China's Role in World Trade and Investment

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China's Changing Role In The World Economy

Introduction China is a developing country. Its domestic economy has been growing rapidly. China's increasing participation in the world economy -- evidenced by its rapid growth in world trade in goods and services and large inflows of investment capital -- has been a critical factor in China's economic growth. China's receipt of foreign capital and technology and its large and growing trading power are dramatically altering world trade patterns, a trend likely to continue for some time.

This paper, derived from USCC research, offers brief summaries of key factors in China's new and enlarging role in the world economy under the following headings:

China In Perspective - provides key economic and social statistics and rankings to aid viewing China in a global perspective.

China's Role In World Goods Trade - describes the growth and composition of China's world goods trade, China's rising shares of world goods exports and imports, and the roles of the US, EU and Japan in China's world trade.

China's Commercial Services Trade - compares world services trade with the much larger levels of world goods trade and identifies China's role in world services trade.

The Role of Foreign Investment In China's Trade and Development - traces the growth and sources of foreign investment in China

Some Key Aspects of US-China Trade - provides information about the composition of US trade with China and puts China's trade in a global perspective.

China In Perspective

(1998 data & rankings unless otherwise noted)

- China is a large country and an important factor in the world economy by most economic and social indicators. With 9.6 million Sq. Km of land, it is the 3rd largest country in the world, half the size of first-ranking Russia (17.1 mn), but only marginally smaller than 2nd ranking Canada (10.0 mn) and slightly larger than the United States (9.4 mn). Only 10 percent of China's land is arable, however, compared to 19 percent for the United States.
- China is the world's most populous country, 1.256 billion in 1998, compared to 982 million for 2nd ranking India. Although population density is high in some areas of China, with its large land size it has an overall relatively low population density, only 133 persons per sq.km., compared with, for example, 6,629 for Hong Kong, 5,771 for Singapore, 308 for India, and 30 for the United States.
- In 1998, China was the 7th largest economy in the world, a GDP of $924 billion, compared to a 1st ranking US GDP of $7,903 billion.
- In terms of per capita GDP, however, at $750 China is far down in the rankings, compared to the US $29,240, but significantly above the $440 Indian amount.
- Over most of the 1990s, China has been seen as the world's fastest growing economy, averaging about 11 percent annually. Some, however, consider this growth statistic unreliable and believe actual growth rates to be significantly lower.

- In 2000, China was the world's 7th largest goods exporter (3.9 percent of world exports) and the 8th largest importer (3.4 percent). Its trade growth, however, is primarily in manufactured goods and in 2000 it was the 6th largest exporter of manufactured goods (4.7 percent of the world total) but only the 8th largest importer (3.5 percent).
- China is a smaller player in world services trade, 1.8 percent of world exports, 2.3 percent of imports.
- As is typical of many developing countries, China's employment is principally in agriculture, 50 percent of the 1998 total, compared to only 3 percent for the US.
- Agricultural employment, however, produced only 18.4 percent of GDP, while industry, with 23 percent of employment, produced 48.7 percent of GDP. To raise productivity and living standards, China must industrialize. It must move hundreds of millions of workers from agriculture to higher productivity manufacturing, services, and other industries, an extremely difficult undertaking.
- Energy consumption per capita in China is low, less than 9 percent of the US level.
- China was also 4th-ranking in industrial output, $453 bn, compared to top-ranking US $2.058 bn.
- As with most developing countries, the role of "services" in China's economy is small. At $305 bn, it was 9th ranking in 1998, and only about 5 percent of the US total production of services.
- China in 1998 was the 4th-largest producer of manufactures, $360 bn, about one-fourth of the top-ranking US total of $1.423 bn.
- Over most of the last decade, China has maintained current account surpluses, albeit not as large as several other countries. For example, in 1998 its $29.3 billion surplus was the 5th largest in the world. The surplus was only 3.2 percent of its GDP, the 18th-largest on that basis.
- China is a large producer of agricultural goods, ranking first in Cereals, Meat, Fruit, Vegetables, Wheat, Rice, and Cotton. Other global rankings include: Sugar, 4th; Tea, 2nd; Coarse Grains; 2nd; Raw Wool, 2nd; Major Oil Seeds, 2nd. However, with the world's largest population, China is also a top-ranking consumer and does not generate large agricultural surpluses. Indeed, rising living standards will probably bring gradually growing agricultural deficits.
- China is also the world's largest producer of coal, making it the 3rd largest global energy producer. It is, however, a net importer of oil.

China's Role In World Goods Trade

To industrialize and raise their living standards, developing countries must import technology, capital equipment, and a variety of other goods and services. Imports can be financed in some combination of three ways. Foreign loans provide one means. Capital inflows from foreign investors – including foreign direct investments and the purchases of stocks and bonds by foreigners—are a second means. Exports of goods and services, however, ultimately must be the primary means of financing imports.

International trade in services is increasing rapidly. Goods trade, however, makes up the major portion – about 81.4 percent – of the world's international trade; services about

18.5 percent. Moreover, services trade is typically more important for industrialized countries than for developing countries. Indeed, goods make up over 89 percent of China's goods and services exports; services only 11 percent. This section provides information on China's goods trade.

For measurement purposes, goods trade – merchandise trade -- is reported by the World Trade Organization (WTO) in three major categories: Agricultural Products, Mining Products, and Manufactures. The WTO does not provide detailed reporting on a fourth category, "Other Products" (commodities and transactions not classified elsewhere, including gold, arms and ammunition), which makes up only about 3 percent of total world goods trade.

Manufactures is by far the largest and fastest growing of the three major groups, making up 74.9 percent of total year 2000 world goods trade and increasing about 7 percent annually over the 1990-2000 period. This compares to a 9.0 percent share and a 3.0 percent growth rate for agricultural products, and a 13.1 percent share and 5 percent growth rate for mining products, which includes oil.

Natural resource endowments limit the ability of many countries to export agricultural and mining products. Moreover, the dollar volume of world and individual country trade in agricultural goods and mining products is often affected by supply-demand imbalances – often supply excesses -- and price fluctuations. Given these factors, exports of agricultural and mining products generally do not provide the best route to export expansion and rising living standards for developing countries, except, perhaps, for those who are oil-rich.

For these reasons, developing countries seeking to achieve economic growth and rising living standards have typically pursued export-led economic growth policies that have focused on – and been largely dependent on – increasing their exports of manufactured goods. Export-led growth and manufactures trade surpluses have, for many countries, provided the funds to allow imports of capital goods and continuing investments in domestic manufacturing capabilities that have fueled domestic industrialization and rising living standards. Success story countries employing this strategy include Japan, Korea, Taiwan, Singapore, and Mexico.

China's services exports are modest and its services trade typically is in deficit. It's agricultural trade is also modest, typically producing small deficits, and rising oil imports promise continued and enlarging "mining products" deficits. Thus, as has been the case with the other Asian success stories cited above, China's rapid economic growth and rising living standards have been fueled by – and depend on – its rising amounts of manufactures exports and surpluses that cover deficits in other areas of its trade.

Assessments of China's growing role in world goods trade and the role of trade in China's economic development thus can focus primarily on its trade in manufactured goods.

The information that follows is intended to put into perspective and briefly describe recent trends in China's world trade and its effects on world trade volumes and patterns.

- Expanding goods exports have provided the primary means of financing the rapid growth of goods and services imports that China requires as a part of its economic growth and development strategy. China's services trade is modest, only about 11 percent of its total goods and services trade. Moreover, the more highly developed service-oriented economies of industrialized countries typically have greater services export potential than do developing countries. Goods exports thus offer the primary means of export expansion for China.
- China has rapidly transitioned from a minor player in world goods trade to a major trading nation. By 2000 China was the 7th largest goods exporter and the 8th largest importer. In only ten years – from 1990 to 2000 – its goods (merchandise) trade quadrupled. Its share of world goods exports rose from 1.8 percent to 3.9 percent; goods imports increased from a 1.5 percent share to 3.4 percent. Despite the fact that world trade was essentially flat in 2001, China's trade growth continued, with its exports up 7.0 percent to $266.7 billion, and imports up 8.2 percent to $243.6 billion.
- The rapid expansion of China's goods exports and imports and growth of China's share of world goods trade has had major effects on world trading volumes and patterns, often resulting in shifts of production locations to China and forcing economic changes on the original production site countries. Continuing growth of China's goods exports and imports and its share of world goods exports and imports should be anticipated.
- Over the 1990-2001 period China had goods (merchandise) trade surpluses every year except 1993. Surpluses peaked at $43.3 billion in 1998, declining to $24.2 billion in 2000 and $23.1 billion in 2001. China's cumulative goods trade surplus for the 12 years 1990-2001 was $203.9 billion. Over the same period Hong Kong had a cumulative merchandise trade deficit of $137.7 billion. The cumulative 12 year China plus Hong Kong goods trade surplus (based on Hong Kong's domestic exports and retained imports) was thus only $66.2 billion. By way of comparison, Japan had trade surpluses of $108.1 billion in 1999, $99.7 billion in 2000, and $70.4 billion in 2001.
- China typically runs modest deficits in its services trade but had a 2001 current account (goods and services) surplus of $20.5 billion and a strong end-year foreign reserves position of $211.8 billion. In 2001, despite a $11.2 billion goods trade deficit, Hong Kong's services trade surplus left it with a current account surplus of $8.8 billion and its foreign reserves totaled $111.3 billion. These strong current account performances and healthy foreign reserve positions indicate strong overall goods and services trade performances in recent years and an ability to further increase imports of goods and services.
- The key to China's strong current account performance and healthy foreign reserves position is its goods trade performance; more specifically, its performance in one category of goods trade, manufactures trade. There are three major subcategories of goods trade: agricultural, mining products, and

manufactures. China's performance varies among the three. Its agricultural products trade has grown only modestly and alternates between modest surpluses and equally modest deficits. For example, agricultural exports were \$16.4 billion and imports \$19.5 billion in 2000, yielding an agricultural goods trade deficit of \$3.2 billion. China's entry into the WTO requires gradual reduction of its high import tariffs on a number of agricultural goods. This, together with rising living standards in China, should lead to increased agricultural imports and the potential for consistent – and, perhaps enlarging -- agricultural deficits for China.

- China's oil imports – included in the mining products category -- are growing rapidly, reaching \$20.6 billion in 2000 and generating persistent and increasing deficits. The dollar value of China's oil imports and its oil deficit declined in 2001, reflecting lower average crude oil prices than in 2000. In volume terms, however, China's oil imports increased about 5.9 percent in 2001, growth consistent with its GDP growth that year of about 7 percent. China has limited domestic oil production capabilities and potential. Its oil imports and the resulting oil deficits seem certain to increase as China's energy needs expand in parallel with growth of its economy.
- As with a number of other developing countries, China's strong goods trade performance is based on its manufactures exports. Exports of manufactured goods produce consistent surpluses for China -- \$50 billion in 2000, up from \$1.9 billion in 1990.
- Continuing manufactures export expansion and manufactures trade surpluses will thus be essential to China's economic growth. Manufactures trade surpluses will be required to offset services trade deficits and growing oil deficits, to afford increased agricultural imports resulting from declining tariffs and rising living standards, and to pay for increasing imports of capital equipment essential to China's continuing industrialization,.
- China's reliance on exports of manufactured goods is not unique. Expansion of manufactures exports is the primary means by which many developing countries have pursued strategies to increase their living standards through export-led economic growth. As a result, manufactures trade is the largest and fastest-growing portion of world trade, making up 74.9 percent of world goods exports in 2000. Manufactures export growth is -- and will remain -- the keystone of China's strong goods trade performance and its ability to increase imports essential to its economic development.
- Given the size of China's economy, its growing production capabilities and its need to continue to expand its manufactures exports, focusing on its manufactures trade performance provides a clearer indicator of China's recent and potential effects on world trade flows and patterns than looking at its total goods trade.
- China's role in world manufactures trade has been growing rapidly. By 2000 China was the 6th largest exporter of manufactures, compared to its 7th ranking position in total goods exports, and the 8th largest importer of manufactures. It had a 4.7 percent share of world manufactures exports, up from only 0.8 percent in 1980 and 1.9 percent in 1990. Its share of world manufactures

imports rose from 1.1 percent in 1980 to 3.5 percent in 2000. Over the 1990-2000 period the dollar value of China's imports of manufactures grew at a 15 percent annual rate, close to the 17 percent annual growth of its manufactures exports.

- The share of manufactures in China's total goods exports increased from 71.4 percent in 1980 to 76.4 percent in 1990 and 88.2 percent in 2000. Manufactures thus represent a large and growing portion of China's goods exports, but one still well behind the shares of a number of other top trading nations, including Japan's 93.8 percent year 2000 share. There is every reason to expect that the dominant role of manufactures in China's exports will continue and increase.
- Hong Kong's exports of manufactures originating in Hong Kong (domestic exports) are modest, only $22.1 billion in 2000, only 0.5 percent of the world total, and down from a 1980 share of 1.2 percent. Taiwan, however, is the 12th largest exporter of manufactures. Its 3.0 percent 2000 share increased from 1.6 percent in 1980.
- China's manufactures trade surpluses -- $50 billion in 2000 – come mainly from low-technology, more labor-intensive manufactures. Clothing is a major source of China's trade surpluses. Exports in 2000 were $36.1 billion; imports were negligible.
- Other key low-tech sources of China's manufactures surpluses stemming from substantial exports and negligible imports include: Footwear, $9.9 billion of exports in 2000; Toys and Sporting Goods equipment, $9.2 billion; Furniture and Bedding, $7.0 billion.
- Among politically sensitive product groups, Textiles trade provided China a $3.3 billion surplus. China is, however, a consistent net importer of Iron and Steel, with a 2000 deficit of $5.3 billion and, according to Chinese data, an $8.9 billion deficit in 2001. Continued Iron and Steel deficits are likely for the foreseeable future, as China's steel needs should continue to exceed its production capacity, particularly for higher quality products.
- Trade deficits in Chemicals, which rose to $17.9 billion in 2000, are also likely to continue, particularly in more specialized and higher technology products.
- China has also experienced consistent deficits in most categories of Machinery and Transport Equipment. China is not strong in Aircraft and Automotive Products, two product groups in the Machinery and Transport Equipment category. Moreover, its imports of machinery to facilitate its industrialization are likely to outweigh its exports for the foreseeable future. One exception is Office Machines and Telecommunications Equipment, where export growth has closely paralleled import growth, yielding China some small surpluses.
- China's share of world exports has grown rapidly in a number of manufactures product groups. In 2000 it made 18.1 percent of world Clothing exports, up from 4.1 percent in 1980; its Textiles share was 10.2 percent, up from 4.5 percent in 1980. On the import side, it is a major market for Iron and

Steel, 6.2 percent of world imports in 2000; Chemicals, 5.1 percent; and Textiles, 7.7 percent.

- China's trade with the US, EU, and Japan is particularly important to its overall trade performance. According to WTO data, in 2000 the three took about 88 percent of China's total goods exports and about 90 percent of its manufactures exports. Together, they supplied 28.6 percent of China's total imports, 38 percent of its manufactures imports.
- According to WTO data China's surplus in goods trade with the world in 2000 was $24.2 billion but its trade with the US, EU, and Japan yielded China a surplus of $145.2 billion, $136.9 billion of that from manufactures trade with the three. Manufactures trade deficits of the three with China were: US, $86.7 billion, just over one-fourth of the total US manufactures trade deficit of $314.0 billion; EU-15, $33.6 billion; Japan, $16.6 billion.
- Year 2000 EU manufactures exports to China totaled $25.9 billion, almost double the modest $12.6 billion US total. Japan's manufactures exports were still larger, $27.8 billion. Differences among the three in their imports from China, however, were even greater. US manufactures imports in 2000 of $99.3 billion were 73 percent greater than the EU's $57.5 billion, and more than double (224 percent) Japan's $44.4 billion.
- China's importance as a manufactures importer is growing but is still relatively small for US and EU exporters. In 2000 China took 1.9 percent of US manufactures exports; 1.3 percent of the EU's; and 6.2 percent of Japan's.
- China's shares of US, EU, and Japan's imports are more revealing. China provided 10.2 percent of US manufactures imports in 2000, but only 3.2 percent of the EU total, albeit 8.4 percent of the EU's imports from non-EU sources. Japan's imports of manufactures from the world are modest for an economy of its size, but 20.9 percent of the total -- $44.4 billion -- came from China in 2000.
- Of a total year 2000 US manufactures trade deficit with China of $86.7 billion, $58.6 billion came from four low-technology goods product groups: Other Semi-manufactures, Textiles, Clothing, and Other Consumer Goods. Of the $28.0 billion Machinery and Transport Equipment deficit, $19.2 billion was in Office and Telecommunications Equipment. Modest Iron and Steel trade with China yielded a US deficit of $580 million.
- Of the EU's $33.6 billion manufactures trade deficit with China, $29.4 billion came from trade in Other Semi-manufactures, Textiles, Clothing, and Other Consumer Goods; low-technology, labor-intensive products.
- Japan runs surpluses in several categories of its manufactures trade with China but deficits in Clothing trade and Other Consumer Goods totaled $22.1 billion in 2000.
- Offsetting its surpluses with the US, EU, and Japan, China had significant deficits with other countries including: Taiwan, $20.4 billion; South Korea, $11.9 billion; Russia, $3.2 billion; and Malaysia, $2.9 billion.
- Notwithstanding the huge US deficits on its manufactures trade with the world,-- $387.0 billion in 2000, and down only slightly to $371.5 billion in 2001 -- the US remains the world's largest exporter of manufactures, with a

14.0 percent share in 2000, up modestly from its 13.0 percent share in 1980. The huge growth in US manufactures deficits is thus not due to a loss of share in world manufactures exports. Rather, it is the result of the very large increase in the US share of world manufactures imports, 20.0 percent in 2000, up from 11.2 percent in 1980. Much of the growth in both US export and import shares is the result of the rapid growth of US trade with Canada and Mexico.

- The rapid expansion over the last two decades of the US share of world manufactures imports to the current 20.0 percent level clearly illustrates the critical role of the US economy and its large imports of manufactures in world trade and the economic growth of other trading nations. The expansion of US imports has been a vital factor in the rising exports and economic growth of many other countries, including China.
- One result of the dominance of manufactures in the export-led growth strategies of China and other developing countries is that the manufacturing sectors of industrialized countries bear the brunt of the competitive forces and disruptions generated by expanding world trade. This is particularly true of those industries producing lower-technology, more labor-intensive products. The offsetting manufactured goods export opportunities created for industrialized countries by the economic growth and rising imports of developing countries tend to be in Machinery, Aircraft, Motor Vehicles, Chemicals, and higher technology products, or in exports of component parts – often higher technology items -- for further processing or assembly abroad

China's Services Trade: Global Perspectives and Trade With The US

International trade consists of exchanges among nations of both goods and services. International trade in goods is the cross-border movement of many thousands of kinds of tangible items, ranging from apples to automobiles, xylophones and zebras.

A wide variety of services are also exchanged in international trade. Available WTO data quantifies "Commercial Services" in three categories: Travel, Transportation, and Other Services. US data provides additional detail, categorizing "Private Services" into Travel; Passenger Fares; Other Transportation; Royalties and License Fees; and Other Private Services. The latter category includes a wide variety of services ranging from education services provided in the United States, to accounting and consulting services for foreign customers and the rental fees from films shown in foreign countries.

The information that follows identifies China's role in world services trade and briefly describes US-China services trade.

- World services trade is increasing somewhat more rapidly than goods trade but goods trade remains much larger, 80.6 percent of total world world goods and services trade.

- US services trade consistently produces significant surpluses, $78 billion in 2000. These surpluses, however, are inadequate to offset much larger deficits in goods trade. In 2000 the US goods trade deficit was $436.5 billion, including a manufactures trade deficit of $324 billion and a $120 billion oil deficit.
- Services trade makes up almost one-fourth (23.7 percent) of total US exports. Services will continue to be an important factor in US trade but increased services surpluses are unlikely to be the key factor in reducing US trade and current account deficits.
- As is the case with many developing countries, China's exports are dominated by goods, mostly manufactures. Goods make up 89.2 percent of China's exports; services only 10.8 percent. Services, however, make up a larger (16.2 percent) share of China's total imports and are likely to continue to grow.
- China plays a more modest role in world services trade than in goods trade. Hong Kong, however, is a more important trader in world services trade. In 2000 the two countries made 5.0 percent of world services exports and took 4.3 percent of world imports. Hong Kong in 2000 was the 9th largest exporter in world services trade; China was the 12th. Their ranks were reversed in services imports, with China 10th and Hong Kong 15th. China's role in both services exports and imports is growing rapidly, however.
- In 2000 China exported $30.1 billion of services -- $16.2 billion of it in Travel services -- and imported $35.9 billion, leaving it with a $4.8 billion deficit. Hong Kong exported $42.1 billion of services and imported $26.2 billion, resulting in a $15.9 billion surplus.
- Although China's serves exports are growing rapidly, it will likely continue to run modest deficits in its services trade for some time. Goods exports – particularly exports of manufactures – will continue to be the primary source of China's trade growth and trade surpluses.
- The United States accrues surpluses in most of the major services trade categories. The $78.0 billion 2000 surplus was, however, largely from Royalties and License Fees ($21.9 billion) and Other Private Services ($52.9 billion).
- The volume of US services trade with China and Hong Kong is relatively modest. US services exports to the two in 2000 totaled $8.4 billion, 3.0 percent of total US services exports to the world.
- US services imports from China plus Hong Kong were $7.0 billion, leaving the United States with a $1.4 billion surplus with the two entities.
- Students from China and Hong Kong provided US "Education" receipts totaling $1.0 billion in 2000 but receipts from Business, Professional and Technical Services provided to the two were larger, $1.2 billion.

The Role of Foreign Investment In China's Trade And Development

Developing countries require the importation from foreign sources of technology, capital equipment, and other goods and services to industrialize and raise their living standards. Imports can be financed by obtaining foreign funds in three basic ways. Exports of goods and services are usually the main source. Borrowing abroad is a second means of obtaining funds. Capital inflows from foreign investors, including foreign direct investments -- the foreign ownership of businesses -- and purchases of stocks and bonds by foreigners, is a third means. The following provides information summarizing the role of foreign investment in China's trade and economic development, particularly the major role of "Foreign Direct Investment" (FDI).

- Over the five years 1996 through 2000, China's inflows of foreign capital from loans, FDI, and other foreign investments totaled $290 billion. Over the same period China's exports of goods totaled $962 billion, 3.3 times the inflow of foreign capital generated by borrowing and foreign investments. China's exports of services totaled $126 billion, just over two-fifths of the foreign capital inflow amount.
- Of the $290 billion of 1996-2000 capital inflows, 73.6 percent ($213.5 billion) was FDI, 19.3 percent ($55.9 billion) was foreign loans, and 7.0 percent ($20.4 billion) was from other foreign investments, including stock and bond purchases.
- In 2000, according to its official statistics, China was made use of $59.4 billion of foreign capital inflows, of which $68.6 percent ($40.7 billion) was FDI, 16.6 percent ($10.0 billion) was foreign loans, and 14.6 percent ($8.64 billion) was other foreign investments, including foreign ownership of stock in Chinese companies.
- In 2000 goods exports were $249 billion; services exports $30.4 billion. Thus, in 2000 China's foreign purchasing power from that year's exports and foreign capital inflows were 73.7 percent from goods exports, 9.0 percent from services exports, and 17.5 percent from inflows of foreign capital from loans, FDI and other foreign investments.
- The rising level of China's imports has clearly been financed primarily by increased goods and services exports and, in recent years, by substantial amounts of FDI. Unlike some other developing countries, China has not relied heavily on foreign loans to finance its industrialization. Indeed, its new foreign borrowing declined modestly from a 1996 peak of $12.7 billion to $10 billion in 2000.
- China's relatively modest reliance on foreign loans, which have fixed debt servicing requirements, is cited by many analysts as an important factor in its ability to cope with economic difficulties such as the "Asian Crisis" of the late 1990s.
- Goods exports – particularly, manufactured goods exports -- thus has been the largest factor in determining China's ability to increase imports essential to its industrialization and rising living standards. But foreign capital inflows, particularly FDI, serve not only to enhance production for domestic consumption but as well, production for exports. Moreover, FDI is particularly valuable because it is often accompanied by inflows of foreign technology and management capabilities which improve productivity and export competitiveness.

- Although the "flows" of FDI to China – the annual amounts that have moved to China from other nations – have been quite large in recent years, they have not been inordinate in light of the size of China's market potential, the relatively undeveloped state of China's economy, its recent opening to foreign trade and investment, and the rapid growth of flows of FDI in the world economy. Nor has China accumulated an outsize stock of FDI, given its economic potential and early stage of economic development.
- According to UNCTAD compilations, World FDI inflows reached $1.27 trillion in 2000, up more than five-fold from the 1994 level. FDI inflows to China have been relatively stable since 1995, averaging around $40 billion annually. As a portion of annual world FDI inflows, however, China's share ranged from 10.5 percent in 1995 to only 3.2 percent in 2000.
- Hong Kong is also an important recipient of FDI inflows. In 2000 its inflows were $64.5 billion, more than 1 ½ times China's $40.7 billion. Combined inflows to China and Hong Kong were $105.3 billion, 8.3 percent of the world total. This summing involves some double counting, however, as a significant portion of FDI placed in Hong Kong is re-invested in China. Summing the two thus undoubtedly somewhat overstates the actual net portion of world FDI inflows that went to Hong Kong plus China in 2000.
- According to Chinese data, FDI inflows from Hong Kong in 2000 were $15.5 billion, about two-fifths of the $40.7 billion total from the world. If, for example, half of that amount originated outside Hong Kong, the net FDI inflow to the Hong Kong-China combination would then be about $98 billion, or about 7.7 percent of the world total. For purposes of comparison, in 2000 the US was the recipient of 22.1 percent of world FDI inflows; Canada, 5.0 percent; Singapore, only 0.5 percent, but down from 2.7 percent for each of the years 1995-1997.
- UNCTAD data indicate that in 2000 the world stock of Inward FDI – the accumulation resulting from annual flows into host countries– reached $6.3 trillion, more than double the 1995 total of $2.9 trillion. China's inward stock reached $346.7 billion, 5.5 percent of the world total. Hong Kong's stock was $469.9 billion, 7.4 percent of the world total. Together, ignoring an indeterminate amount of double-counting, China and Hong Kong thus had 12.9 percent of world FDI stocks as measured by UNCTAD data. Other 2000 shares of the world total include: US, 19.6 percent; UK, 7.6 percent; Singapore, 1.4 percent; Mexico, 1.4 percent; Canada, 3.1 percent.
- FDI flows expressed as a percent of gross fixed capital formation provide a crude measure of the importance of FDI in an economy's capital formation. According to UNCTAD data, world inward flows in 2000 were equivalent to 16.3 percent of world fixed capital formation that year. China's FDI inflows in 2000 were 11.3 percent of its gross fixed capital formation, almost the same as Mexico's 11.7 percent, but well below Ireland's 92.0 percent, Singapore's 26.1 percent, and Canada's 20.0 percent.
- Accumulated FDI stocks expressed as a percent of Gross Domestic Product (GDP) can also provide a rough indicator of the importance of FDI to a nation's economy. According to UNCTAD data, world FDI inward stocks are

equivalent to about 17.3 percent of World GDP. China's inward stock of FDI relative to its GDP has risen from only 3.4 percent in 1985 to 7.0 percent in 1990 and to 30.9 percent in 2000. Other year 2000 percentage relationships include: US, 11.1; Ireland, 50,7; Hong Kong 255; Singapore, 97.5.

- According to the China Statistical Year Book, over the 1992-98 period over one-half (52.3 percent) of China's inflows of FDI came from Hong Kong, 7.8 percent from Japan, 8.3 percent from Taiwan, and 10.3 percent from other Asian countries. The US provided 7.8 percent of the inflows and Europe 7.2 percent.
- Turning to a more recent period, according to official China data, almost two-thirds (62.6 percent) of China's year 2000 inward flow of FDI came from Asian countries; $15.5 billion -- 38.1 percent of the total -- from Hong Kong alone. Only $4.38 billion, 10.8 percent of the total, came from the United States. However, substantial amounts of Hong Kong's investment in China probably actually originated in other countries, including the United States.
- Also noteworthy, according to China's data, is the large amount of year 2000 inflows to China from the Virgin Islands. The Virgin Islands apparently is also a recycling point for FDI, supplying $3.8 billion, 9.4 percent of China's FDI in 2000.
- As noted above, Chinese data quantifying the cumulative amount and US share of China's total stock of FDI originating in the US are not available. However, Chinese data show larger annual inflows from the United States than are indicated by US data. For example, Chinese data indicate a year 2000 inflow from the US of $4.38 billion, compared to $1.2 billion per US data. Much – but not all -- of the difference is probably from US investments in Hong Kong that are recycled to China. According to US data, USDIA outflows to Hong Kong in 2000 were $3.1 billion.
- According to US data, new US direct investment abroad (USDIA) outflows to China are not escalating rapidly. Outflows to China in 2000 were modest, only $1.2 billion, 0.9 percent of total outflows, with $0.7 billion of that going to manufacturing industries. Outflows to Hong Kong were larger, $3.1 billion, 2.3 percent of total USDIA outflows to the world, but only $0.4 billion went to manufacturing industries. Reinvested earnings provided 79.5 percent of the $4.4 billion year 2000 additions to USDIA in Hong Kong plus China.
- US data show relatively low valuations of the accumulated stocks of USDIA in China. According to US data, at end-year 2000 USDIA in China totaled $9.6 billion, only 0.8 percent of the total USDIA stock position of $1.245 trillion. USDIA in Hong Kong was larger than in China, $23.3 billion, 1.9 percent of the US total. Some portion of this investment in Hong Kong has likely been reinvested in China. However, the China plus Hong Kong USDIA total of $32.9 billion represents only 2.8 percent of total USDIA at end-year 2000. For comparison, just over half (52.1 percent) of total USDIA was in Europe; 10.2 percent in Canada, and 2.8 percent in Mexico.
- In 2000 US data indicate that 59.3 percent ($5.7 billion) of USDIA in China was in various manufacturing industries. The next largest investment sectors were Petroleum ($1.8 billion) and Finance ($0.7 billion). USDIA in Hong

Kong manufacturing was $3.3 billion, 14.2 percent of the $23.3 billion total. Of total USDIA in manufacturing industries only 1.6 percent was in China and 1.0 percent in Hong Kong, a relatively small part of the 17.6 percent share of total USDIA in manufacturing located in "Asian and Pacific" countries.

- The US Department of Commerce collects data on US exports to, and imports from, "related parties" -- the foreign affiliates of US companies, and the US affiliates of foreign companies. For year 2000 these data indicate that 18.1 percent of US imports from China was from "related parties," up from 10.5 percent in 1992. Comparable year 2000 figures for other trading partners include: Mexico, 66.1 percent, Taiwan, 21.6 percent; and Canada, 44.0 percent.
- In 2000, 12.2 percent of US exports to China was to related parties, up from 4.9 percent in 1992. Comparable year 2000 percentages for other trading partners include: Canada, 41.2; Japan, 37.4; Mexico, 42.5; Taiwan, 14.1.
- According to US data, in 1998 – the most recent year for which this information is available -- 987 affiliates of US companies were located in China plus Hong Kong, 4.2 percent of the 23,744 world-wide total of foreign affiliates of US companies. The sales of the China plus Hong Kong affiliates in 1998 were $64.5 billion, about 2.6 percent of total world sales of all foreign affiliates of US companies.
- In 1998, sales of the affiliates of US companies in China plus Hong Kong were distributed as follows: To US, 14.1 percent; to the host country (China or Hong Kong), 61.0 percent; and to Other Foreign Countries, 24.7 percent.

Some Key Aspects of US-China Trade

Global US trade performance and US trade deficits are determined primarily by trade in oil and manufactured goods. The total US goods trade deficit in 2000 was $436.5 billion, the mineral fuels (oil) deficit was $120.2 billion; the manufactures trade deficit was $324.0 billion. Because the US will remain a large net importer of oil, the pivotal segment of US trade is manufactured goods.

Similarly, US performance on trade with China is driven primarily by manufactures trade. Oil trade with China is negligible. Agricultural trade typically provides the US with small surpluses ($900 million in 2000). According to US trade data, the trade deficit with China in 2001 was $83.8 bn, the manufactures deficit (SITC 5 thru 9) was $84.6 billion, almost identical to the $84.5 billion deficit in 2000.

In share terms, China took 2.4 percent of US manufactures exports to the world, up modestly from the 1.8 percent share of 1994. China's share of US manufactures imports was much larger, however, 10.5 percent, a significant increase from the 6.7 percent share of 1994.

Using the Standard International Trade classification (SITC) nomenclature, manufactures trade is divided into some 38 2-digit product groups. The bulk of US trade with China, however, occurs in a relatively few of these product groups. For example, 80.4 percent of US imports from China and 91.9 percent of the US deficit with China in 2001 came from just 10 product groups. An analysis covering the bulk of US-China trade can thus be performed by examining a relatively few product groups.

The top 10 deficit product groups for 2001 and the dollar amounts and percent of total each contributed to the US deficit with China are shown below.

SITC	Deficit $ Billions 2000	Deficit $ Billions 2001	% share of 2001 Deficit (All SITC)
Total all SITC	83.8	83.1	100.0
89 Miscellaneous Manufactures	19.1	19.3	23.3
85 Footwear	9.2	9.7	11.7
75 Office Machines & ADP Equipment	9.5	9.2	11,0
76 Telecommunications Equipment	9.1	8.9	10.7
84 Articles of Apparel & Clothing	8.5	8.8	10.6
77 Electrical Machinery, Apparatus & Appliances	7.4	7.0	8.4
82 Furniture & Bedding	4.4	5.0	6.0
69 Manufactures of Metals	3.5	3.9	4.7
81 Prefab Buildings, Sanitary, Plumbing, etc.	2.5	2.3	2.8
83 Travel Goods, Handbags	2.2	2.2	2.6

Additional detail on the trade with China in these product groups follows.

Miscellaneous Manufactures includes a wide variety of products ranging from baskets and brooms to xylophones. Many of the products in this group are relatively low-technology items characterized by labor-intensive production techniques. A significant shift of manufacture of these products from the developed countries to East Asia began in the 1980s and has continued.

China's share of US imports in this product group rose from 25.9 percent in 1994 to 34.3 percent in 2001. A large portion of the US imports from China is baby carriages, toys, games and sporting goods equipment.

Footwear The US footwear industry has faced intense competition for at least 30 years. Its share of the US market has steadily shrunk and the market is now dominated by imports. Footwear has long contributed substantially to US deficits, a situation that will continue. China's share of US footwear imports rose from 44.9 percent in 1994 to 64.0 percent in 2001.

Office Machines & ADP Equipment US trade performance in this category has shifted rapidly over the last 2 decades. A 1981 global surplus of $6.2 billion gave way to US deficits reaching $34.6 billion in 2000, falling to $26.5 billion in 2001. China's share of US imports has risen from 3.1 percent in 1994 to 11.9 percent in 2000 and 14.2 percent in 2001.

Telecommunications & Sound Reproducing Equipment includes TVs, radio broadcast receivers, sound recording devices, telephones, camcorders, fax machines, and telecommunications equipment. The US demand for most of the consumer items in this category is supplied by imports. China's share of US imports rose from 11.7 percent in 1994 to 16.1 percent in 2001. Over the same period Japan's share declined from 28.3 percent to 13.8, partly reflecting the transfer of Japanese production from Japan to China.

Clothing & Apparel This product group has long generated large US trade deficits, rising to $56.8 billion in 2001, including an $8.8 billion deficit with China. China's share of US imports declined from 17.2 percent in 1994 to 13.9 percent in 2001. Mexico and other low-wage Asian countries increased their shares, with Mexico's share rising from 5.1 percent in 1999 to 12.7 percent in 2001.

Electrical Machinery, Apparatus,& Appliances This category includes a mix of heavy electrical equipment, electro-medical equipment, home appliances and electrical parts, including integrated circuits and semi-conductor. China's share of US imports in this category rose from 3.9 percent in 1994 to 10.8 percent in 2001.

Furniture & Bedding. The US furniture & Bedding deficit rose from $4.3 billion in 1994 to $13.9 billion in 2001, including a $5.0 billion deficit with China. China's share of US imports has risen from 9.9 percent in 1994 to 27.0 percent in 2001.

Manufactures of Metals includes metal containers, wire products, nails, nuts, bolts, screws, tools, cutlery, etc. China's share of US imports rose from 8.1 percent in 1994 to 19.3 percent in 2001.

Prefab Buildings, Sanitary, Plumbing, etc. China's share of US imports increased from 30.6 percent in 2000 to 48.6 percent in 2001.

Travel Goods, Handbags China's share in this product group has remained quite stable since 1994, ranging around 50 percent, with the 2001 share at 50.5 percent.

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