U.S. Trade Deficit with China: A Much Exaggerated Statistics Index Under Complex Supply Chain

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Abstract. There has been trade imbalance between US and China for decades, represented as huge Sino-US trade surplus. Since the global financial crisis in 2008, there has been a series of changes in Sino-US trade. Trade surplus is nothing but a misleading statistical myth under the new global division of production model, with “China factors” only taking part in the cost of production, rather than the value added process. China’s trade surplus indicates the imbalance of economic structure. In order to eliminate the trade imbalance situation, China should adjust the policies towards foreign investment, reduce the dependence on global investment, and encourage the innovation.

1. The Latest Changes in Sino-US Trade Imbalance

In pace with the development of global economy, there have been two main powers that influence the global economic development: the developing country China with highest pace of economic growth and the developed country US with the most powerful economic strength. The economic relationship between these two countries has been the important factor that influences not only their own but also the global economy condition.

1.1 The growth of volume of trade between the two countries

Since 2005 till now, there have been great changes in economic and trade aspects between US and China. The trade volume between countries has risen from 211.5 billion in 2005 to 298.2 billion in 2009, and then been growing to 578.6 billion in 2016. Although there was a downturn during the financial crisis, the volume of trade has raised to 194 percent after crisis from 2009 to 2016. In these seven years, the areas that China-US commerce covered and the framework of goods have been changed. Products with high-labor skills and technology-intensive products have been accounted for more proportion of exports, while the low-labor and resource-intensive products have been declined, which reflect the upgrading of industrial framework and the process of improvement about value-added products.

1.2 RMB appreciation did not reduce Sino-US trade surplus

Since 2005, RMB has been in continuous appreciation position. The impact of RMB appreciation caused enormous effect on China’s exports. The reason of the bankrupt of a large number of small and medium enterprises in Jiangsu and Zhejiang was caused by RMB appreciation, which led to the less competitive condition on exports. Since the issue of the policy towards floating exchange rate, RMB has been continuously appreciating till now. In June 2006, the RMB against the US dollar had broken through ratio of one eighth; and in May 2008, the exchange rate had been ratio of one seventh. This tendency is still going and the ratio is rising, which means that RMB has been growing at its appreciation realm. However, according to Figure 1, the decline of exchange rate had not influenced the net-exports with the same decline result, which was against the ideal model. RMB appreciation has not reduced the trade surplus.

1.3 Changes of the labor and the technical content in Sino-US commercial trade

Since the end of the financial crisis in 2008, China’s exports to US have been steadily and rapidly increasing in different kinds of products, but high-skill and technology-intensive products from US...
have suffered rapid decline during the financial crisis, which gradually slowed down the increasing after crisis. The medium-skill and technology-intensive products have replaced high-skill and technology-intensive products in 2016, which had biggest exports in products from US to China.

The Sino-US trade surplus showed a growth tendency with the extension of time. It should be noticed that categories of products in the trade between China and US are different. Considered China as the world factory with the large amount of subcontract manufacturing and intermediary trade, there were great number of exports to US from China were made by US companies in China, with which China only provided labor resources that were priced lower and took the bottom position of the value chain. In this case, even if there was trade surplus, the benefits were far lower than the benefits that US got from the same trade.

2. Trade Surplus Is Nothing but a Misleading Statistical Myth

There has been an emphasis that the so-called large-scale China-US trade surplus is based on a profound background of world economic development, which generated with the division relied on the current global productive value chain. In this case, this “surplus” should be thought as just a statistical variable, which does not play a role on behalf of China’s business productivity advantages or actual profit situation in China. For this reason, the over-attention upon the data between US and China on trade surplus might lead to a misunderstanding situation to judge the reality of analyzing the substantive trade relationship between US and China. This misunderstanding would lead people treat trades with misconception on unfairness. In this case, there should be a re-clarified and resolved solution towards these statistics mistakes. By following analysis, there are some main causes of this misunderstanding about the surplus.

2.1 Multinational companies export contributes to Sino-US trade surplus

During analyzing reasons for the trade imbalance between China and US, multinational exports to outside have been one of main reasons causing the imbalance. In fact, a major source of China’s trade surplus with US is constituted by parts of the multinational exports, which means that China’s trade surplus with US seen through data analysis may be caused by some East Asian countries: such as the transferred trade surplus between Japan, South Korea and Vietnam with US, which means that a sort of trade surplus from the total surplus between Asian countries and US is wrongly courted into only-China’s surplus. The errors on the issue of multinational export statistics could not be underestimated. Because of the development of China, more foreign investments choose China to invest, in order to use China’s comparative advantage on the labor and the nearest market. In this
case, because of multinational export error on statistics, the China’s trade surplus with US is greatly exaggerated. This part of the export proceeds does not give China extra benefits from the multinational corporations; on the contrary, most benefits have been returned to the country of the headquarters of multinational companies. Obviously from this process, China is not one of the countries benefited from the magnified surplus caused by the improper statistical division. The missing statistical analysis upon transfers between the surpluses through countries is an important mistake in the China-US trade surplus.

2.2 China’s labor force courts a low percentage in the value and proceeds of exports

During the section of understanding of statistical errors, the expanded trade surplus between China and US could not represent the China’s own business productivity enhancement and China’s actual benefits. Because from the view upon the division of the global production value chain, China is in the end of producing process with the production and processing sectors, which means that the core values of highest exports are not under the China’s control. In other words, the technology on production processes and core competitiveness of the products is under the control of other countries, and China could only get benefits from the simper labor productive processing and combination. If this theory is extended to all China’s exports, China could only get the labor-based values during the process of the value division as well as the China’s trade surplus, which is caused by the disadvantage on mastering the core technology. This part of distribution in our overall trade surplus takes a small part. In traditional statistical concepts, people wrongly interpret China’s trade surplus as China’s actual benefit amount, because of seeing this overall surplus without detailed analysis towards the distribution of the whole benefits. In this case, the lack of statistics in specific distribution of detailed China-US trade surplus is the underlying reason of leading to overstate the actual profitability of China during the process of China-US trade.

After the mentioned facts above, it is clear that the low position of China in the production directly leads the embarrassing situation that China gets a few benefits through the exports, which is caused by the lack of innovation in China’s enterprises. In this case, the refinement statistics in this section of distribution of benefits need to be supplemented and concerned.

2.3 China’s production advantage is in gradually disappearing situation

According to the interpretation on misunderstanding of China’s trade surplus statistical errors, China in the current position of global production value chain is a country with the relative competitive labor advantage. In order to explain the present China-US trade surplus depending on the low-price lower, there has mentioned the productive advantages of China. However, with the China’s economic development, this existing labor advantage is disappearing. At the same time, the global labor force is transferred from China to India, Vietnam and the Philippines. Even in China itself, there has been a tendency that the price for labor is raising. In this case, the one-side cognition based on the statistical analysis of rising trade surplus could not support the view that the advantages of China in global trade will keep on. Once China’s labor advantages are obvious, China will lose almost a half of attraction towards the multinational corporations. If we still do not accelerate the innovation to improve the position in production chain, the loss of labor advantage will reduce a huge amount of trade surplus. From the modulus of interpretation of the trade surplus, there is an overly optimistic prediction that it could infer China’s actual economic development. In fact, people need to judge after analyzing the main causes and constitutions of trade surplus.

To sum up, this section mainly explains several aspects of China-US trade surplus because of misreading caused by statistical errors, and supplements statistics to complete the missing parts in statistics. The massive China-US trade surplus is a tendency under the current stage of the global production-value chain. It could not be the evidence to give overly positive judgment towards the productivity of China’s enterprises, the level of benefits in external trade, and the advantages in labor force competition in the future.
3. Underlying Causes of the Imbalance of Sino-US Trade

After a period of collecting about the essays and data towards China-US commercial imbalance issue, there are two types of causes that have been analyzed, and they are divided into two categories: direct causes and underlying causes.

3.1 The direct causes of Sino-US trade imbalance

The direct causes of Sino-US trade surplus includes different statistical methods used, US trade policy interventions and the different consumption structure.

First, since the two countries take different statistical methods, a part of intermediary trade through Hong Kong area and the extra value have been added into the total exports from China to US by US Administration. Second, the US government has continued to restrict exports of technology-intensive products to China, which limits the comparative advantage of US. In this case, the imbalance of China’s labor-intensive products to US has been highlighted, which causes the huge trade surplus of China From the list of export restrictions announced by US, some new high technologies are banned from exporting. In this case, with the condition that US has limited exporting but broadened importing, the trade imbalance is certainly understandable. Third, excessive consumption of US citizens and the traditional saving habit of Chinese citizens could be another cause of China-US trade imbalance issue.

3.2 The underlying causes of China-US trade imbalance

Through the analysis, the root cause of China’s international balance of payments of 'twin surpluses' is the prevalence of trade and the unequal division of labor within the products. For US, many products are usually produced and processed in China owing to the cheap labor resources. However, the innovation and core technology still remain in US. It is clear that since US is in a dominant position in the division of labor, it will earn most of the profits; while China shares only the very small part of processing. In order to facilitate the production, US often invests heavily and sets up factories in China, which means that a lot of US capital is poured into China, rendering the international capital account surplus. After the completion of the production, since these products are manufactured in China at last, so the export of them has been classified into the total exports of China’s foreign trade, which leads to China’s current account surplus. As the corollary of this unequal division of labor, US is the biggest winner rather than China.

In fact, such an unequal division of product closely ties with the world economy and China’s economic statues. Chinese domestic preferential policies for oversea investment and its own huge and untapped markets forms fatal attraction for foreign capitals, making more US firms choose to invest in China and building factories. However, analyzing the operations of inside domestic capital in China, in China’s domestic market there is a huge spare capital had not been utilized. At this moment, the contradiction appeared. Why do Chinese people put aside their spare capital aside to constantly import foreign capital to building enormous factories in China? In fact, the reason for this phenomenon is not only relevant to the bias of policies, but also indicates the immaturity of our domestic market and the realistic problem that companies own low level abilities of innovation. Of course this is not the key point in this discussion portion in reasons. Analyzing low-end products events gathering in China, this is the inevitable choice from the stage of the development of world economy, which means that producing in detail has gradually become a key form of cost-efficiency. As a result, there are great attractions for saving cost from Chinese cheap labor power. Through the analysis of the above phenomenon, only develop China manufactures truly can people change the situation that be in backward in the division of production trade. Restlessly improving the quality of the labor can make China’s status change in the world production produce; then, China could change the phenomenon that they acquire less profits. At the same time, US capitals will withdraw from China gradually, and China will occupy bigger portion in the amount of exporting as long as changing the situation of imbalance of the trade between China and US.

According to the research towards the causes of the commercial imbalance between China and US, the main cause of this imbalance should be the specific condition of the intra-product
specialization, which causes the less profitable position of China and the great profitable position of foreign countries. If seeing through this one side point of view, the China-US commercial imbalance could not lead US enormous economic damage, but on the contrary, could bring benefit to US on the economic structural adjustment and the economic development aspects. In this case, it is hard for US to hold the view that this imbalance could be the financial “obstacle” or “trouble”. This imbalance should be considered as the process of economic development. As a result, both China and US should admit the fact, and guide their national economic development actively to correct the imbalance issue.

4. Conclusion and Suggestions

4.1 Reducing the dependence on foreign capital

U.S. has been holding restrictions in high-tech exports to China for years. Therefore, it is hard to get the foreign advanced technology and the excellent management into China through the imports from US; while China’s companies face more difficulties in buying the high-tech of US with an offering price. The entrance of foreign capital did speed up the development of China’s gross domestic product (GDP) and solve the local employment issue, but the transfer of labor-intensive industries with low added value to China leads the majority of China’s labor force stuck into these primary industries, which also makes them lose the chances to be reeducated. At the same time, the introduction of foreign capital with favorable conditions provided by local governments makes these foreign companies occupy the strong position in the competition in getting China’s market, which only extrude the small and medium enterprises (SMEs) from the competition. The result turns out to be the suppression of the innovations in China’s enterprises.

4.2 Creating suitable environment for independent innovation

First, the government should create a friendly environment for small and medium-sized enterprises. China should establish perfect market mechanism and a complete system of economic law to provide friendly environment for the survival and development of small and medium-sized enterprises. Also, China should improve the systems of property rights and patent protection for appropriate tax cuts. In this case, SME scan become more prosperous. Moreover, China should let go of state-owned monopoly industry access. Resources allocation by market should play the important role. Thus, small and medium enterprises can participate more in the competition.

Second, China should encourage innovation and provide financial support and policy support to SMEs. State-owned enterprises are now affected with low efficiency and insufficient innovation. Instead, small and medium enterprises are under the pressure of competition, despite of their creative power and vitality. Therefore, in China, a friendly environment for small and medium-sized enterprises is beneficial not only for national financial but also for social employment.

Third, the intellectual poverty system in which the patent system is the core is the root of the national innovation system. Improving the management system of intellectual property rights is good for the protection of the innovation enthusiasm of small and medium-sized enterprises. As the most active part of the market economy, the innovation in small and medium-sized enterprises contributes to our country’s overall progress, promotes industrial upgrading, raises labor productivity and influences the composition of China-US trade.

4.3 Encouraging independent and cooperative innovation

With the economic development and innovation becoming more and more open, cooperation innovation has become the basic strategy in the field with the concurrence of opportunity and risk. Therefore, closed innovation is not practicable. China should not only support our country enterprise independent innovation, but also support the cooperation innovation between our country enterprise and foreign enterprise, related technical institutes and domain experts and scholars. There should be supports for China’s enterprises in technology research and product design technological progress and innovation of management mode of cooperation.
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