



## A short comparison of recent EU-US trade developments with China

Here we up-date the analysis conducted in the first issue of the Observatory on the comparative performances of the EU and the US in their trade with China. This analysis sets out to highlight potential shifts in overall trade relationship, in particular in the context of a possible political bias in China's trade policy and stated objectives by both the EU and the US towards establishing a broad "strategic" relationship with China, and at identifying products for which differences in US and EU performances may warrant closer attention.

The analysis uses 3-digit SITC classification in order to have homogenous US and EU statistics at a sufficient level of details (277 different products), expressed in euros.

The following table provides a synthetic view of trade performances between the EU and the US with China up to May 2006. The figures are presented in cumulative 12-month values (i.e. the sum for the period June 2005 to May 2006, compared with the sum of June 2004 to May 2005):

### OVERALL TRADE PERFORMANCES OF THE EU AND THE US WITH CHINA OVER THE PAST 12 MONTHS (June 05 to May 06)

<i>Amounts in mn Euros</i>	US exports to China	US imports from China	US trade balance with China	EU exports to China	EU imports from China	EU trade balance with China
12-month to 05-2006	39 228	227 516	-188 287	56 663	172 579	-115 916
absolute difference (12M-05-06 compared to 12M-04-05)	11 101	45 681	-34 580	8 669	35 194	-26 525
% change	28.3%	20.1%		15.3%	20.4%	

*source: Eurostat, US Census Bureau, TAC computation*

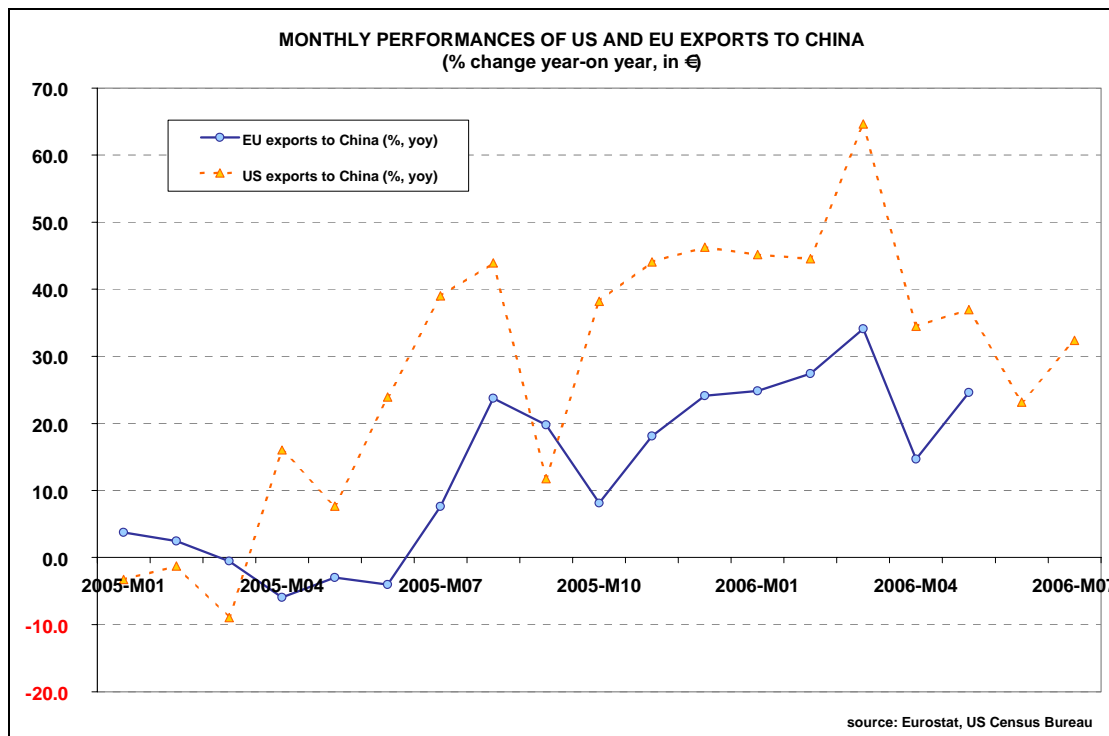
These figures suggest the following:

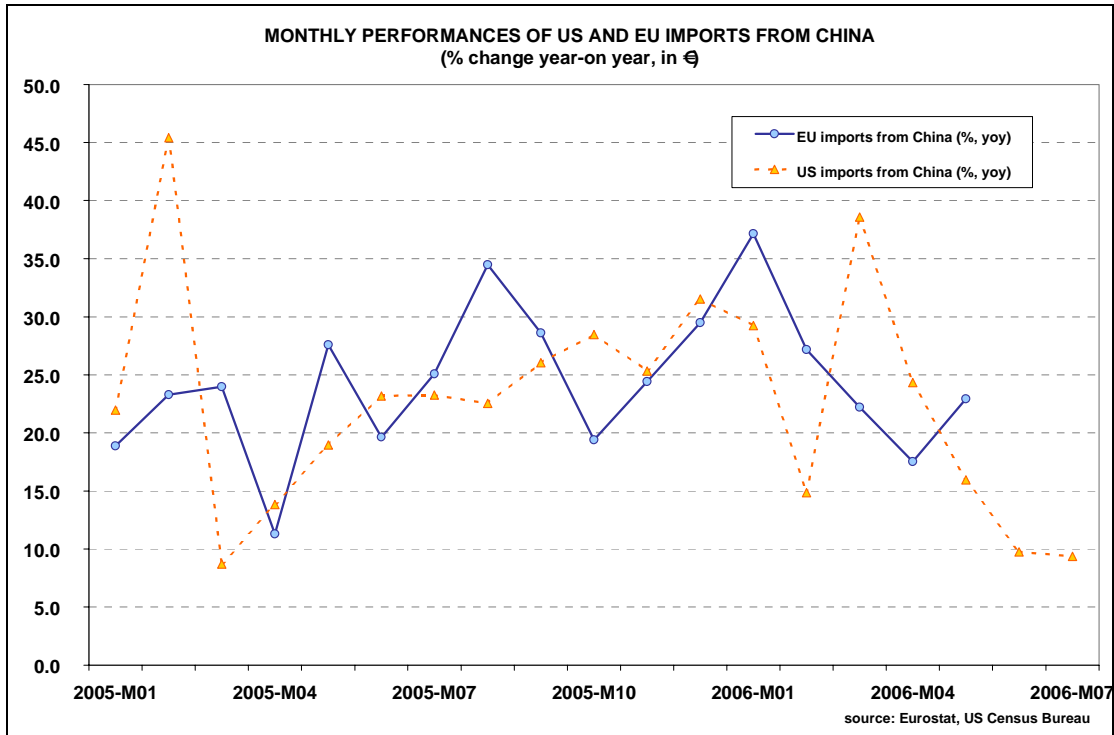
- There is a visible "rebalancing" in China's trade relation, with US exports to China growing almost twice as fast as EU exports during the past 12 months (28% against 15%), while import growth is very similar.
- The EU remains, even so, both a larger supplier to China and a smaller market than the US. Cumulative EU exports are 44% larger than US exports, while imports are 25% smaller, resulting in a trade deficit of EUR 116 bn for the EU against EUR 188 bn for the US.
- Despite such differences, the 12-month increase in US exports to China expressed in euros is now higher than the corresponding figure for the EU.
- Such trends should be related to our analysis of the potential consequences of a US economic slowdown in 2007 on a possible shift in Chinese exports towards the European market. Coupled with the observed transformation regarding China's imports, such a shift would trigger substantial trade deterioration for the EU.



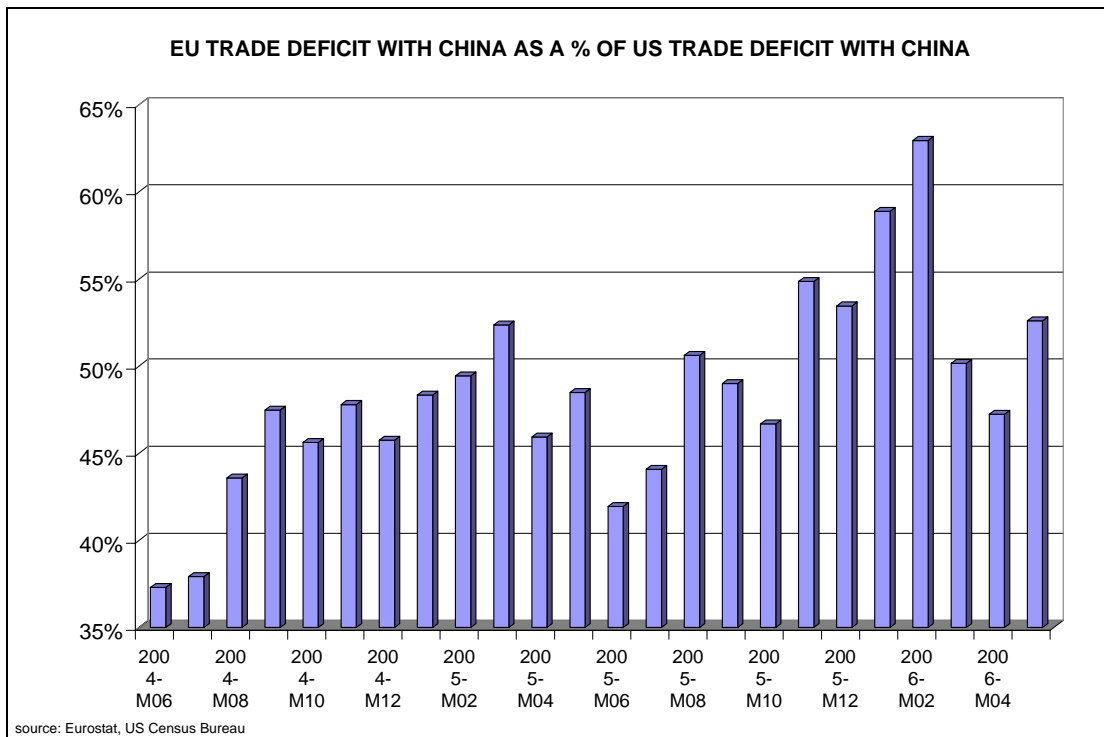
Observed on a monthly basis, the superior US exports performance reflects a changing trend starting at the beginning of the second quarter of 2005. Earlier on, year-on-year increases were roughly similar between the US and the EU, at a very low level of growth. We then detect a sharp acceleration in US exports as early as April 2005, while EU exports contracted for another three consecutive months, before increasing, albeit at a structurally lower speed than the US.

Conversely, monthly trade developments are virtually parallel since the beginning of 2005. We note, though, that US imports from China have substantially decelerated in the last three months (May-July 2006), while EU imports accelerated slightly in May (the data for June and July were not available). This would, in any case, suggest a close monitoring in the months ahead.





Even though the bilateral deficit is smaller for the EU than for the US, there appears to be a convergence trend - with the ratio of EU deficit to US deficit increasing (irregularly) from 44% in the second half of 2004, to 48% in the 2005H1, 50% in 2005H2 and 54% for the first five months of 2006.



The final observations are based on performances by product. We concentrate now on products that are significant in terms of proportion of EU trade flows to and from China



and we compute different growth rates over sub-periods within the past 12 months in order to identify significant differences in trade dynamics between the EU and the US.

At the SITC 3-digit level of classification, the 35 largest products account for 70% of EU exports to China. Among those important 35 products, 9 exhibit a much stronger US export growth<sup>1</sup>, 20 percentage points or more above the EU figure, mostly motor cars, a number of machinery and equipment goods, electronic components and a couple of intermediate goods (metal and paper). These 9 products, for which the EU is clearly losing market share at a rapid pace vis-à-vis the US, account for 21.5% of all EU exports to China.

Conversely, there are 7 products among the 35 important ones for which EU performances are strongly above those of the US, including telecommunication equipment, some equipment goods, car parts and accessories, as well as a limited number of steel products.

#### TRADE DYNAMICS: A COMPARISON BETWEEN US AND EU EXPORTS TO CHINA BY PRODUCT<sup>2</sup>

SITC	<i>In blue : much higher growth for EU exports</i> <i>In red : much higher growth for US exports</i>	Total EU Exports / last 12 months	Difference in percentage points between US and EU growth
792	Aircraft and associated equipment	4 233	14
728	<b>Machinery and equipment specialized for particular industries, and parts thereof, n.e.s.</b>	2 428	51
781	<b>Motor cars and other motor vehicles</b>	2 204	21
772	Electrical apparatus for switching or protecting electrical circuits or for making connections	2 049	8
764	Telecommunications equipment	2 006	-32
784	Parts and accessories for tractors, motor cars and other motor vehicles	1 781	-49
288	<b>Nonferrous base metal waste and scrap, n.e.s.</b>	1 744	52
776	<b>diodes, transistors and similar semiconductor devices; integrated circuits, etc.; parts</b>	1 694	31
874	Measuring, checking, analysing and controlling instruments and apparatus, n.e.s.	1 662	11
741	Heating and cooling equipment and parts thereof, n.e.s.	1 392	9
743	<b>Pumps (not for liquids), air or gas compressors and fans; centrifuges; filtering etc. apparatus;</b>	1 305	28
724	Textile and leather machinery, and parts thereof, n.e.s.	1 290	2
713	Internal combustion piston engines and	1 116	4
679	Iron and steel tubes, pipes and hollow profiles, fittings for tubes and pipes	1 050	-28
778	Electrical machinery and apparatus, n.e.s.	964	14
731	<b>Machine tools working by removing metal or other material</b>	881	44
744	<b>Mechanical handling equipment, and parts thereof,</b>	845	26
675	Alloy steel flat-rolled products	840	-46
737	<b>Metalworking machinery (other than machine tools) and parts thereof, n.e.s.</b>	815	21
745	Non-electrical machinery, tools and mechanical apparatus,	763	-22
716	Rotating electric plant and parts thereof, n.e.s.	760	-40

<sup>1</sup> The growth rates used in the analysis are based on the comparison between the last three month (cumulated), the previous 3-month period, the 3-month period 6 month before, and the same 3-month period a year before. The figures used are the averaged for these three different measures, so that it ensures that we capture both the short-term dynamics and more structural changes.

<sup>2</sup> Products are classified by descending order of EU export values ; the difference in percentage points is computed as indicated in the note above



SITC	<i>In blue : much higher growth for EU exports In red : much higher growth for US exports</i>	Total EU Exports / last 12 months	Difference in percentage points between US and EU growth
747	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, etc.	742	-12
714	Engines, nonelectric (other than steam turbines, piston engines and power generating machinery);	687	-23
575	Plastics, n.e.s., in primary forms	680	9
251	<b>Pulp and waste paper</b>	674	25
771	Electric power machinery (other than rotating electric plant of power generating machinery) and parts	671	12
667	Pearls, precious and semiprecious stones	663	-6
542	Medicaments (including veterinary medicaments)	636	18
748	Transmission shafts and cranks; bearing housings; gears and gearing; ball screws; gear boxes, clutches, etc	592	3
641	Paper and paperboard	581	-8
742	Pumps for liquids, whether or not fitted with a measuring device; liquid elevators;	580	17
598	Miscellaneous chemical products, n.e.s.	539	-11
515	Organo-inorganic compounds, heterocyclic compounds, nucleic acids and their salts	529	-11
726	Printing and bookbinding machinery, and parts thereof	522	-29

Source: TAC from Eurostat and US Census Bureau

Imports from China to Europe are more concentrated, with the 22 largest products accounting for 70% of the total, while large gaps in dynamics between the US and the EU are more limited. Using the same computation as for exports and looking at the products for which our average difference in growth rates is above 20 percentage points, we identify only 3 with a much higher import increase in the EU: telecommunication equipment (suggesting a strong development in the two-way trade as a result of EU companies' investments in China), electronic components and integrated circuits, and a category of garments ("made-up articles of textile materials"). Symmetrically, only 2 products have a much higher import growth in the US: computer components, and women's clothing.

### TRADE DYNAMICS: A COMPARISON BETWEEN US AND EU IMPORTS FROM CHINA BY PRODUCT<sup>3</sup>

SITC	<i>In blue : much higher growth for EU imports In red : much higher growth for US imports</i>	Total EU Imports / last 12 months	Difference in percentage points between US and EU growth
752	Automatic data processing machines and units thereof;	20 125	4
764	Telecommunications equipment, n.e.s.;	18 991	-21
894	Baby carriages, toys, games and sporting goods	10 747	-11
759	<b>Parts and accessories for use with office machines or automatic data processing machines</b>	7 961	21
845	Articles of apparel, of textile fabrics, whether or not knitted or crocheted, n.e.s.	6 462	-4
851	Footwear	5 731	9
778	Electrical machinery and apparatus, n.e.s.	5 274	-12
842	<b>Women's or girls' coats, capes, jackets, suits, trousers, dresses, skirts, underwear, etc. of woven textiles</b>	5 189	24
821	Furniture and parts thereof; bedding, mattresses, , cushions and	5 170	-5

<sup>3</sup> Products are classified by descending order of EU export values ; the difference in percentage points is computed as indicated in the note above



SITC	<i>In blue : much higher growth for EU imports</i> <i>In red : much higher growth for US imports</i>	Total EU Imports / last 12 months	Difference in percentage points between US and EU growth
	similar stuffed furnishings		
775	Household type electrical and non-electrical equipment,	4 785	-1
831	Trunks, suitcases, vanity cases, binocular and camera cases, handbags, wallets, etc. of leather, etc	4 071	-1
763	Sound recorders or reproducers; television image and sound recorders or reproducers	3 726	6
893	Articles, n.e.s. of plastics	3 234	4
841	Men's or boys' coats, jackets, suits, trousers, shirts, underwear etc. of woven textile fabrics	3 182	10
776	diodes, transistors and similar semiconductor devices; integrated circuits, etc.; parts	2 837	-48
813	Lighting fixtures and fittings, n.e.s.	2 641	4
899	Miscellaneous manufactured articles, n.e.s.	2 584	-4
772	Electrical apparatus for switching or protecting electrical circuits or for making connections	2 502	4
658	Made-up articles, wholly or chiefly of textile materials,	2 134	-22
761	TV receivers (including video monitors & projectors)	2 125	-15
848	Articles of apparel and clothing accessories of other than textile fabrics; headgear of all materials	1 947	1
771	Electric power machinery (other than rotating electric plant of power generating machinery) and parts thereof	1 836	-2

Source: TAC from Eurostat and US Census Bureau