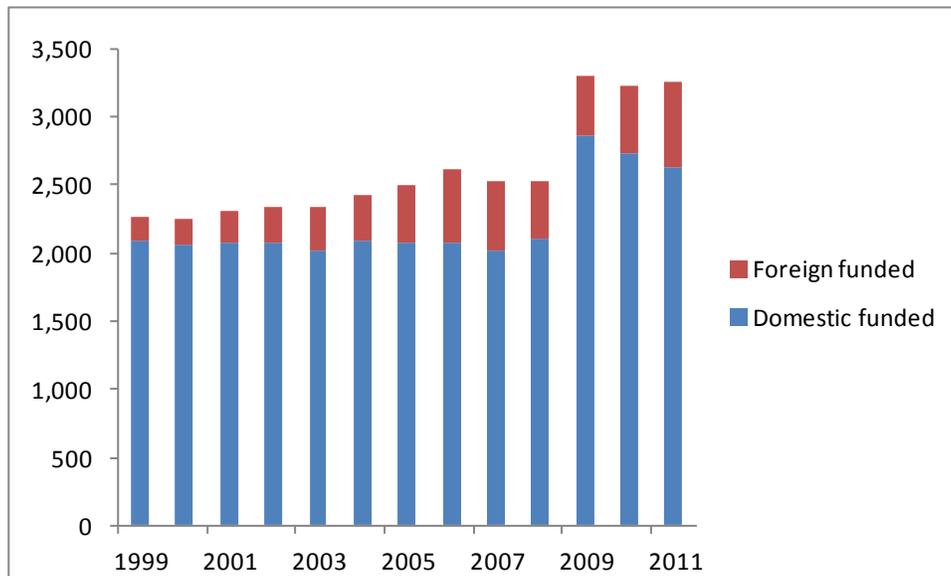
*Financial Performance of Auto Enterprises in China:
Ratio of Total Assets to Total Liabilities
(%)*



Source: China Association of Automobile Manufacturers, via CEIC data.

China’s regulatory environment for automakers remains highly restrictive. In 1986 the Chinese government declared the auto sector to be a strategic “pillar” industry, making it one of a select few manufacturing sectors to be so classified. Foreign joint ventures with Chinese firms are regulated directly by the central government – in contrast to domestic car firms, which are regulated by growth-hungry provincial governments that are always apt to approve of new deals.² That explains why the number of domestic car firms has boomed again in recent years, in spite of government efforts to consolidate the industry.

The Number of Auto Enterprises in China: Foreign Funded and Domestic (Units)



Source: China Association of Automobile Manufacturers, via CEIC data.

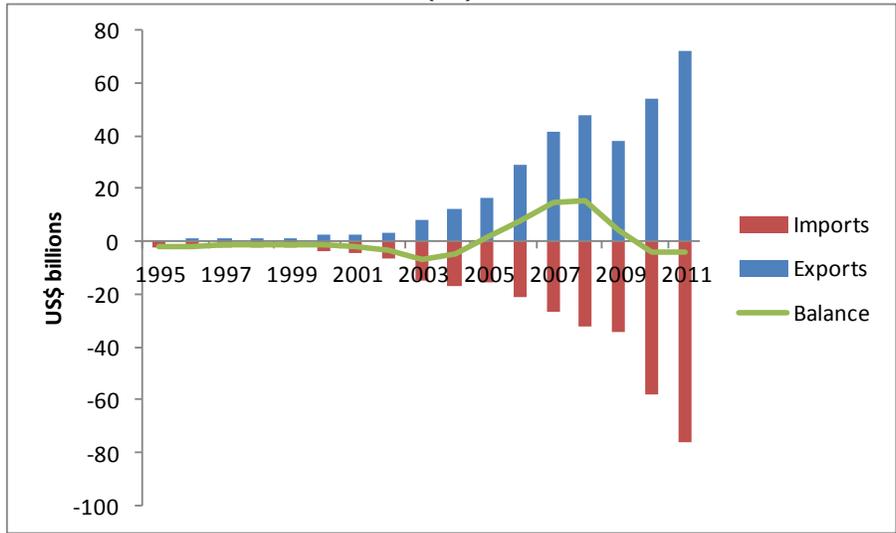
In addition, the government recently forced all automotive joint ventures in China to create their own brands, in order to induce more technology transfer to local firms. Since 1994, foreign automakers have been legally required to form joint ventures in order to produce in China, but were never required to produce indigenous brands. Among those hardest hit by this measure has been General Motors. Its GM-SAIC joint venture now produces not just highly popular Buicks, but also an indigenous brand called Baojun, introduced in 2010.³

A more positive trend in China’s auto market is its increasing global integration. China was once notorious for its lack of trade in this sector – on the export side, it lacked competitiveness; on the import side, it imposed exorbitant tariff and non-tariff barriers to induce foreign automakers to produce directly in China. But now, there are signs that this is changing. Trade is booming on both the export and import side, with a slight overall Chinese trade deficit. China is beginning to import more cars and car parts as it becomes more integrated into global supply chains, lowers trade barriers, and responds to domestic consumer demand.

² Matthew Forney and Laila F. Khawaja, “Zhejiang Geely Holding Group: More Than a Sofa on Wheels,” *China Economic Quarterly* 16:4 (December 2012): 51-53.

³ Matthew Forney and Laila F. Khawaja, “Zhejiang Geely Holding Group: More Than a Sofa on Wheels,” *China Economic Quarterly* 16:4 (December 2012): 51-53.

China's Trade in Motor Vehicles and Auto Parts
(%)

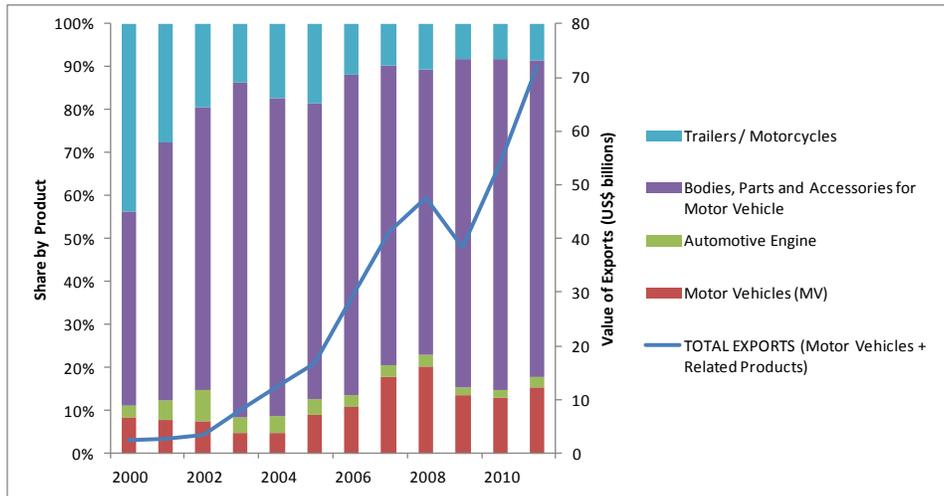


Source: China Association of Automobile Manufacturers, via CEIC data.

At the same time, domestic Chinese companies are increasingly relying on foreign markets to expand. Chinese carmakers Chery and Geely are exporting low-priced vehicles to the emerging markets of Russia and Brazil. More importantly, China is becoming the global hub for auto parts production. Auto parts are accounting for a growing share of China's overall auto exports.

The growth of Chinese auto industry exports has increased competitive pressures for the U.S. auto industry. In September 2012, the United States filed a case with the World Trade Organization (WTO) citing more than 80 Chinese automotive subsidies it alleges violate the trade organization's rules. WTO rules prohibit member state subsidies that are contingent on goods being exported. .

Composition of China's Exports of Motor Vehicles and Auto Parts
(%)



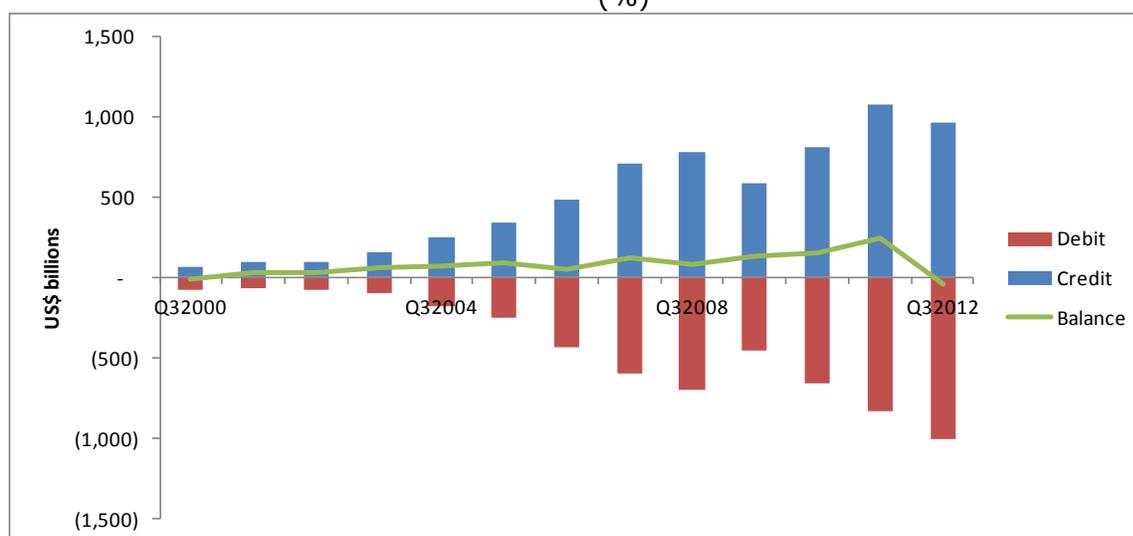
Source: China Association of Automobile Manufacturers, via CEIC data.

China's Economy

China's economy grew at a 7.9 percent rate in the fourth quarter of 2012, finishing an up-and-down year on a high note and exceeding most forecasts. Industrial production expanded even faster than the economy, at 10.3 percent in December. Official inflation remained low at just 2.5 percent, justifying the central bank's interest rate cuts in June and July to stimulate the economy.

There are some tentative signs that China's economy is also rebalancing. For the first time in over a decade, China's financial accounts – the financial flows that enter and leave the country – registered a deficit. Thus, China is beginning to conform more to a standard pattern, where a mounting trade surplus translates into growing outflows of capital. This pattern is further reinforced by much slower growth in China's foreign exchange reserves: China added just \$96.5 billion to its foreign exchange reserves – or "reserve assets" – in 2012, far lower than in previous years. So while China's total foreign exchange reserves reached a record high of \$3.2 trillion, the highest worldwide, they grew much more slowly than in the past. Whether this really signals a rebalancing of the economy is open to question—for instance, there is evidence to show that these outflows are the result of illegal activity rather than normal capital outflows associated with healthy economic transactions.

China's Quarterly Financial Accounts through the 3rd Quarter of 2012
(%)



Source: China's State Administration of Customs, via CEIC data.

China's Current Accounts and Foreign Exchange
(%)

	Annual Current Account Balance (US\$ billions)	Annual Reserve Assets (US\$ billions)	Cumulative Reserve Assets (US\$ billions)	Annual Current Account/ Reserve Asset Ratio
2002	35.4	75.5	133.4	0.47
2004	68.9	190.1	429.6	0.36
2006	231.8	284.8	965.0	0.81
2008	420.6	479.5	1,905.3	0.88
2010	237.8	471.7	2,777.3	0.50
2011	201.7	387.8	3,165.1	0.52
2012	213.8	96.5	3,261.6	2.22

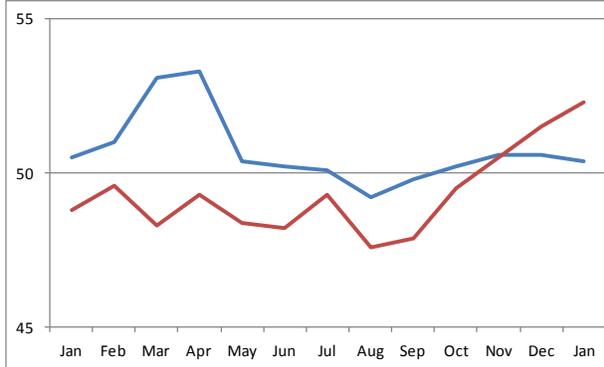
	Yoy Growth Current Account Balance (%)	Yoy Growth Reserve Assets (%)	Cumulative Growth in Foreign Exchange Reserves (%)
2002	103.5%	59.6%	130.5%
2004	60.1%	79.1%	79.3%
2006	75.1%	13.6%	41.9%
2008	19.1%	4.1%	33.6%
2010	-2.2%	17.8%	20.5%
2011	-15.2%	-17.8%	14.0%
2012	6.0%	-75.1%	3.0%

Source: China's State Administration of Customs, via CEIC data.

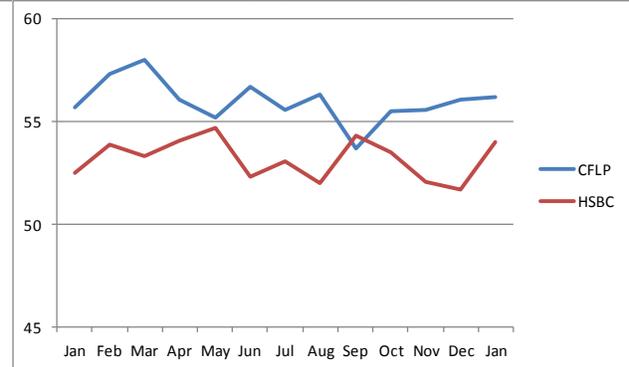
Another sign of rebalancing is the expansion of service – or “tertiary” – sector. China publishes two competing purchasing managers indexes (PMI), which survey businesses in China and thus help to predict growth in the coming months. As detailed in our January bulletin, the Hong Kong bank HSBC and the Chinese Federation of Logistics and Purchasing (CFLP) publish separate PMI reports on a monthly basis. In January, the two PMIs continued to diverge on the manufacturing side, which HSBC's manufacturing PMI showing far more optimism among producers. Where the two PMI measures agreed, however, was that the service sector is due for further expansion.

*Purchasing Managers' Index through January 2013: HSBC and CFLP PMI compared
(<50 = contraction, >50 = expansion)*

Manufacturing PMI



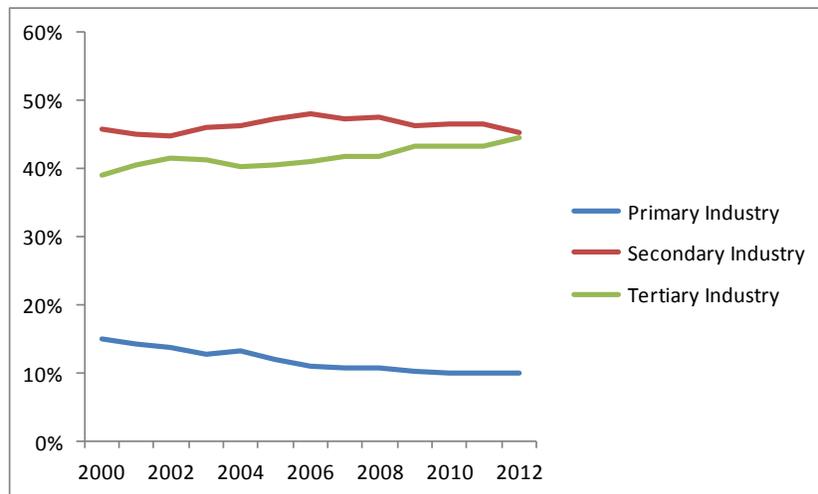
Non-Manufacturing (Services) PMI



Source: China's National Bureau of Statistics, via CEIC data; HSBC Purchasing Managers' Index. <http://www.hsbc.com/1/2/emerging-markets/em-index/purchasing-managers-index>.

Exuberance among businesses in the service sector is further backed by the GDP figures that have emerged for 2012. Tertiary industry – another term for services - now accounts for about the same portion of (nominal) GDP as secondary industry – which generally denotes manufacturing industries.

*Composition of China's GDP (Production Measures)
(%)*



Source: China's National Bureau of Statistics, via CEIC data.

Given the growing importance of the service – or “tertiary” – sector for China's economy, China published a more detailed breakdown of its tertiary sector GDP for the first time in 2012. Although that was an impressive step forward, a comparison with similar statistics in advanced economies shows that China still has a long way to go. The table below juxtaposes China's tertiary sector GDP breakdown with that of British Columbia, one of Canada's largest provinces. China does not publish the contribution of health, education, IT, public administration, and business services to the tertiary sector. As a result, its “Other services” category still accounts for about two-fifths of the tertiary sector.

*Breakdown of China's Tertiary Sector GDP in Comparison to Canada's British Columbia
(%)*

China (2012)		British Columbia (2008)	
Wholesale and Retail Trade	21.7%	Wholesale & retail trade	19.6%
		Health & social assistance	13.5%
Accommodation and Catering Trade	4.5%	Accommodation & food	9.8%
		Professional, scientific & technical services	9.6%
		Education	8.9%
Banking and Insurance	12.3%	Finance, insurance, real estate & leasing	8.1%
Real Estate	12.5%		
Transport, Storage and Post	10.8%	Transportation & warehousing	7.1%
		Information, culture & recreation	6.5%
		Public administration	5.7%
		Business, building & support services	5.6%
Other services	38.2%	Other services	5.6%

Source: China's National Bureau of Statistics, via CEIC data; Guide to BC Economy.
http://guidetobceconomy.org/major_industries/service_sector.htm.

Worries about the quality of data available on China's economy are by no means limited to the service sector. (For more analysis, see the Commission's report titled "The Reliability of China's Economic Data: An Analysis of National Output", published on January 30.) Another major opaque area is the state of China's labor market, as China's data on employment is very unreliable. Nationally, the official unemployment rate has hovered around 4 percent for the past decade, and has remained unchanged at 4.1 percent since the third quarter of 2010, a very unlikely scenario in any economy. At the provincial level, the unemployment rate is published just once a year, and ranges from 1.4 percent in Beijing to 4.4 percent in Ningxia, one of China's poorest provinces. China's migrant workforce, a crucial variable in the employment equation, has only been officially calculated by the government since 2008. Over that period, it has grown from 225 million to 263 million, according to official statistics. The share of non-local migrants has remained static at 62-63 percent, suggesting that the government only estimates this figure. The fact that many migrants are seasonal further complicates the calculation. Another problem is that the government defines "employed people" not just as those in long-term jobs, but also those who are freelancers, temporary workers, graduate students, and people who have signed job contracts but not started work yet, as well as many people in make-work jobs that state-controlled companies across China have been ordered to create for new graduates.

Two of the key issues affecting China's labor market are the role of the rural sector and of highly qualified college graduates. The Chinese government aims to reduce income and productivity gaps between the rural and urban sectors. At the same time, rural-to-urban migration is a complex challenge: it can help sustain a labor surplus to make China competitive, but continues to exacerbate the problems associated with migrant workers (e.g. household registration). A recent problem has been "reverse migration," whereby shortages are caused by people who return to work in their home provinces. Scholars continue to dispute how large the rural population actually needs to be, given its lack of productivity and underemployment. If fewer farmers can do more work and earning more for it, China could potentially sustain a labor surplus, even as its population ages and the

share of the labor force in the overall population declines.⁴

At the same time, many of China's college graduates are having trouble finding jobs that suit their interests and qualifications. Factory jobs remain available, but these young professionals are not willing to perform such menial labor. According to Ye Zhihong, a deputy secretary general of China's Education Ministry: "There is a structural mismatch — on the one hand, the factories cannot find skilled labor, and, on the other hand, the universities produce students who do not want the jobs available."⁵ China Household Finance Survey, a national survey of urban residents released by Southwestern University of Finance and Economics in Chengdu, revealed a troubling new trend: Unemployment or underemployment among young college graduates. Among people in their early 20s, those with a college degree were four times as likely to be unemployed (16.4%) as those with only an elementary school education (4.2%).

The U.S.-China Economic and Security Review Commission was created by Congress to report on the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China. For more information, visit www.uscc.gov or [join the Commission on Facebook!](#)

This report is the product of professional research performed by the staff of the U.S.-China Economic and Security Review Commission, and was prepared at the request of the Commission to support its deliberations. Posting of the report to the Commission's website is intended to promote greater public understanding of the issues addressed by the Commission in its ongoing assessment of U.S.-China economic relations and their implications for U.S. security, as mandated by Public Law 106-398 and Public Law 108-7. However, it does not necessarily imply an endorsement by the Commission, any individual Commissioner, or the Commission's other professional staff, of the views or conclusions expressed in this staff research report.

⁴ Deutsche Bank. *Global Economic Perspectives: Demographics and GDP Growth in China* (November 16, 2012).

⁵ Keith Bradsher, "Chinese Graduates Say No Thanks to Factory Jobs," *The New York Times*, January 24, 2013. http://www.nytimes.com/2013/01/25/business/as-graduates-rise-in-china-office-jobs-fail-to-keep-up.html?pagewanted=all&_r=0.