



China Economic Observatory

Re-assessing the meaning of “Made in China”

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Applied Economic & Financial Research



Re-assessing the meaning of “Made in China”

- ⇒ The rapid increase in China’s market share in world trade raises key trade and economic issues
- ⇒ It is crucial to assess correctly the underlying forces behind this evolution
- ⇒ Feeding the debate about two opposing views:
 - ✓ China is merely a low value addition « assembly step » in international production processes
 - ✓ China is a highly competitive exporting country rapidly becoming the « world supplier of manufactured goods »



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⇒ An approach through four different angles:

- ✓ Overall view through China’s custom statistics, which differentiate imports according to their final use
- ✓ An estimation for different sectors / products using the custom statistics and the Input-Output table
- ✓ An analysis of exports according to the type of enterprises
- ✓ A broad geographic observation of China’s trade flows



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- ⇒ China’s custom statistics allow to identify imports for:
 - ✓ Processing and assembling for export
 - ✓ Equipment for processing trade
 - ✓ Equipment imported in Export Processing Zones

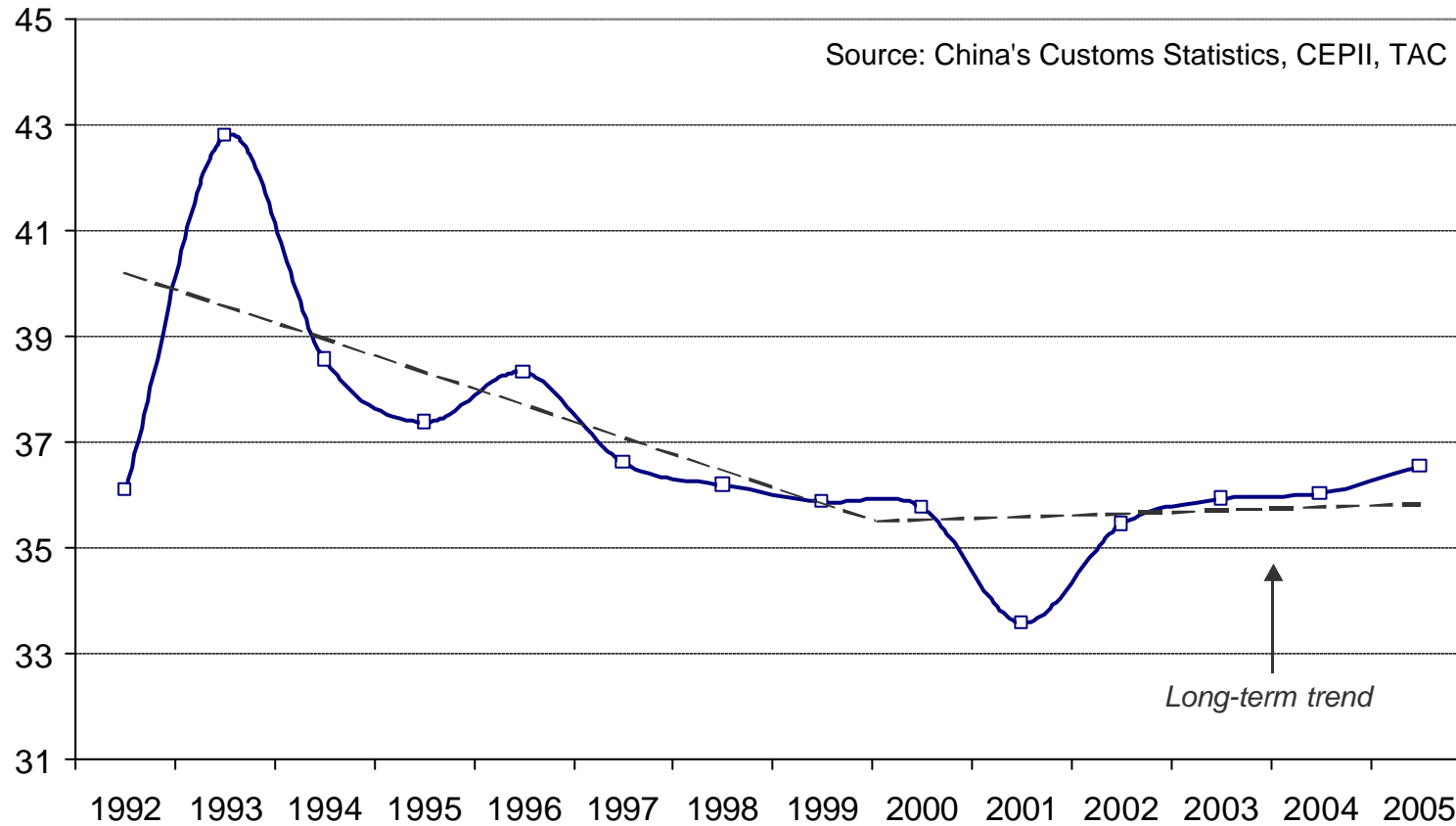
- ⇒ As opposed to “general imports”, supposed to be for domestic market final use



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China's imports for processing in % of exports



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⇒ Questions and uncertainties:

- ✓ Overall statistical issues about trade figures
- ✓ Imports by companies working both for the domestic market and for exports (including equipment)
- ✓ Intuitively, this would increase the ratio of import content, because of fiscal consideration



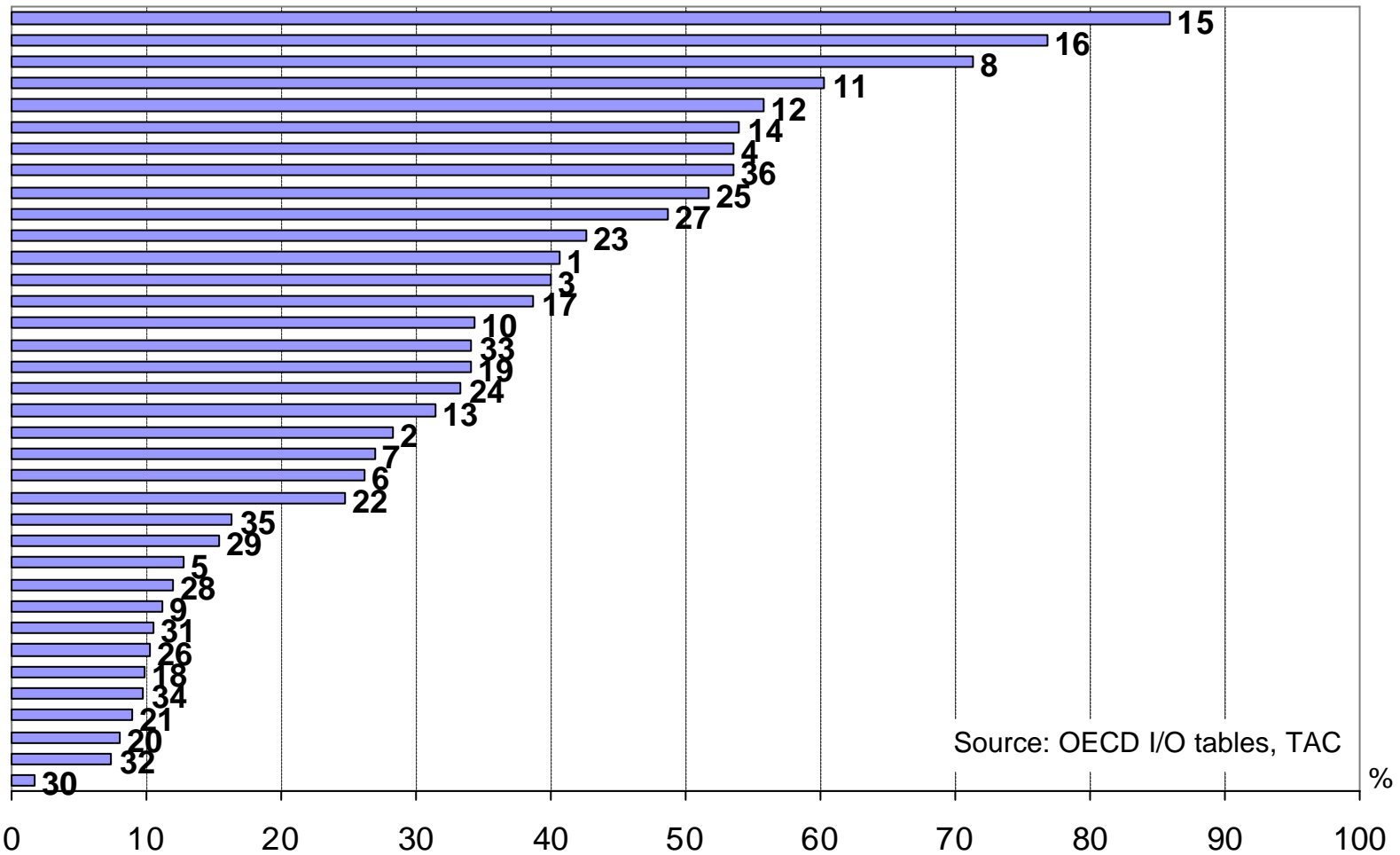
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- ⇒ Measurement of import content of export by industries, using the I/O tables
 - ✓ From technical coefficients measuring the consumption of product j by industry i...
 - ✓ ...the ratio of total imports of product j related to production of product j
 - ✓ ... and the ratio of total intermediate consumption by industry j to exports of industry j
 - ✓ The set of results is normalized with 100 as the value for the whole economy
 - ✓ Import content of export by industry is then computed by applying the normalised ratio to the overall 36.5% import content of exports



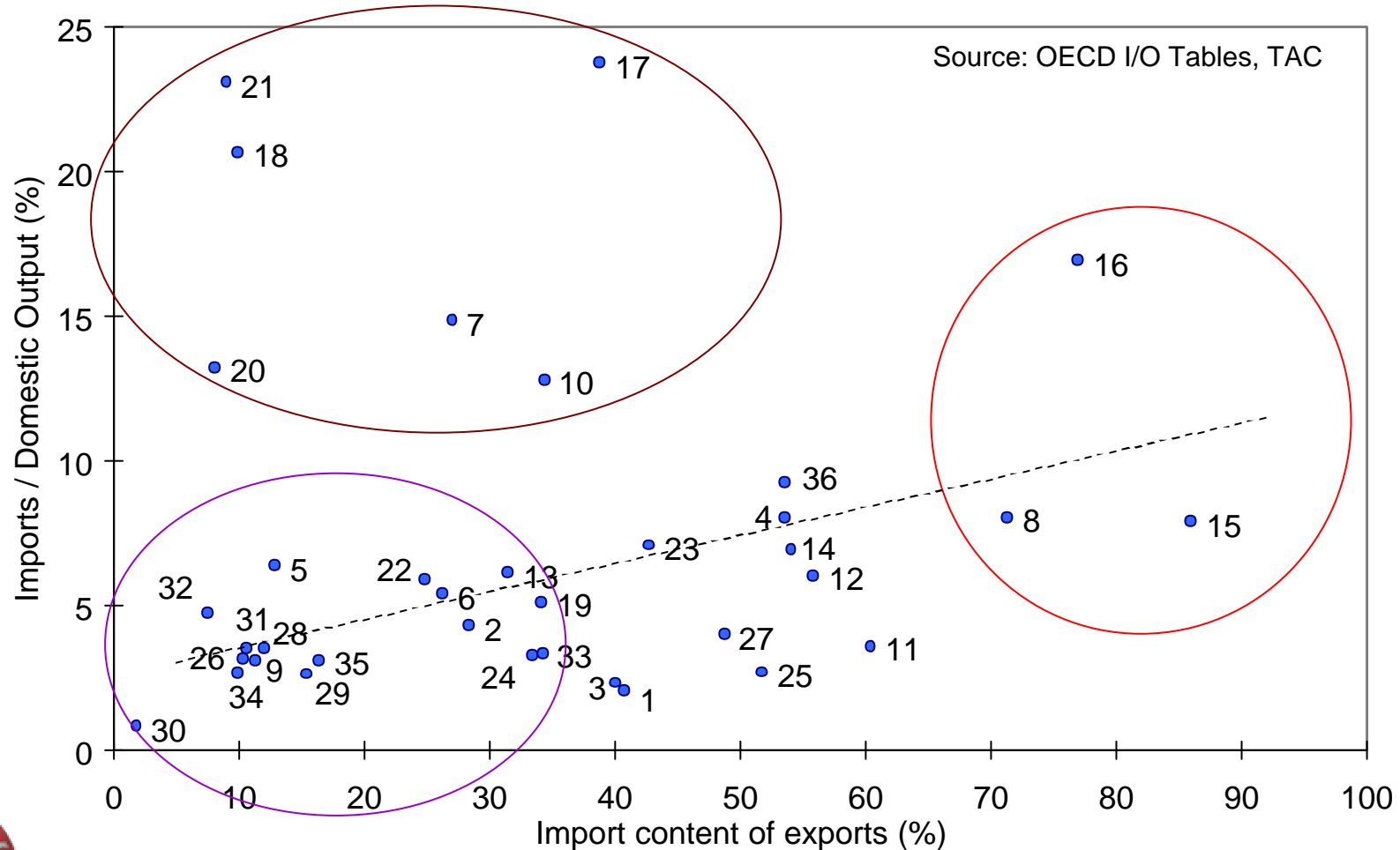
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Import content of exports by major branches



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Sectoral import content of exports and domestic penetration



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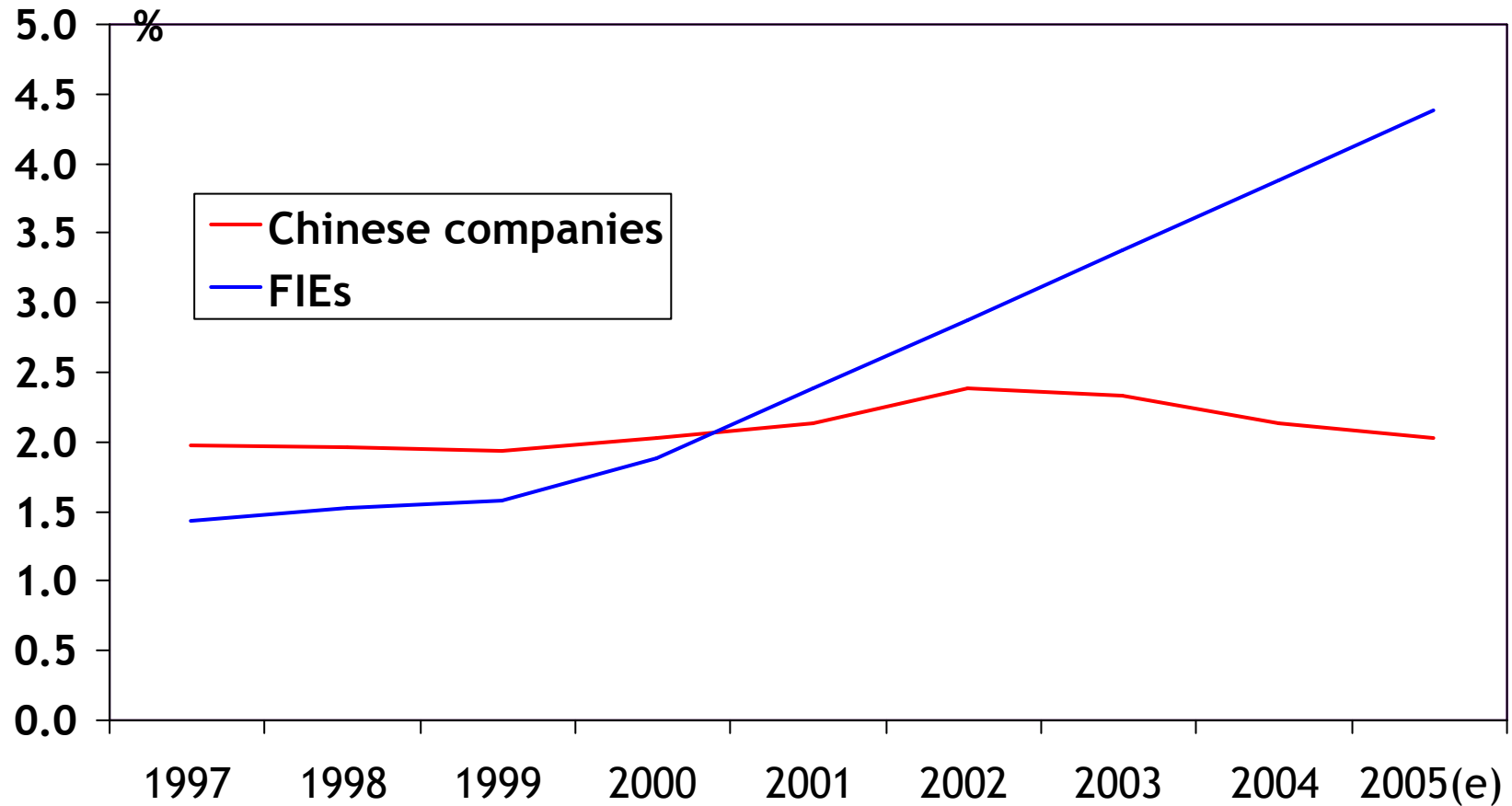
⇒ Who is exporting from China ?

- ✓ Key role of FIEs in the recent increase in China’s market shares abroad
- ✓ These FIEs have the largest import content for their exports



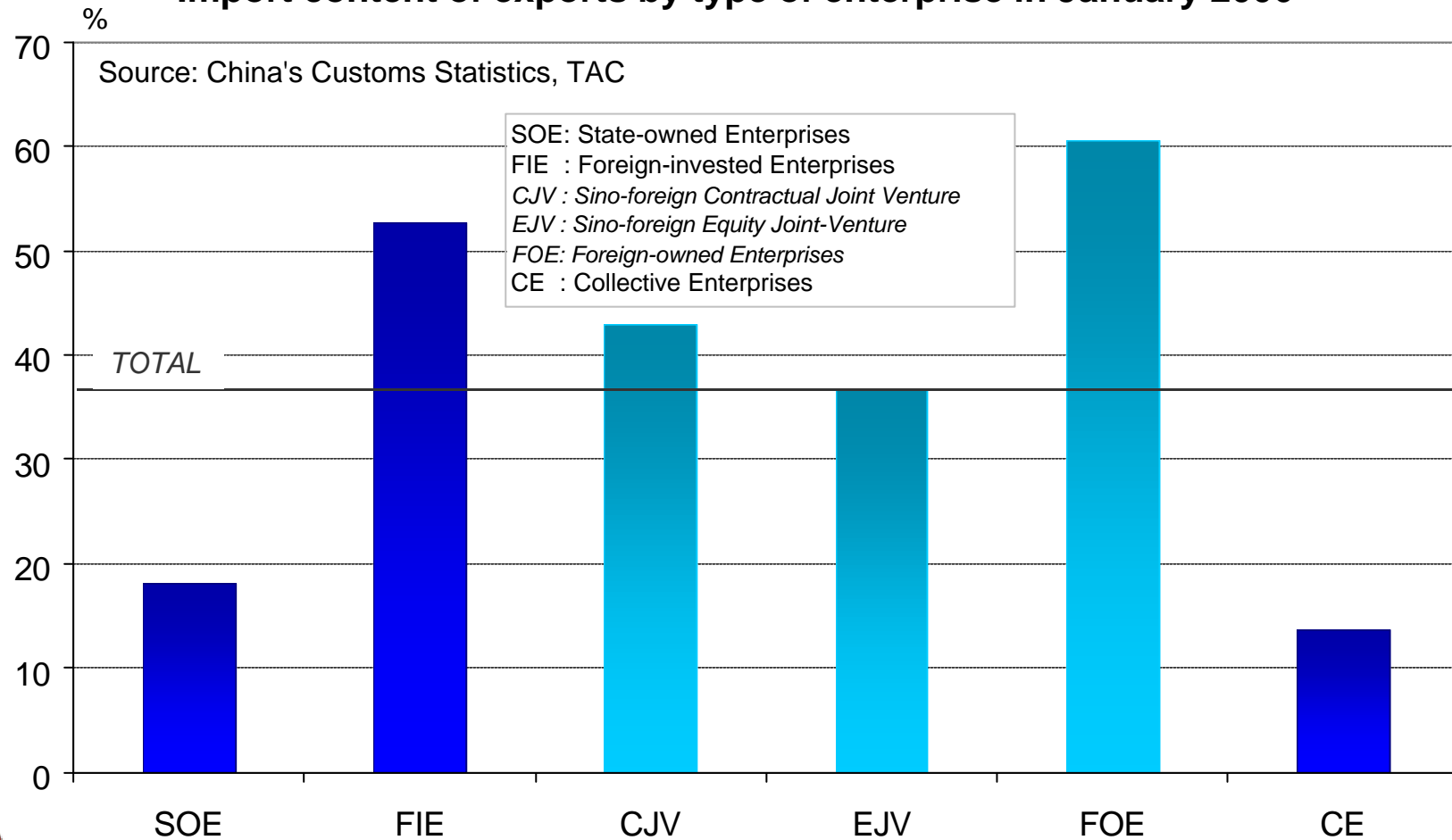
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China's weight in world exports by type of company



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Import content of exports by type of enterprise in January 2006

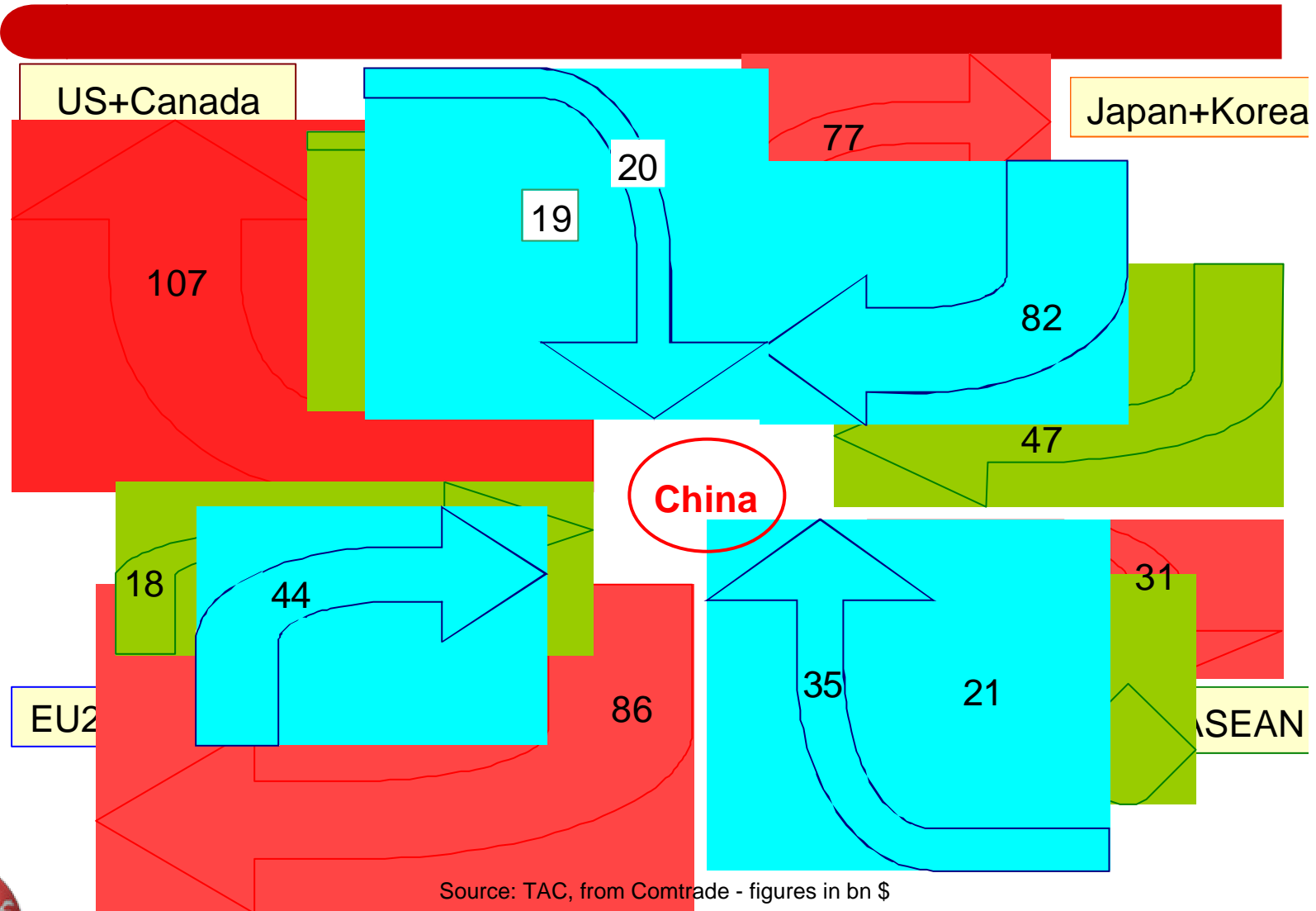


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- ⇒ An analysis through product / country breakdown of imports and exports
 - ✓ Intermediate and equipment goods massively imported, notably from other Asian countries
 - ✓ Finished / consumer goods massively exported to the EU and the US
 - ✓ Overall market shares of Asia has been fairly stable over the past years

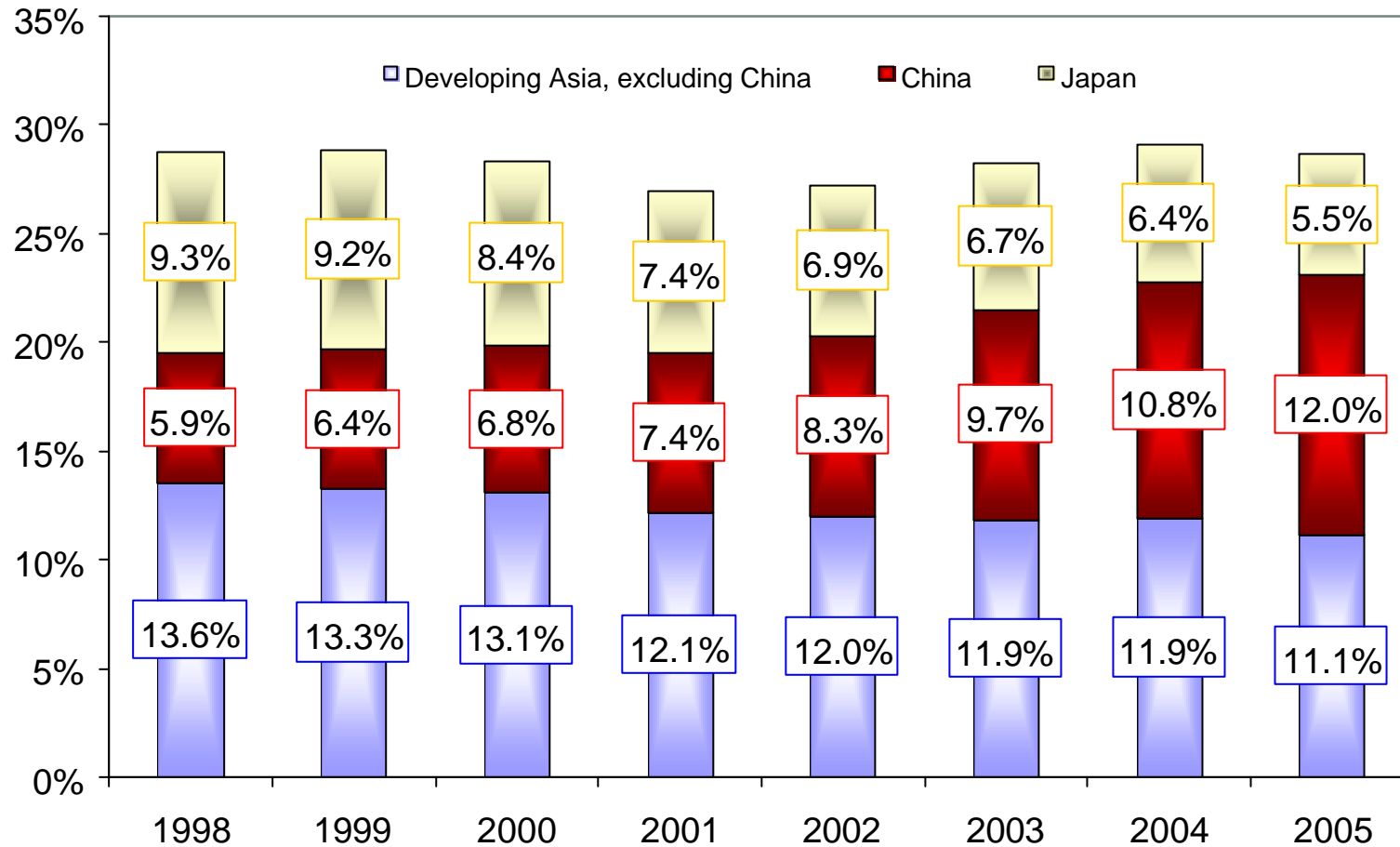


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MARKET SHARES IN EU15 IMPORTS



Source: Eurosta



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Conclusions:

1. “Trade processing” is a major component of the overall China’s trade performances
2. FIEs are the most active “trade processing” agents
3. This is particularly true for investors from other Asian countries having relocated their production facilities in China
4. This would suggest that the Chinese “effective” competitiveness is lower than usually assumed

