Section 2 Economic relations of each country/region with the U.S. and China

With the expansion of its economy as represented by GDP, China has increased foreign trade and investment and has strengthened relationships with many countries and regions around the world. In the White Paper on International Economy and Trade 2018, we discussed the trends and features of China's international trade and investment, from China's perspective. Meanwhile, the U.S., which has the largest GDP, has also maintained strong relationships with foreign countries. Here, we look at the U.S. and China, two economic giants ranking first and second in GDP, from the viewpoints of major countries and regions of the world, with respect to their relationships through trade and investment with both countries in a comparative manner and in view of the growing protectionism of the U.S. and China to be discussed in the following Chapter.

1. Trade relationships

First, we look at trade relationships. Currently, each country or region in the world has a strong relationship with China and the U.S. as two big trade destinations. According to the IMF's statistics, out of the world total trade in 2017 amounting to 35.3 trillion dollars, China, with trade amounting to 4.1 trillion dollars (11.6% share) ranked first with a slight lead over the U.S., with trade amounting to 3.8 trillion dollars (10.6% share), in second place (Table II-1-2-1). However, the situation is seen differently when total trade value is classified into exports and imports. The U.S. is the biggest export destination (12% share), followed by China (9.4% share). On the contrary, China is the biggest origin of imports (13.7% share), far ahead of the U.S. (8.5% share). This shows that China serves as a factory of the world exporting products to other countries, while the U.S. still has a great presence as a market.

Table II-1-2-1 Trade destinations in the world (2017)

(Unit: Billion dollars, %)

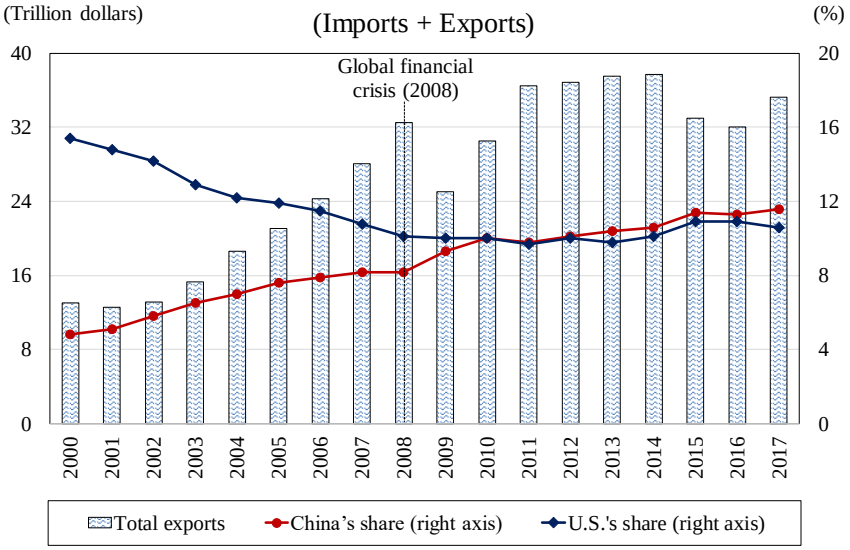
Destination	Total trade		Exports		Imports	
	Amount	Share	Amount	Share	Amount	Share
China	4,086	11.6	1,659	9.4	2,427	13.7
U.S.	3,754	10.6	2,254	12.8	1,501	8.5
World	35,307	100.0	17,556	100.0	17,751	100.0

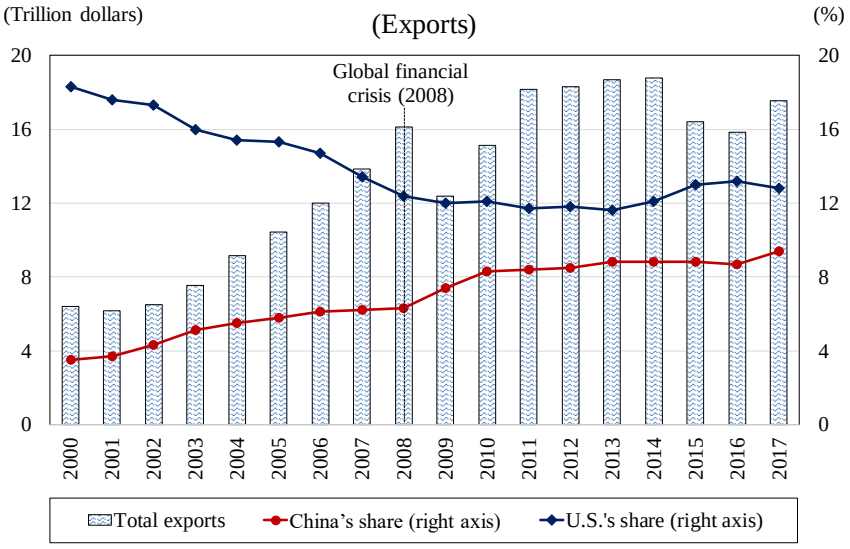
Source: Direction of Trade (IMF).

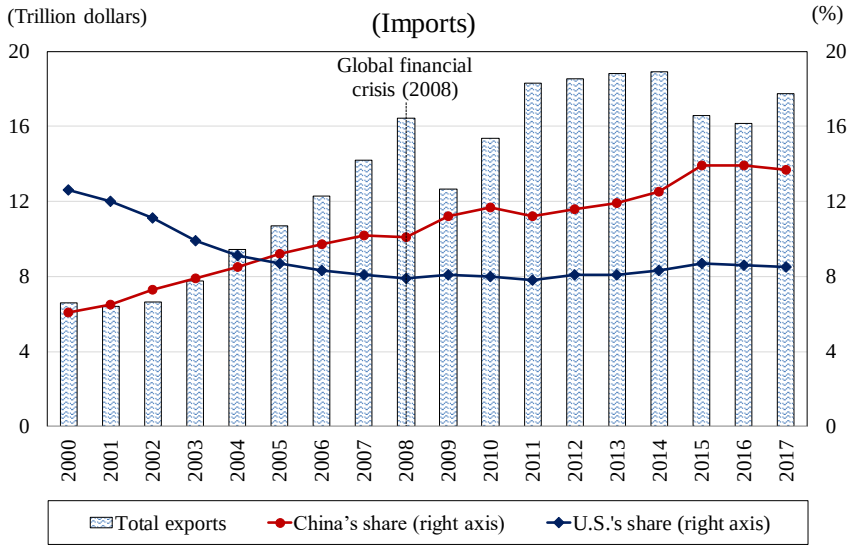
On the other hand, considering such relationships over time, in the early 2000's, the U.S. had three times the total trade value of China. However, thereafter, China's share increased while the U.S.'s share decreased (Figure II-1-2-2). The trade values of the two countries became almost the same in 2010 and thereafter the U.S.'s share has been moving slightly upward. Now, both countries are important trade destinations of other countries and regions in the world and unignorable. In particular, it is important that the U.S. remains the biggest export destination, which shows that the rest of the world is still highly reliant on the U.S. as a market of the world. Here, we focus on each country's exports to the U.S. and to China from the perspective of its dependency on these two countries, although we understand the importance of the interconnectedness in importing.

The changes in the U.S.'s and China's shares in each country's exports (From 2000 to 2017) show that China's share is growing as a whole (Figure II-1-2-3). There is, however, a difference in degree by country/region. As for Japan, the U.S.'s share has been slightly decreasing while China's share has been increasing, and currently its exports to the U.S. are at almost the same level as those to China. On the contrary, for Republic of Korea and Taiwan, China's share has expanded and greatly exceeded the U.S.'s share. For ASEAN member countries, although China's share has also expanded, it remains slightly over the U.S.'s share in the area as a whole.

Figure II-1-2-2 Change in trade destinations in the world

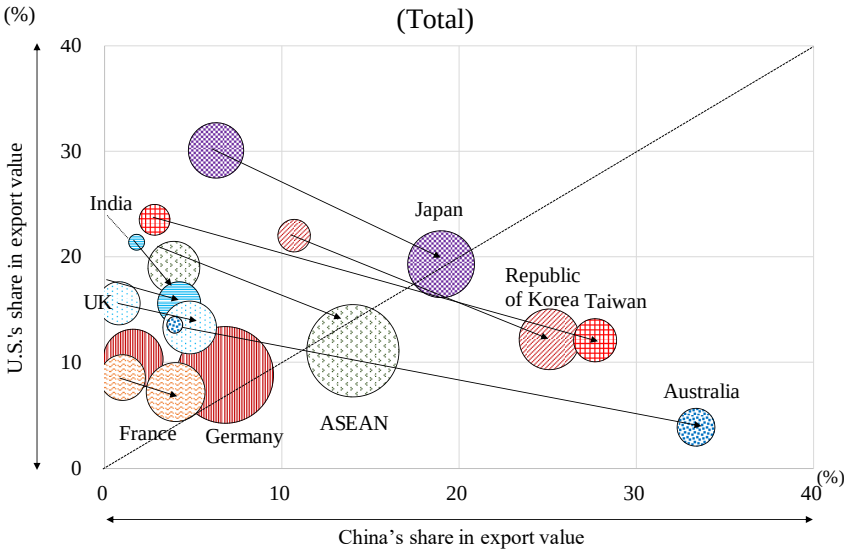


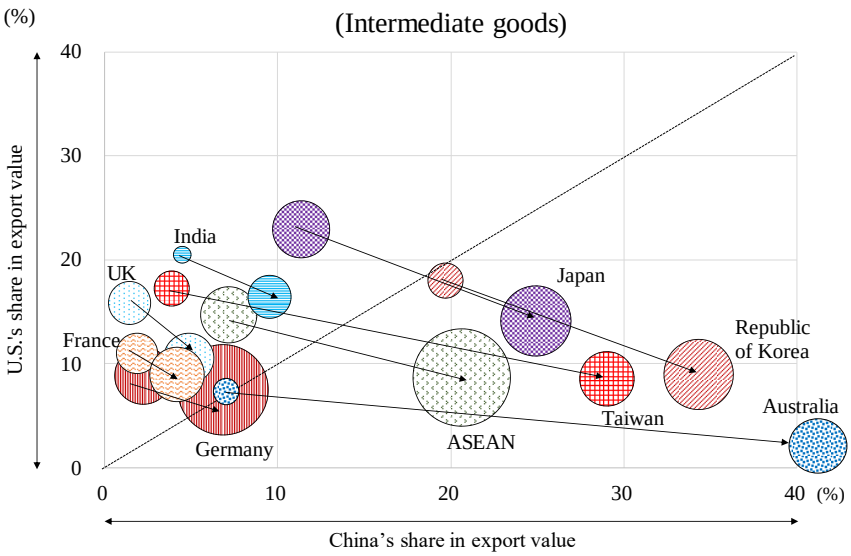


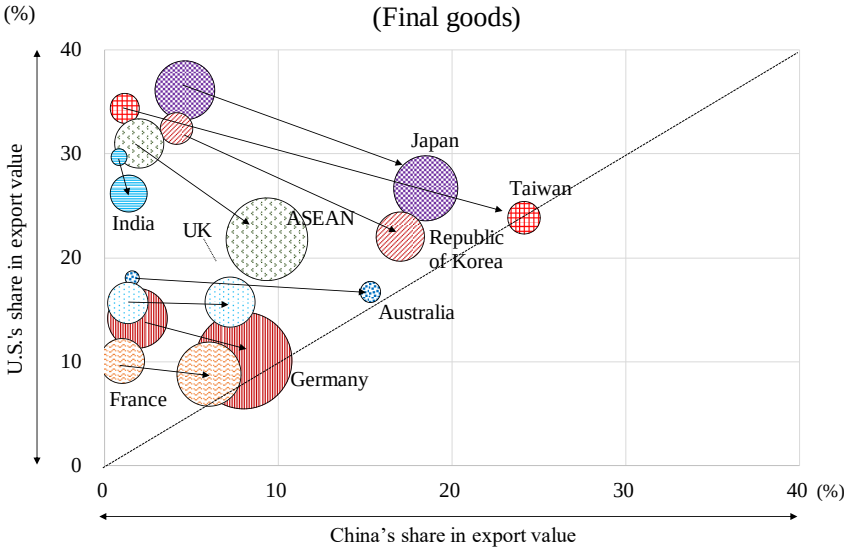


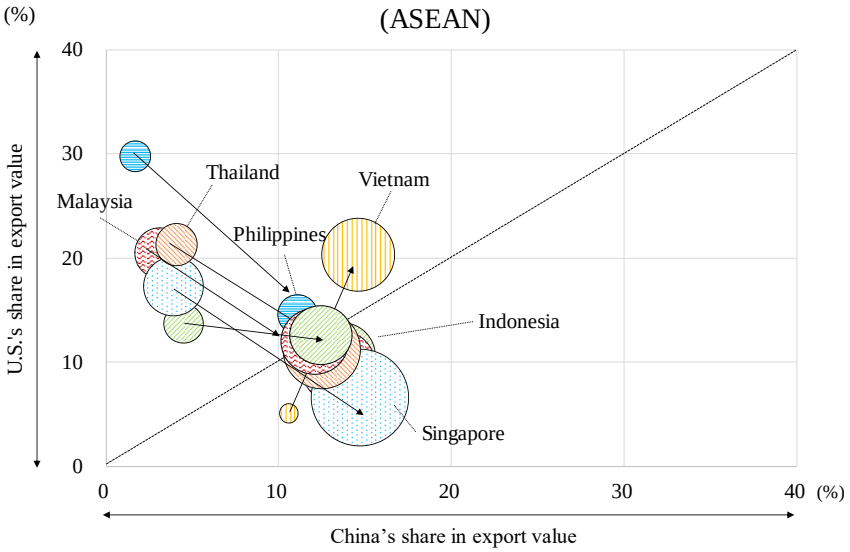
Source: Direction of Trade (IMF).

Figure II-1-2-3 Shares of U.S. and China in total exports of major economies (2000→2017)









Note: The charts show changes from 2000 to 2017. The size of each circle reflects the country/region's total export value to the world.
Source: RIETI-TID.

Analyzing these trends by separating the export volume by production process of exported products, namely into intermediate goods and final goods, we find that China's share is growing more in the export of intermediate goods by these countries. This implies that Japan, Republic of Korea, Taiwan, and the ASEAN countries have been integrated in GVCs connected with China.

On the contrary, the U.S.'s share remains slightly larger than China's in final goods exports, which shows that the U.S.'s presence as a final destination is still strong. The gap has, however, became smaller and China has attained a level comparable to that of the U.S.

Looking into ASEAN, we see differences by country; Singapore, Malaysia, and Indonesia export more to China than to the U.S., while the Philippines exports more to the U.S. Thailand's exports to China are almost the same as those to the U.S. Vietnam is quite different from the others and its exports to the U.S. are rapidly expanding.

Among Asian counties, where China has a large share in their exports as a whole, India is exceptional, in that it exports less to China, in terms of both intermediate goods and final goods. This shows that India is not necessarily included in Asian GVCs at present.

With respect to other regions, EU countries, with Germany in the lead, including France and the UK, have moderately increased their exports to China. However, the majority of EU's exports are by intra-EU exports, with the U.S. and China each having a share of less than 10% of total exports. Even Germany still exports more to the U.S.

Australia shows growth in China's share in its exports of intermediate goods, in line with Australia's expansion of exports of resources such as iron ore and coal to China.

It is thought that this difference by country is affected by whether or not such country is integrated into GVCs, the degree of trade integration within the region to which it belongs, geographical proximity, etc. Japan, Republic of Korea, Taiwan, and ASEAN member countries, located in Asia, are integrated in GVCs and they have a strong relationship with China through export of intermediate goods. If the U.S. and China impose trade-restrictive measures on each other, they could have larger impact on these countries/regions rather than on the EU or India.

Meanwhile, the degree of strength of a country's economic relationship with the U.S. and China relates to their share in the country's total exports as well as how much the country depends on export. Then, looking at the ratio of export to economic size (GDP) of countries (export dependency), we see that many Asian countries, which have attained export-driven economic growth, show high export dependency. The export dependency to GDP of ASEAN as a whole is 47.0%, among which, Singapore exceeds 100%, Vietnam is in range of 90% to below 100%, and Malaysia is around at 70%, followed by Thailand, which is at approximately 50%. These countries may receive big impact through exports to the U.S. and China (Table II-1-2-4).

Table II-1-2-4 Export dependency of major countries/regions (2017)

(Unit:%)

Country/Region	Export dependency	Country/Region	Export dependency
Singapore	113.0	Russia	22.6
Vietnam	95.3	France	20.7
Malaysia	69.7	Philippines	20.1
Thailand	51.8	China	19.0
Taiwan	51.0	(Central and South America)	17.7
(ASEAN)	47.0	UK	16.8
Germany	39.1	Indonesia	16.6
Republic of Korea	36.5	Japan	14.3
Mexico	35.6	India	11.4
(EU)	34.1	U.S.	7.9

Note: Export dependency = Exports/GDP.
Source: *WEO*, *DOT* (IMF).

(1) ASEAN

From here, we look at the trade trends and the composition of export items by each region and country.

(A) Change in major export destinations

Currently, one-fourth of ASEAN's export destinations are other ASEAN countries. As for non-ASEAN destinations, China, the U.S., and Japan rank high (Table II-1-2-5). The U.S.'s and China's shares in ASEAN exports are lower than those in Japan's exports or Republic of Korea's exports, partly because ASEAN exports to the ASEAN region are large. In the early 2000's, there was a large share gap between the U.S. and China. Thereafter, China's share had been gradually increasing, overtaking the U.S.'s share after the Global financial crisis global financial crisis (Figure II-1-2-6). However, considering GVCs, we cannot simply say that China's share becomes higher. We discuss this point from the composition of export items of ASEAN, as below.

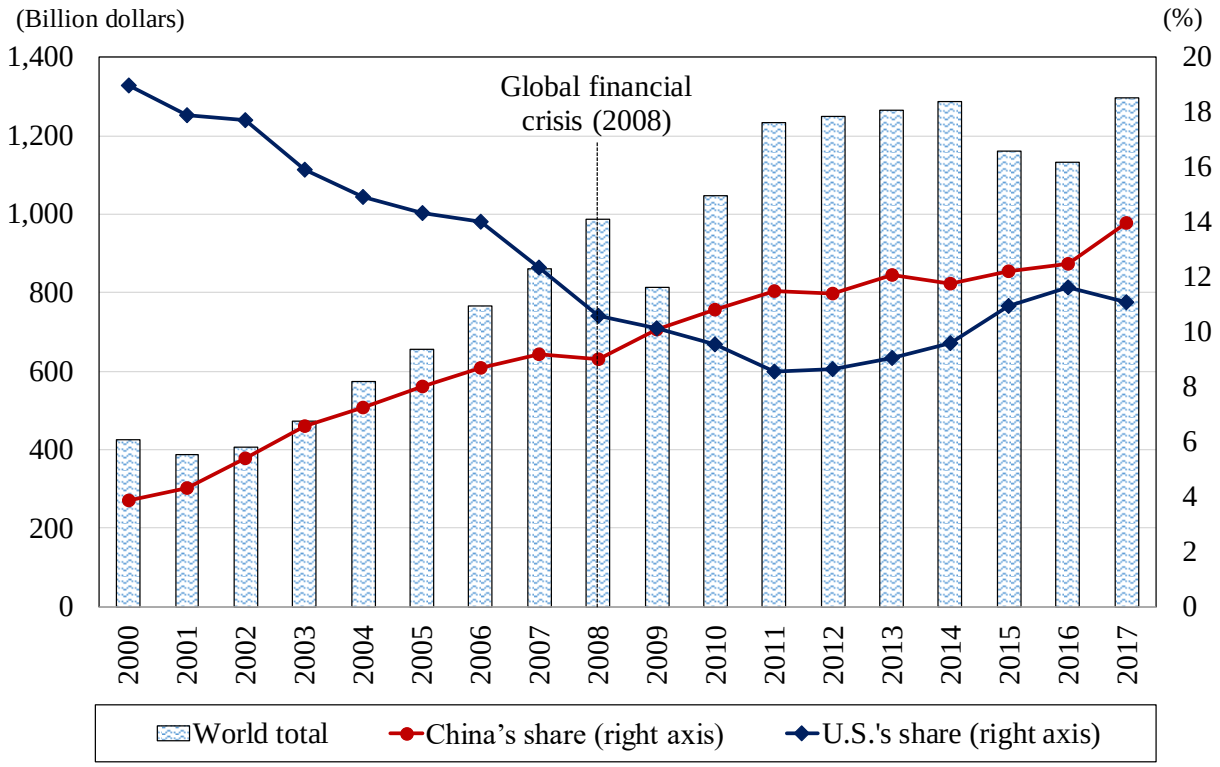
Table II-1-2-5 Major export destinations of ASEAN (2017)

(Unit: U.S. 1 million, %)

	Export destination	Amount	Share
1	China	181,257	14.0
2	U.S.	143,873	11.1
3	Japan	104,936	8.1
4	Hong Kong	87,715	6.8
5	Malaysia	64,905	5.0
6	Singapore	60,205	4.6
7	Republic of Korea	54,509	4.2
8	Thailand	45,632	3.5
9	India	45,213	3.5
10	Indonesia	41,801	3.2
—	(EU)	149,263	11.5
—	(ASEAN)	302,937	23.4
—	Total	1,297,029	100.0

Source: *DOT* (IMF).

Figure II-1-2-6 Change in ASEAN's exports



Source: *Direction of Trade* (IMF).

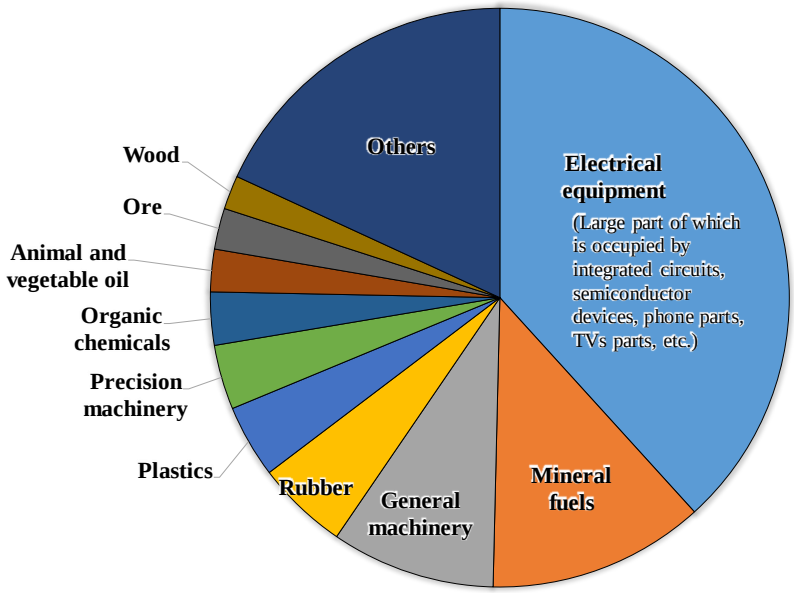
(B) Major export items

For statistical convenience, we examine the compositions of export items from ASEAN to the U.S. and China through the U.S.'s and China's imports from ASEAN.[1] Many ASEAN export items are intermediate goods used in a GVCs including electrical equipment such as integrated circuits and semiconductor devices (GVC-related products) as well as resources such as mineral fuels (Figure II-1-2-7). These intermediate goods are exported to the U.S. as a final market. Therefore, if the U.S. and China take trade-restrictive measures on each other, ASEAN would receive serious impact. Although the U.S.'s direct imports from ASEAN include intermediate goods such as integrated circuits, major part is composed of personal computers, printers, clothing, footwear, furniture, etc., most of which are to be consumed in the U.S. (Figure II-1-2-8).

It is difficult to see from traditional trade statistics how much intermediate goods imported from ASEAN are used in China's exports to the U.S. Accordingly, we consider this by using OECD's statistics about trade in value added.

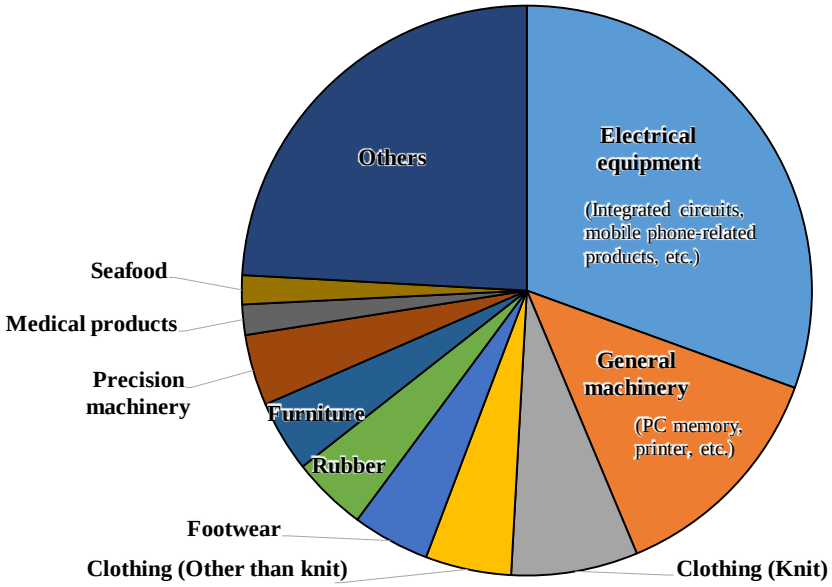
1 Among ten ASEAN countries, some countries have not provided detailed information such as breakdown of items. Accordingly, our discussion is based on their destinations' statistics, namely the U.S. and China.

Figure II-1-2-7 China's imports from ASEAN (2017)



Source: Global Trade Atlas.

Figure II-1-2-8 U.S.'s imports from ASEAN (2017)



Source: Global Trade Atlas.

(C) Relationship with the U.S. and China as seen from trade in value added

First, we compare the gross exports of ASEAN to designations under the traditional trade statistics with the ASEAN's value added exports to final destinations (countries of final demand) under the OECD TiVA statistics (Table II-1-2-9).[2] China's share in ASEAN's value added exports to final

2 Exports cover all industries, including the service sector. We did not limit exports to manufacturing industries, because the value in the customs statistics contains value added from the service sector.

destination is lower than that in the gross exports, whereas the U.S.'s share in value added exports is higher. This implies that intermediate goods imported from ASEAN are processed in China and then exported to the U.S., where they are finally consumed.

Table II-1-2-9 Share of ASEAN's export destinations by country (Gross exports and value added exports to final destinations/2015)

(Unit: %)

	Total exports	Value added
China	21.1	18.3
U.S.	13.9	16.7
Japan	10.3	10.3
ASEAN	19.6	21.9
EU	14.0	14.3
World total	100.0	100.0

Note: Data cover all industries, including the service sector.
Source: OECD TiVA.

Next, we discuss how much of ASEAN's value added is imported to the U.S. via China; in other words, how much of ASEAN's value added is included in China's exports to the U.S.

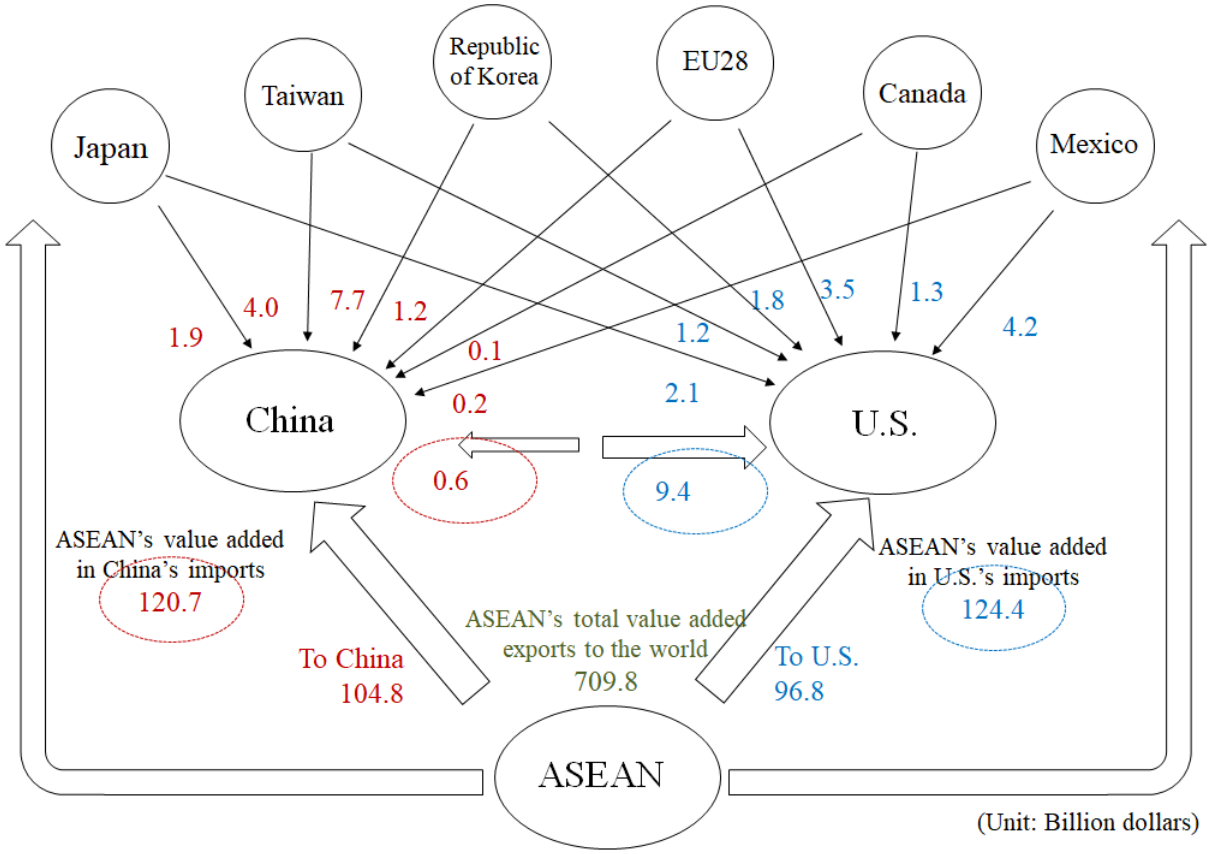
Figure II-1-2-10 shows how the value added produced in ASEAN is exported to the U.S. and China, by major transit country/region.[3] ASEAN's value added exports to the world are 709.8 billion dollars, of which 120.7 billion dollars are for that directly or indirectly exported to China.[4] Again, of which, 9.4 billion dollars (assuming this value as A) are included in China's exports to the U.S. Meanwhile, ASEAN's value added directly or indirectly exported to the U.S. is 124.4 billion dollars (assuming this value as B). Then, the share of ASEAN's value added exported to the U.S. via China to its total value added to the U.S. is obtained by (A)/(B), which is 7.6%.

Value added in service is exported while being embodied in products or purely as service itself.

3 ASEAN's value added exports may be obtained in various ways according to viewpoints. Here we use ASEAN's value added content in bilateral trade in order to perform analysis focusing on transit countries. In the case of exports from ASEAN to the U.S. or China through multiple third countries, the last country or region that exports directly to the U.S. or China is shown. Unless specifically noted, data of "Trade in value added database (OECD TiVA)" released by OECD are used. Value of data is compiled by OECD based on the international input-output table, which does not necessarily match the actual value. Various methods to measure trade in value added according to difference of viewpoints are detailed in the column of Section 1 of Chapter 1.

4 Here, we use ASEAN's valued added in imports from various countries/regions to China. The same shall apply in the charts relating to each country/region's value added exports to the U.S. and China hereunder. Meanwhile, OECD TiVA provides ASEAN's value added in ASEAN's exports to China, which is greater than the value we use here. The same phenomenon that the value in China's imports is smaller than that in the source country's exports is seen not only with ASEAN but also with other countries, including Japan.

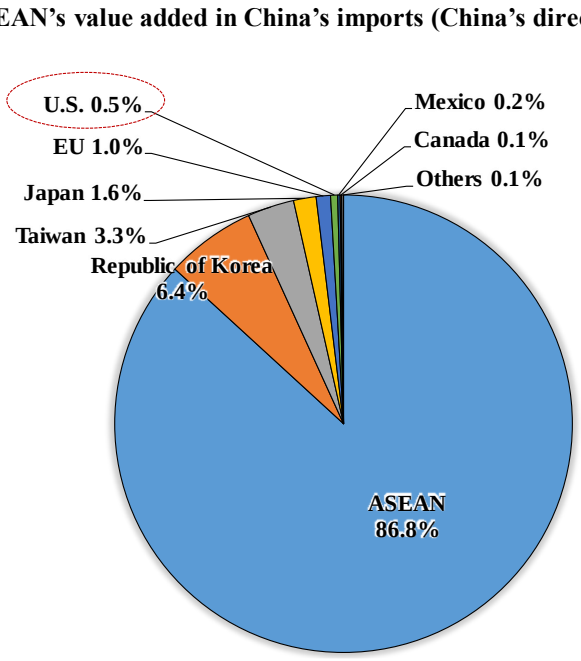
Figure II-1-2-10 ASEAN's value added exports to U.S. and China (by major transit country/region 2015)



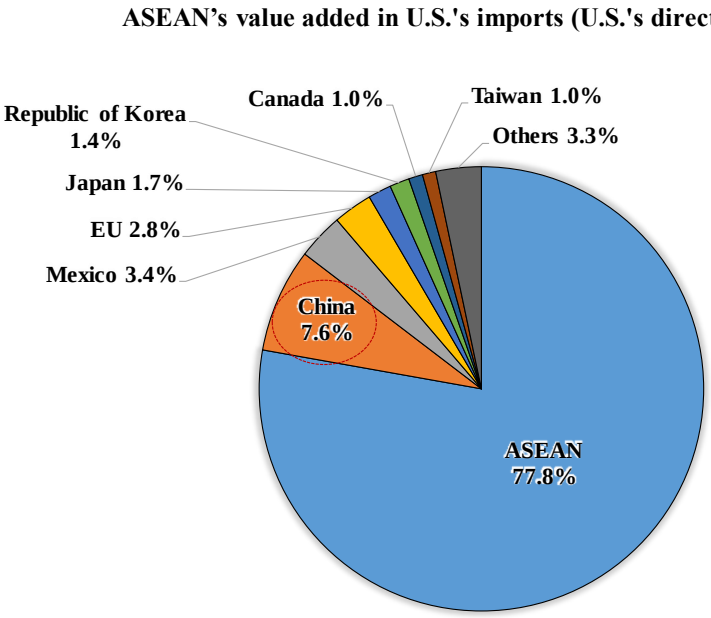
Source: OECD TiVA.

When we look at ASEAN's exports considering transit countries, we find that out of the total of ASEAN's value added exported to the United States, ASEAN's direct exports represent 77.8%, while its indirect exports via China total 7.6% (Figure II-1-2-11). If any trade restriction is imposed on the trade between the U.S. and China, for ASEAN, its value added exports to the U.S. via China would be affected. On the contrary, with respect to ASEAN's exports to China, direct exports occupy a higher share, while indirect exports via the U.S. to China are only 0.5%.

Figure II-1-2-11 ASEAN's value added exports to U.S. and China by major transit country/region



Source: OECD TiVA.



Source: OECD TiVA.

From Figure II-1-2-10, we also find that ASEAN's value added exports to China is composed of not only direct exports to China but also those that arrive in China via Japan, Taiwan, or Republic of Korea in East Asia. In this way, the routes of value added trade are complicated, like a mesh. If the U.S. and China impose trade-restrictive measures on each other, it will possibly affect not only ASEAN's value added exports to China but also ASEAN's value added exports to Japan, Republic of Korea, and

Taiwan. In addition, like ASEAN, it may affect value added exports of Japan, Republic of Korea, Taiwan, etc. via China.

(2) India

(A) Change in major export destinations

We consider India in the same way as with ASEAN. India's biggest export destination is the U.S.; India's exports to the U.S. are threefold those to China, which is in third place (Table II-1-2-12). The change from the past shows that the gap between the U.S.'s share and China's share once became small, but has widened again (Figure II-1-2-13).

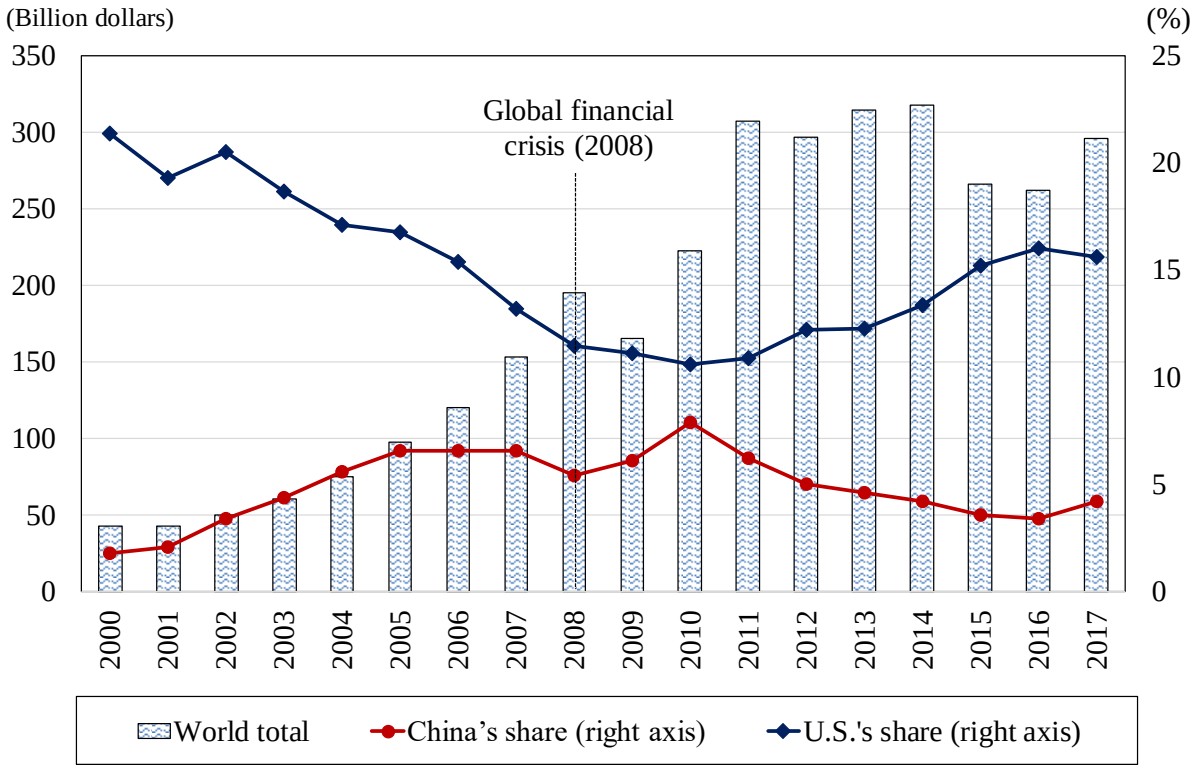
Table II-1-2-12 India's major export destinations (2018)

(Unit: Million dollars, %)

	Exports	Share
U.S.	51,419	15.8
UAE	28,726	8.8
China	16,529	5.1
Hong Kong	13,274	4.1
Singapore	10,365	3.2
UK	9,806	3.0
Bangladesh	9,103	2.8
Germany	8,973	2.8
Netherlands	8,659	2.7
Nepal	7,754	2.4
World total	324,632	100.0

Note: The table shows the top 10 countries/regions.
Source: Global Trade Atlas.

Figure II-1-2-13 Change in India's exports

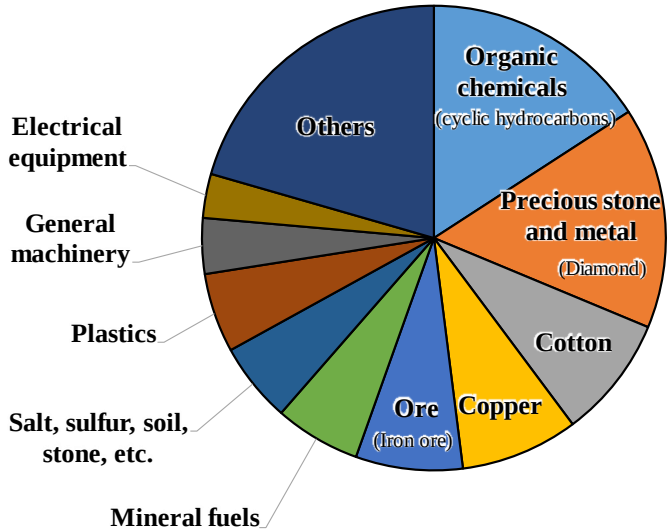


Source: *Direction of Trade* (IMF).

(B) Major export items

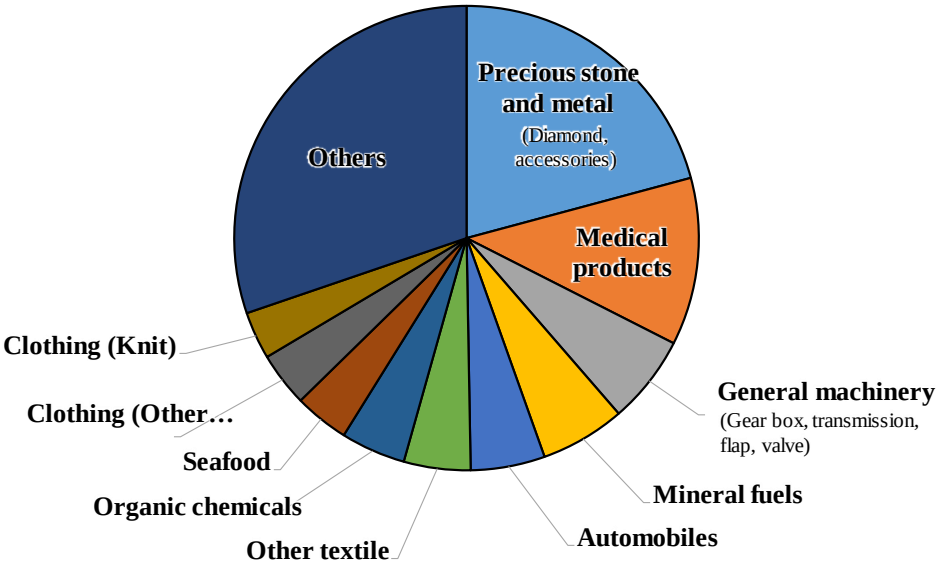
India's export items to China are mainly resources such as precious stones and metals, cotton, copper, mineral ore, and mineral fuels (Figure II-1-2-14). The situation of India is different from that of ASEAN, which, we saw above, is integrated into Asian GVCs and is exporting integrated circuits and semiconductor devices, etc., to China. As for India's exports to the U.S., medicine, general machinery, automobiles, and clothing occupy large shares in addition to resources such as precious stones and metals, and mineral fuels (Figure II-1-2-15).

Figure II-1-2-14　China's imports from India (2018)



Source: Global Trade Atlas.

Figure II-1-2-15　U.S.'s imports from India (2018)

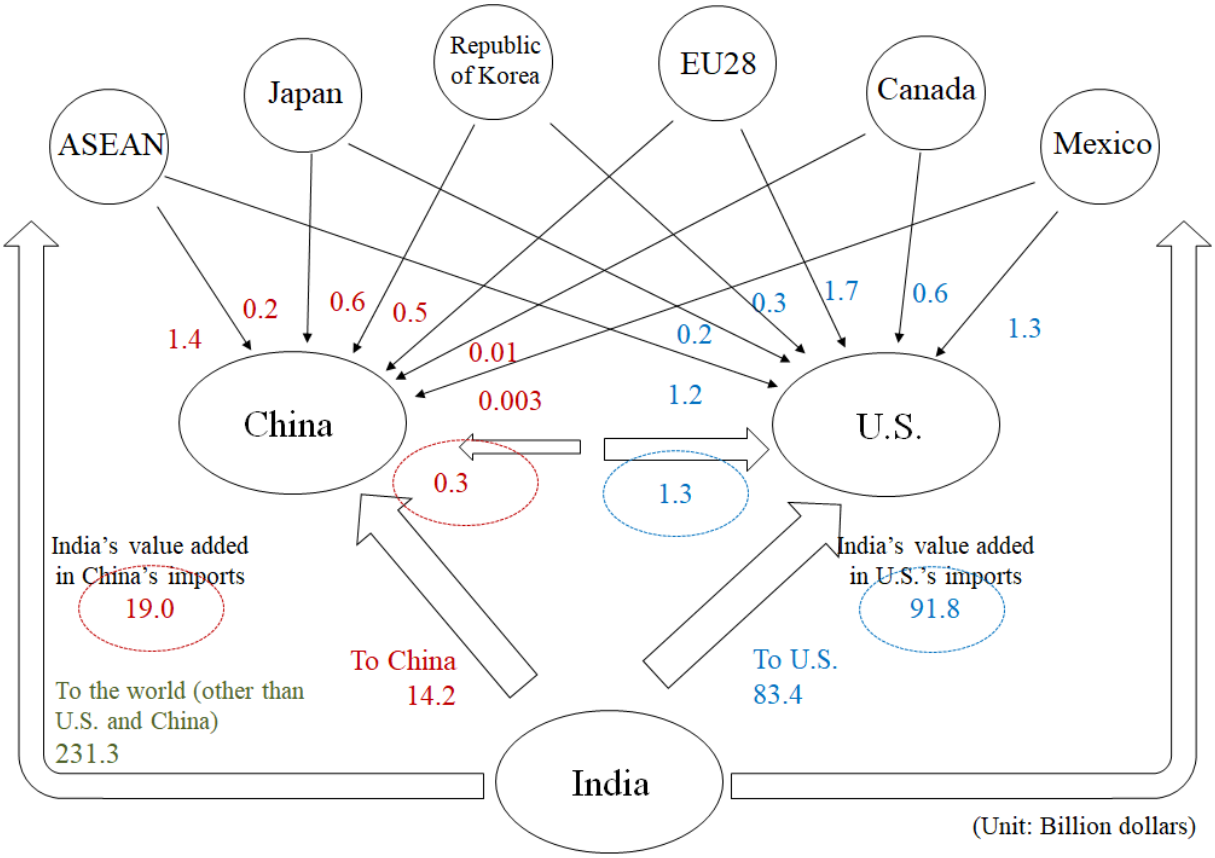


Source: Global Trade Atlas.

(C) Relationship with the U.S. and China as seen from trade in value added

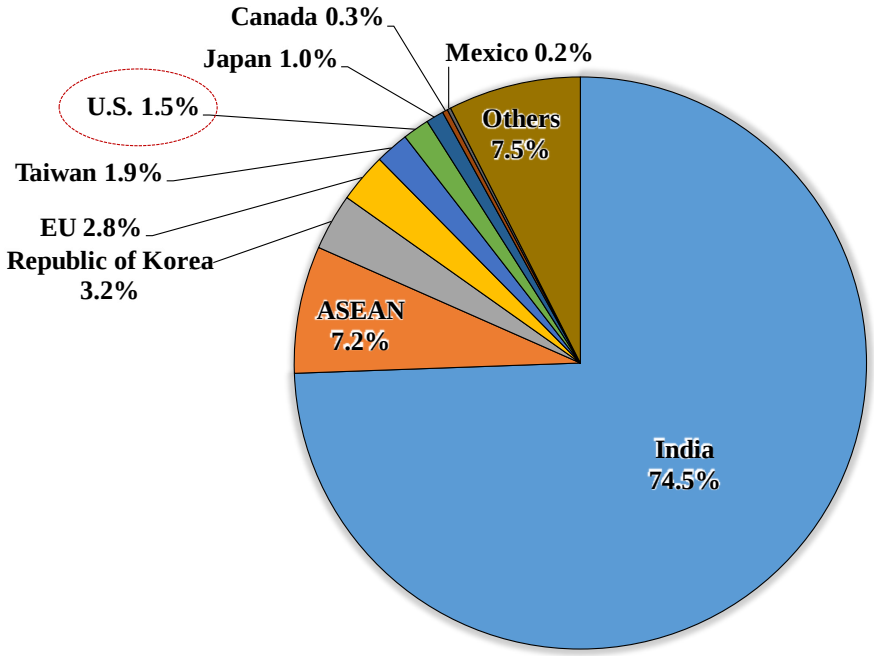
We look at India in the same manner as with ASEAN and find that among India's value added exports to the U.S. (both direct and indirect), those via China are only 1.4% of the total (Figures II-1-2-16, 17, and 18).

Figure II-1-2-16 India's value added exports to U.S. and China (via major transit country/region 2015)



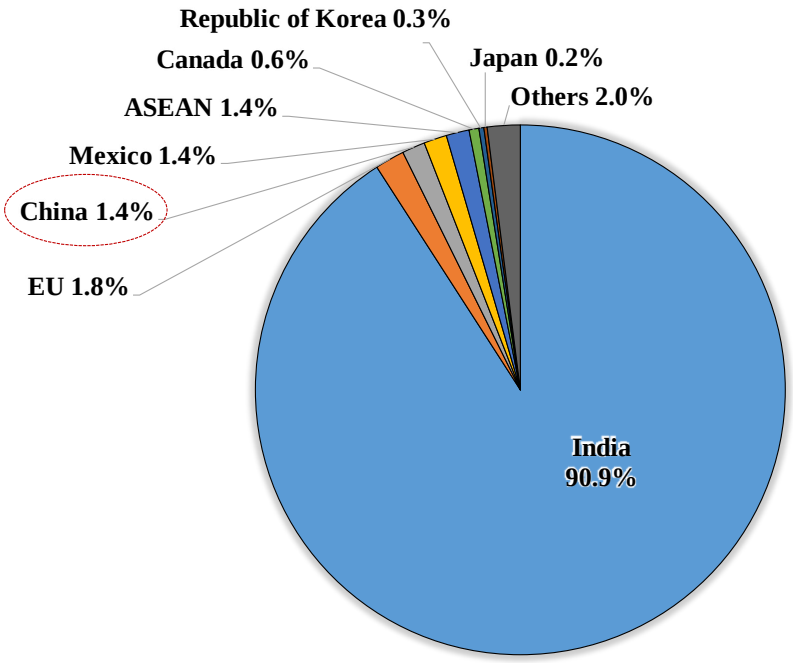
Source: OECD TiVA.

Figure II-1-2-17 China's value added imports from India (China's direct counterparty)



Source: OECD TiVA.

Figure II-1-2-18　U.S.'s value added imports from India (U.S.'s direct counterparty)



Source: OECD TiVA.

(3) Republic of Korea

(A) Change in major export destinations

For Republic of Korea, China is the biggest export destination, with more than twice the share compared to the U.S., which is the second biggest destination (Table II-1-2-19). The change from past shows that Republic of Korea's exports to China surpassed those to the U.S. in the middle of 2000's and have kept the superior position (Figure II-1-2-20).

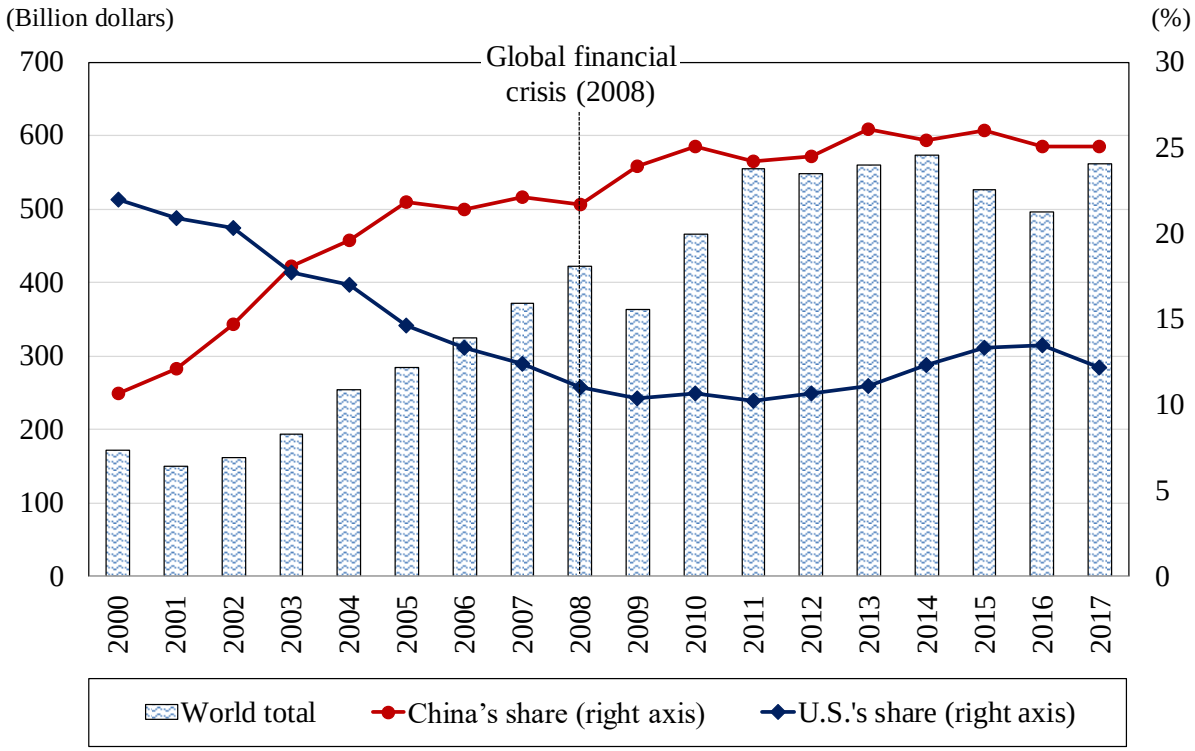
Table II-1-2-19　Republic of Korea's major export destinations (2018)

(Unit: Million dollars, %)

Rank	Export destination	Amount	Share
1	China	162,125	26.8
2	U.S.	72,720	12.0
3	Vietnam	48,622	8.0
4	Hong Kong	45,996	7.6
5	Japan	30,529	5.0
6	Taiwan	20,784	3.4
7	India	15,606	2.6
8	Philippines	12,037	2.0
9	Singapore	11,782	1.9
10	Mexico	11,458	1.9
−	World total	604,860	100.0

Source: Global Trade Atlas.

Figure II-1-2-20 Changes in Republic of Korea's exports (of which U.S. and China are both destinations)



Source: *Direction of Trade* (IMF).

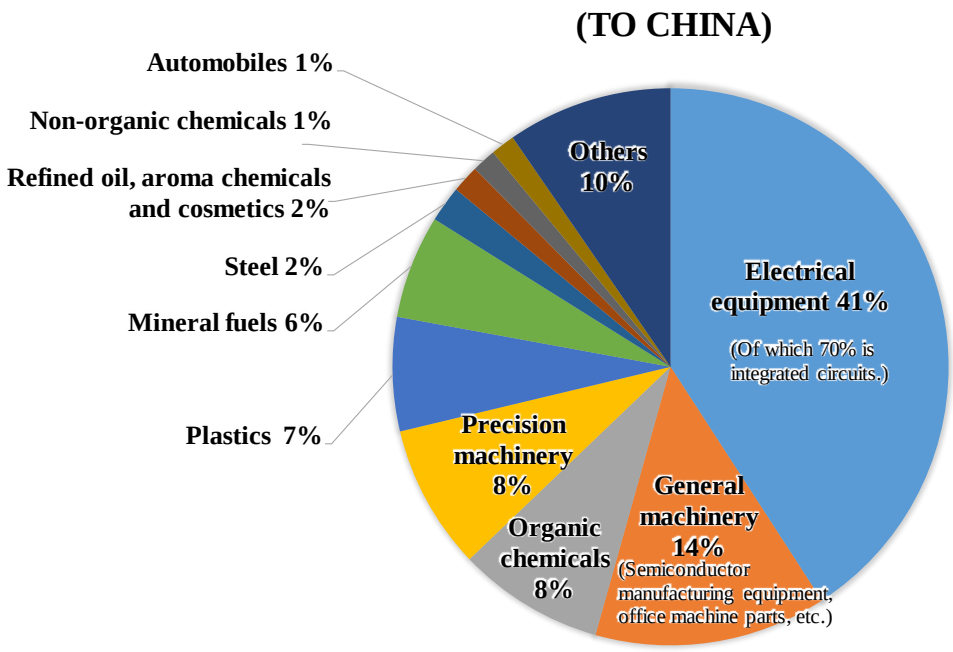
(B) Major export items

Republic of Korea exports integrated circuits, semiconductor devices, etc. to China. These items are incorporated in finished goods, which may be exported to the U.S. via GVCs (Figure II-1-2-21). In this regard, Republic of Korea's trade structure is similar to that of ASEAN.

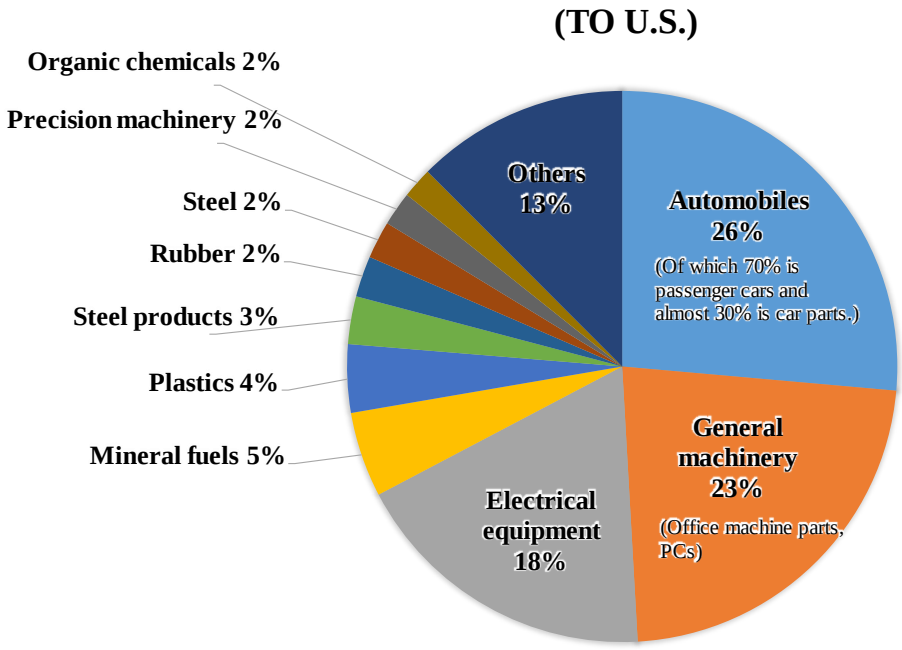
(C) Relationship with the U.S. and China as seen from trade in value added

Like ASEAN, 12.8% of Republic of Korea's value added exports directly or indirectly to the U.S. is via China (Figures II-1-2-22, 23, and 24).

Figure II-1-2-21 Republic of Korea's exports to U.S. and China (2018)

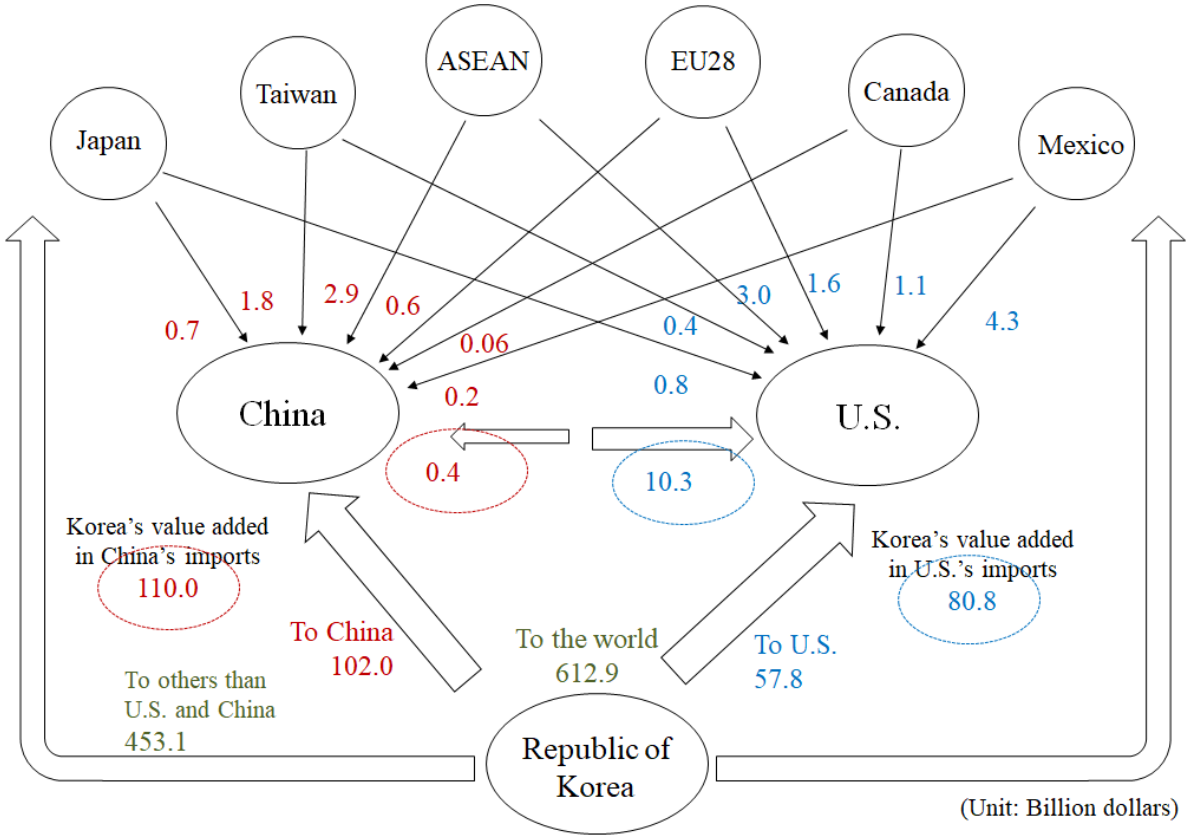


Source: Global Trade Atlas.



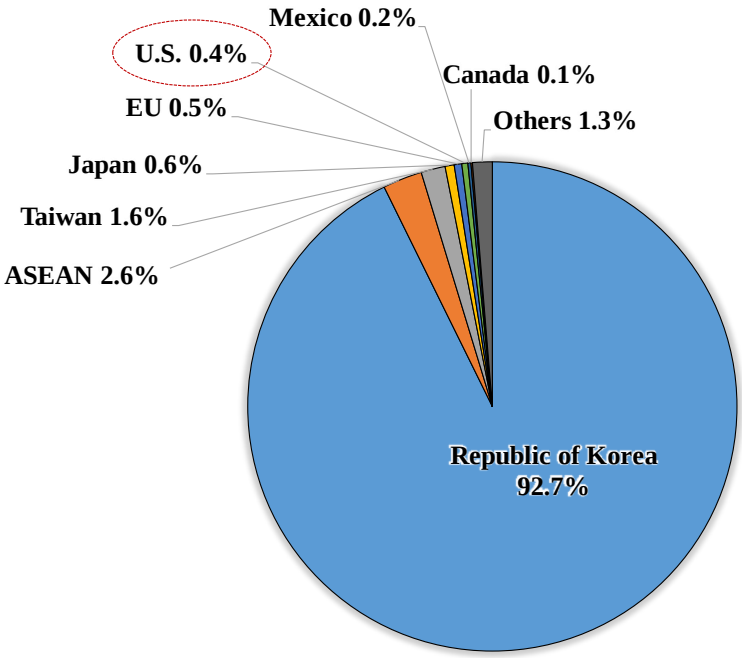
Source: Global Trade Atlas.

Figure II-1-2-22 Republic of Korea's value added exports to U.S. and China (via major transit country/region 2015)



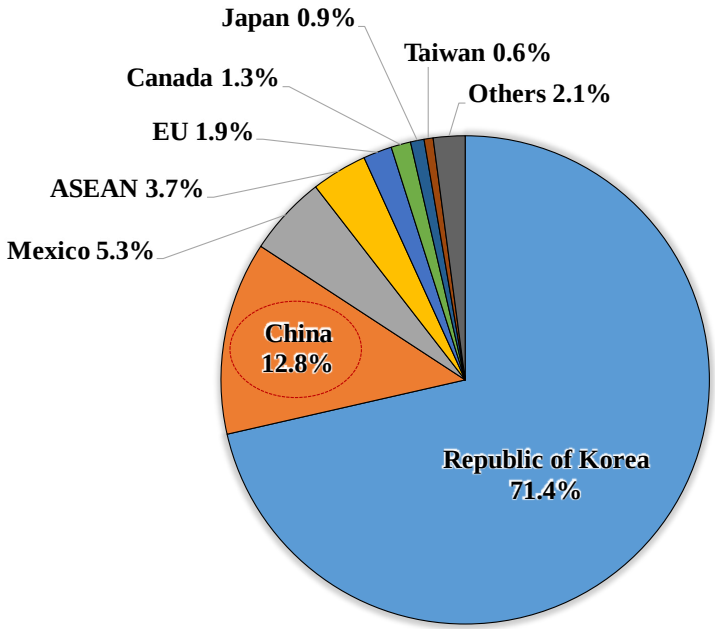
Source: OECD TiVA.

Figure II-1-2-23 China's value added imports from Republic of Korea (China's direct counterparty)



Source: OECD TiVA.

Figure II-1-2-24 U.S.'s value added imports from Republic of Korea (U.S.'s direct counterparty)



Source: OECD TiVA.

(4) Japan

(A) Change in major export destinations

Japan's participation in GVCs will be discussed in detail in Chapter 3. Here we briefly review Japan's exports to the U.S. and China.

For Japan, the U.S. and China are the two biggest export destinations, with almost equal shares (Table II-1-2-25 and Figure II-1-2-26).

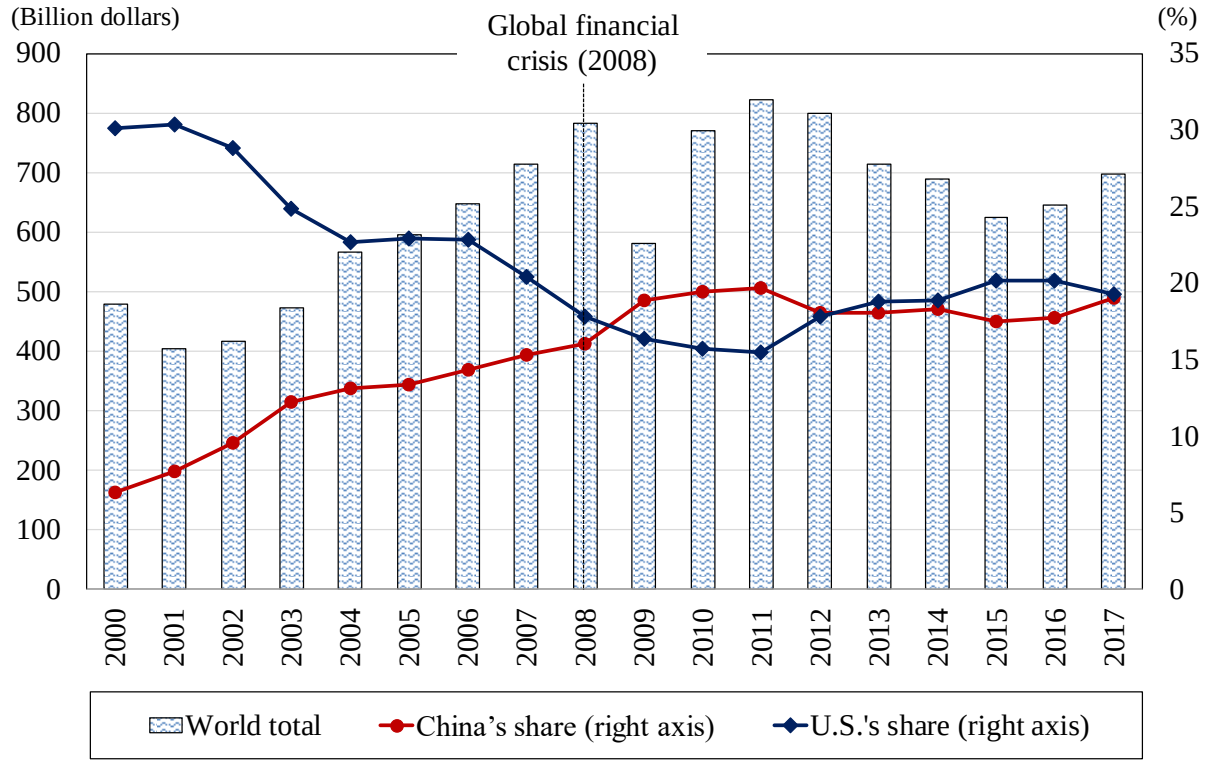
Table II-1-2-25 Japan's major export destinations (2018)

(Unit: Million dollars, %)

Rank	Export destination	Exports	Share
1	China	143,962	19.5
2	U.S.	140,100	19.0
3	Republic of Korea	52,500	7.1
4	Taiwan	42,382	5.7
5	Hong Kong	34,695	4.7
6	Thailand	32,261	4.4
7	Singapore	23,419	3.2
8	Germany	20,887	2.8
9	Australia	17,108	2.3
10	Vietnam	16,412	2.2
—	World total	738,143	100.0

Source: Global Trade Atlas.

Figure II-1-2-26 Change in Japan's exports

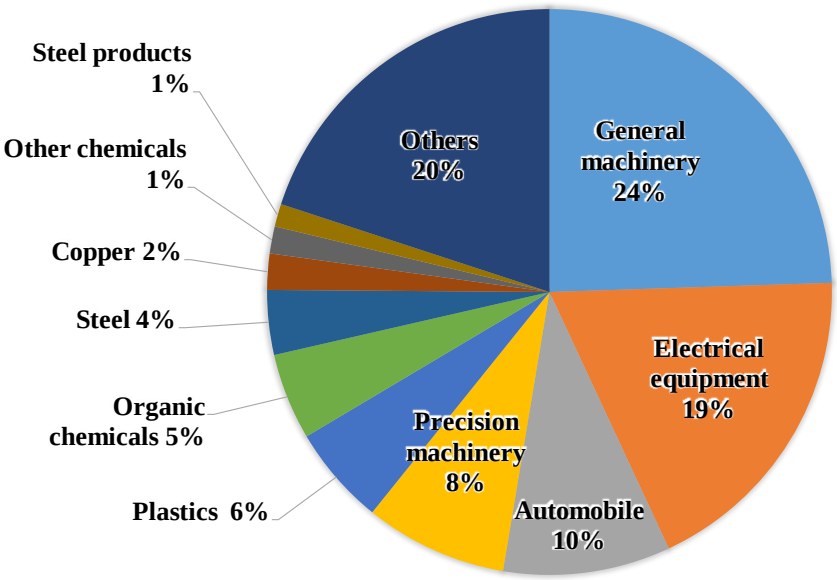


Source: *Direction of Trade* (IMF).

(B) Major export items

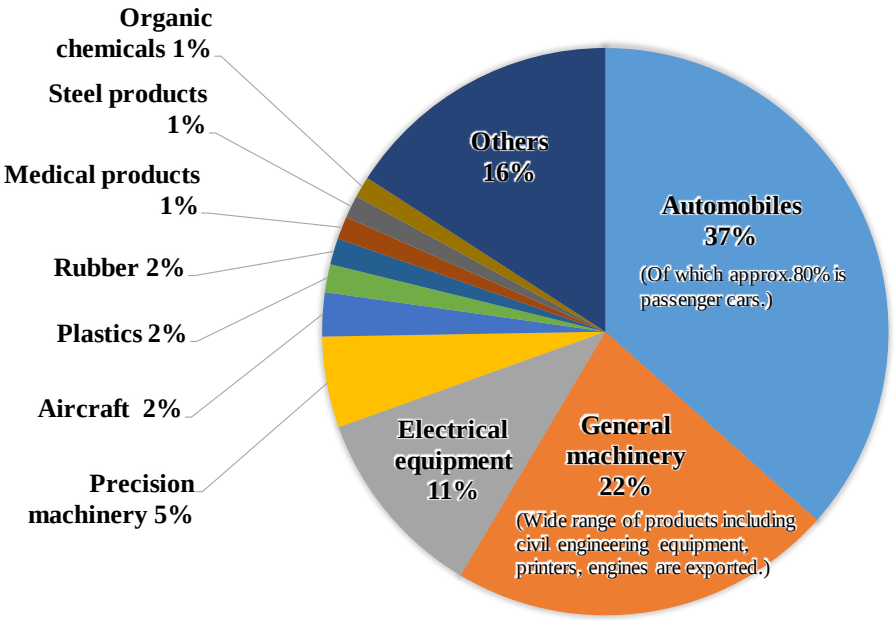
Japan is also involved in GVCs in Asia, and exports intermediate goods such as integrated circuits and manufacturing facilities such as semiconductor manufacturing equipment to China (Figure II-1-2-27). Meanwhile, Japan exports automobiles including passenger cars as well as general machinery such as civil engineering machinery, printers, and engines to the U.S. (Figure II-1-2-28).

Figure II-1-2-27 Japan's major export items (to China)



Source: Global Trade Atlas.

Figure II-1-2-28 Japan's major export items (to the U.S.)

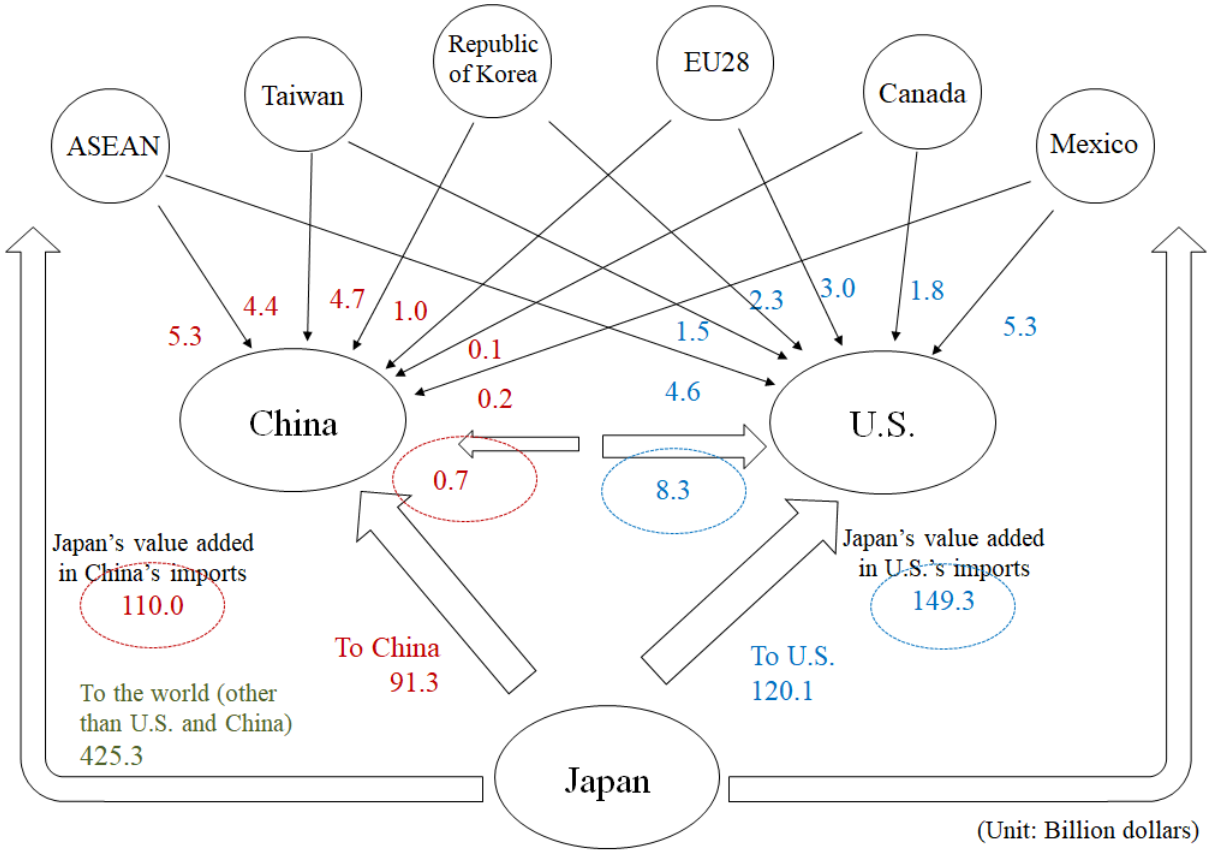


Source: Global Trade Atlas.

(C) Relationship with the U.S. and China as seen from trade in value added

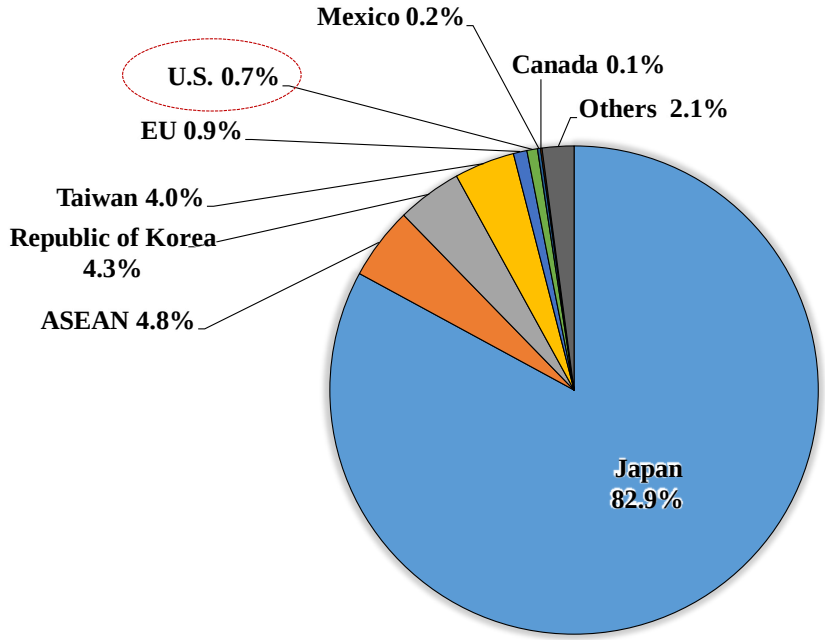
The value added statistics show that 5.5% of Japan's direct or indirect value added exports are via China (Figures II-1-2-29, 30, and 31). This percentage is lower than that of Republic of Korea and ASEAN.

Figure II-1-2-29 Japan's value added exports to the U.S. and China (via major transit country/region 2015)



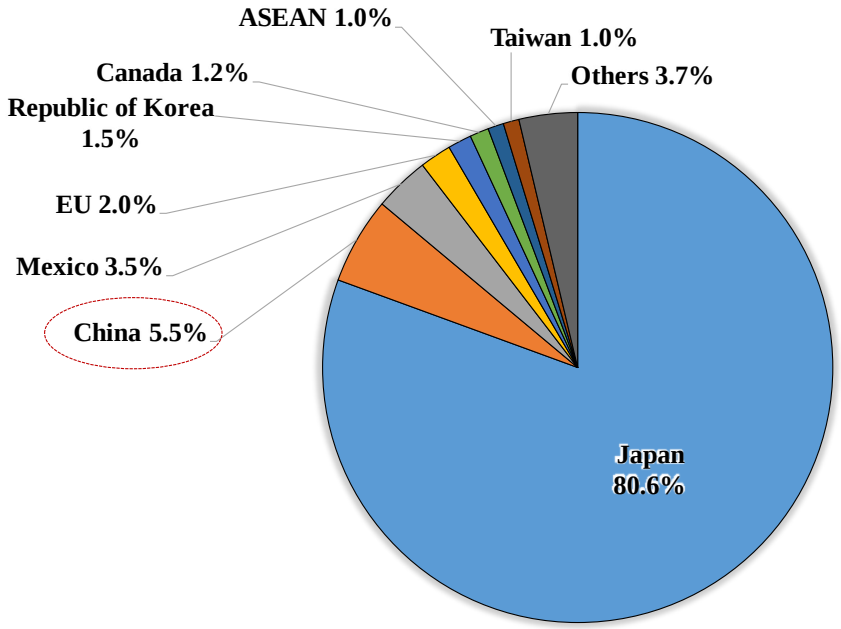
Source: OECD TiVA.

Figure II-1-2-30 China's value added imports from Japan (China's direct counterparty)



Source: OECD TiVA.

Figure II-1-2-31 The U.S.'s value added imports from Japan (U.S.'s direct counterparty)



Source: OECD TiVA.

Table II-1-2-32 aims to summarize shares of each country's value added exports to the U.S. via China, which we discussed above, including those of regions other than Asia. As it shows, with respect to Taiwan, Republic of Korea, ASEAN, and Japan, a considerable part of their direct or indirect value added exports to the U.S. is via China. In particular, Taiwan has a large share at approx. 20%, followed by Republic of Korea. This implies the existence of GVCs in Asia.

On the other hand, when examining Mexico and Canada in the same manner, we can see that a certain percentage of their direct or indirect value added exports to China is via the U.S. This implies that there is a GVCs among U.S., Mexico, and Canada.

EU also exports their value added to the U.S. via China and to China via the U.S. to a certain level. However, the share of such value added is not very high. When the same consideration is applied to the Republic of South Africa in Africa, its valued added exports to the U.S. via China represent around 10%. This is because South Africa is rich in natural resources and it exports precious metals, iron ore, steel, copper, etc. to China, where they are processed for various export products.

In this way, Taiwan, Republic of Korea, and other Asian countries and regions are integrated in GVCs connected with China. Viewing the share of East Asian countries' value added exported to the U.S. via China in chronological order by focusing on mechanical industries, we find that the share is gradually growing (Figure II-1-2-33). For example, a comparison between 2005 and 2015 of the last transit country/region of valued added exported by East Asian countries/regions to the U.S. shows that, in both years, the share of value added directly exported from the source country was the biggest and that China's share was the second and had grown (Figure II-1-2-34). During this decade, in addition to China, Mexico had increased its share. This implies the existence of GVCs in which exports from East Asia arrive to the U.S. via Mexico.

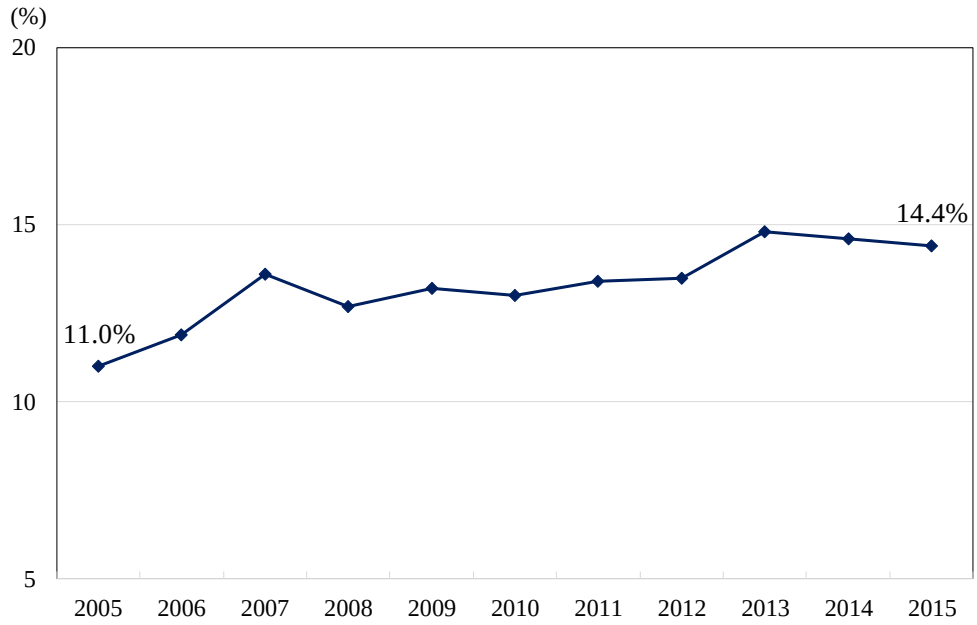
Table II-1-2-32 Major countries/regions' value added contents in direct imports by U.S. and China (2015)

(Unit: Billion dollars, %)

		Value added importers					
		China			U.S.		
		Total imports (A)	Of which, from U.S. (B)	Share (B)/(A)	Total imports (A)	Of which, from China (B)	Share (B)/(A)
Value added exporter	Asia						
	Taiwan	77.9	0.2	0.3	38.3	8.3	21.6
	Republic of Korea	110.0	0.4	0.4	80.8	10.3	12.8
	ASEAN	120.7	0.6	0.5	124.4	9.4	7.6
	Japan	110.0	0.7	0.7	149.3	8.3	5.5
	India	19.0	0.3	1.5	91.8	1.3	1.4
	North & South America						
	Mexico	8.5	1.0	12.0	177.2	0.6	0.4
	Canada	25.4	2.1	8.1	247.0	1.4	0.6
	Europe						
	EU	190.3	2.8	1.5	572.7	11.9	2.1
	Africa						
	South Africa	13.7	0.1	0.4	8.6	0.8	8.8

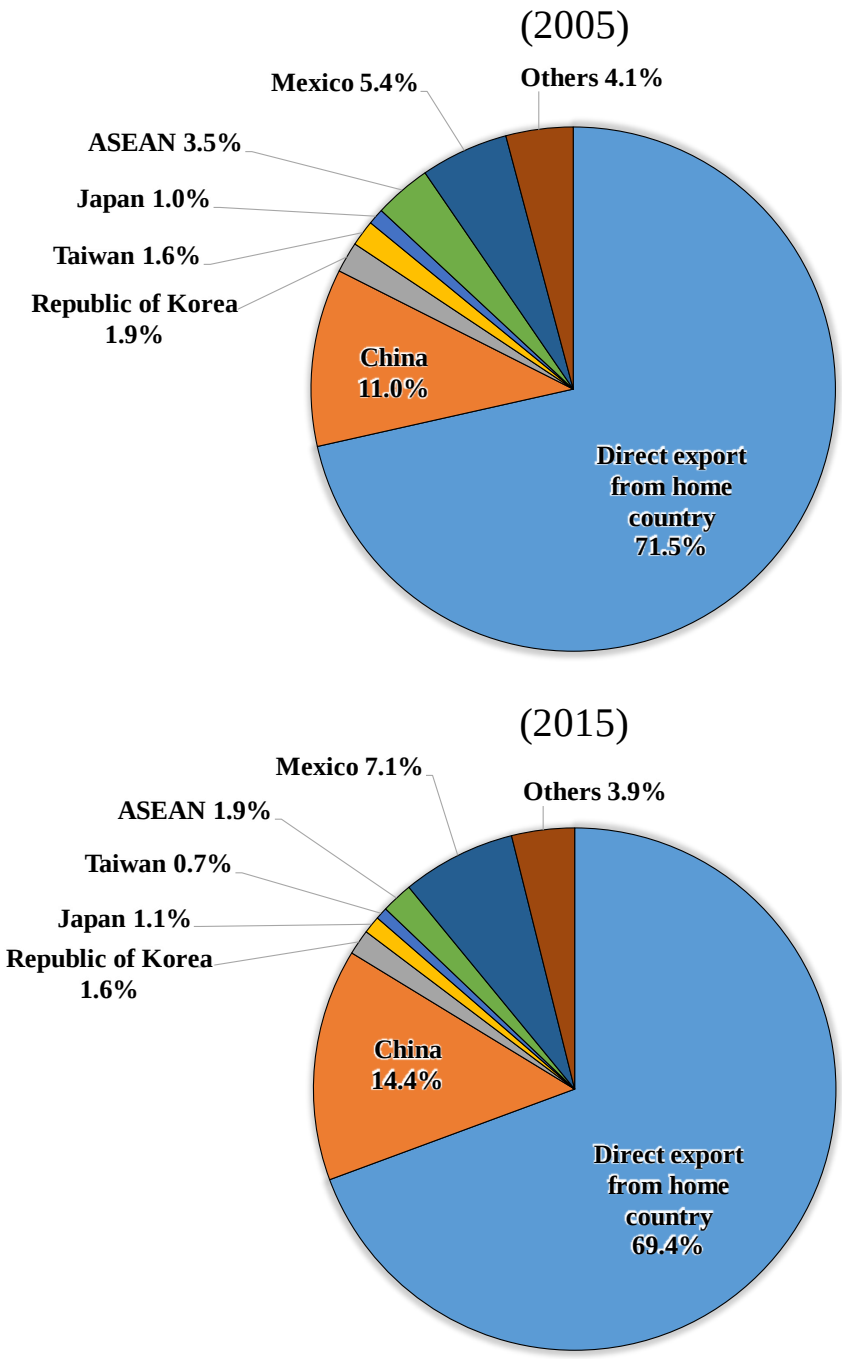
Source: OECD TiVA.

Figure II-1-2-33 China's share in East Asian (Japan, Republic of Korea, Taiwan, and ASEAN) value added exports (in machinery industries) to U.S.



Note: Data for machinery industries of exporting countries. Machinery industry refers to general machinery, electric and electronic appliances, and transport equipment.
Source: OECD TiVA.

Figure II-1-2-34 Share of direct exporter of value added in East Asia (excluding China) to the U.S. (machinery industry)

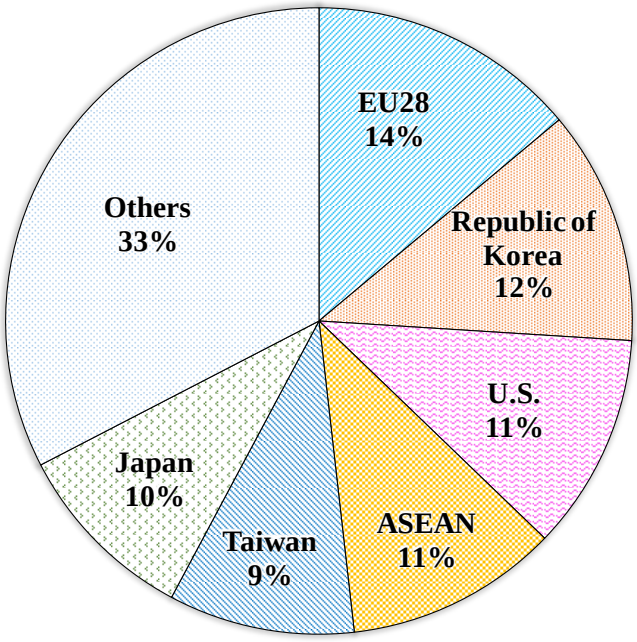


Note: East Asia refers to Japan, China, Republic of Korea, Taiwan, and ASEAN.
ASEAN is regarded as one region and ASEAN's exports via other ASEAN countries are classified in "direct export from home country."
Source: OECD TiVA.

Looking at the source countries/regions of value added in China's exports to the U.S., we see that China occupies 82% while the EU, Republic of Korea, U.S., ASEAN, Taiwan, and Japan contribute to the remaining 18% to almost the same degree (Figure II-1-2-35). The U.S.'s value added is also

imported to own country via China. If the U.S. and China impose trade-restrictive measures on each other, these countries/regions may be affected.

Figure II-1-2-35 Share of foreign value added in China's export of goods and services to the U.S. (excluding China, as of 2015)



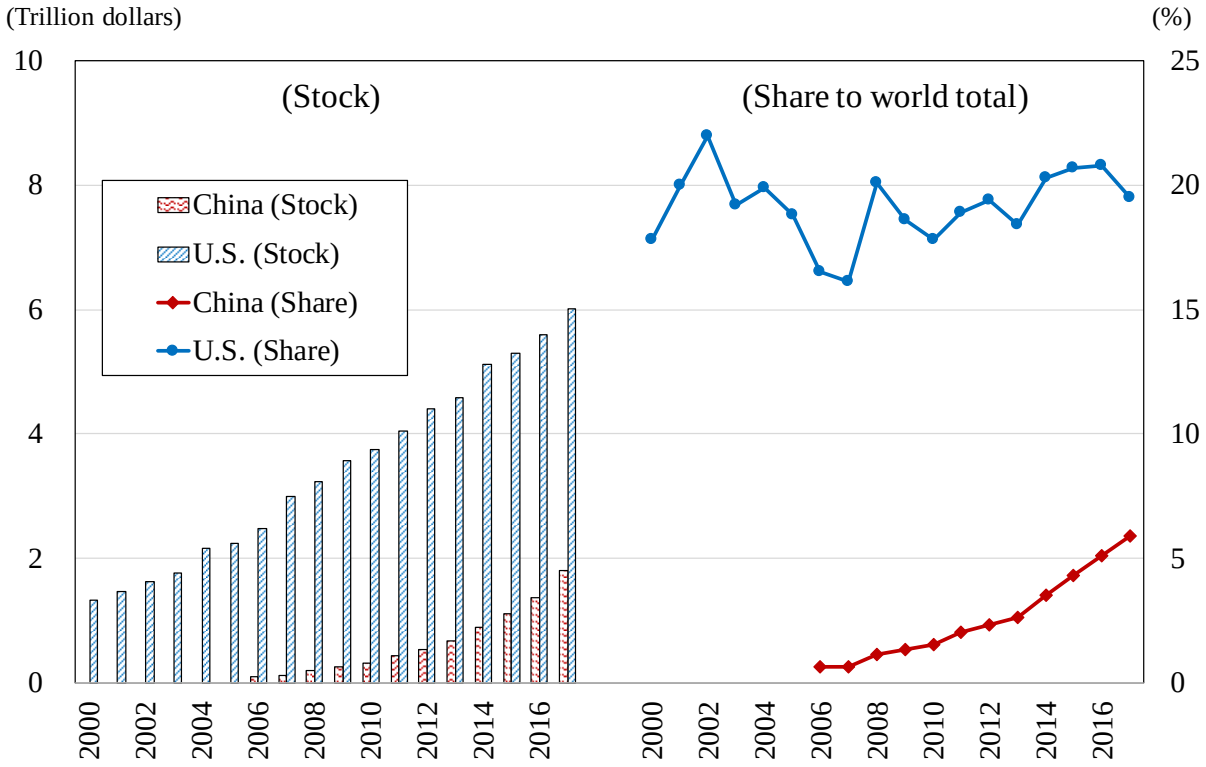
Note: China's share in value added is 82%. The figure represents the breakdown of non-China value added (remaining 18%), which amounts to approx. 86 billion dollars (approx. 10 trillion yen).
Source: OECD TiVA.

2. Investment relationship

Here, we consider the relationship between major countries and the U.S. and China respectively in investment.

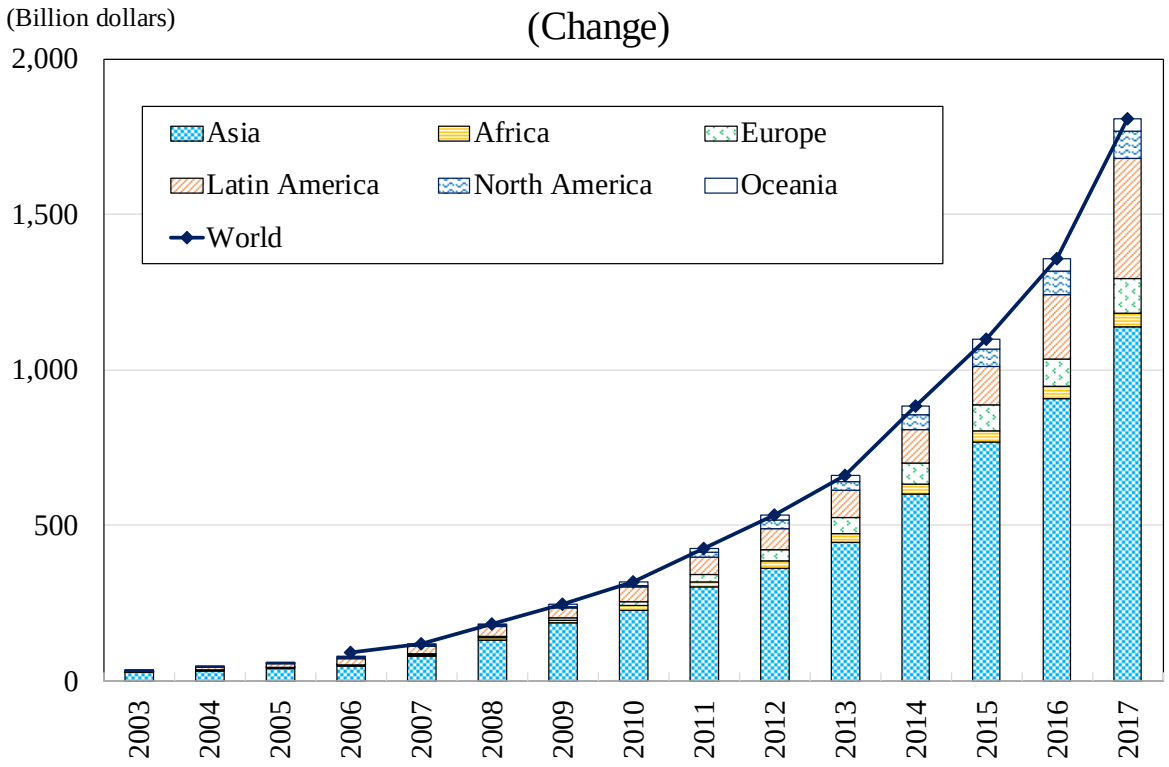
First, we look at the trends of the outward direct investment from the U.S. and China. China had developed its economy by receiving direct investment from foreign countries until around 2000, because of its limited foreign currency reserve. In the beginning of the 2000's, China became active in outward direct investment, which has been expanding rapidly thereafter. Comparing the change in outward direct investment of the U.S. and China, although the U.S. still surpasses China overwhelmingly at present, the difference has been shrinking rapidly (Figure II-1-2-36). As for the regional composition thereof, China's direct investment is mainly in Asia and Latin America, which occupy 75% of the total. This investment is, in reality, made to financial centers in Hong Kong, the British Virgin Islands, and the Caiman Islands through which capital seems to be reinvested to third parties (Figure II-1-2-37). As for the U.S., 59% of direct investment is made to Europe, followed by Central and South America with a 17% share (Figures II-1-2-38 and 39).

Figure II-1-2-36 Change in stock of outward direct investment of U.S. and China

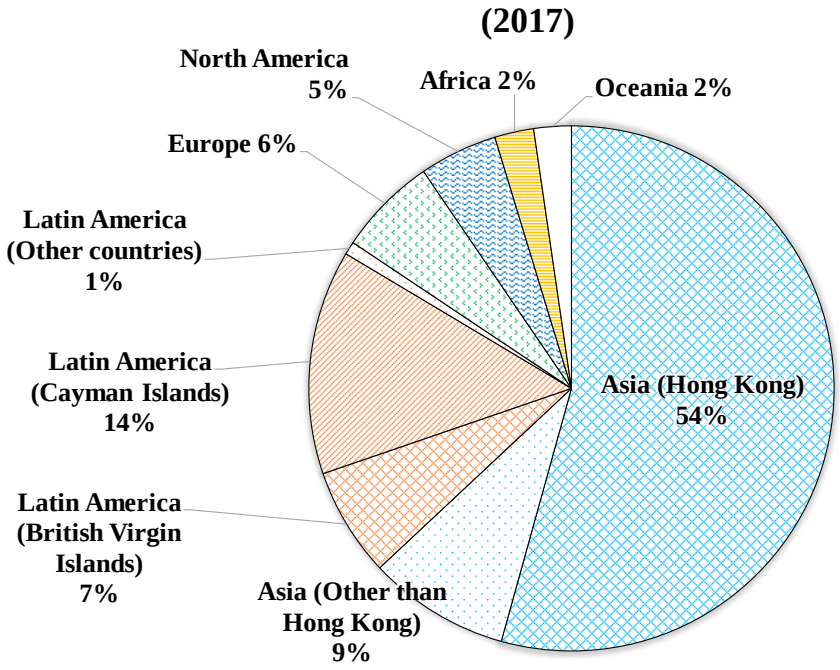


Note: China's date has been disclosed from 2006. Share refers to the share in total world investment.
Source: Ministry of Commerce of China, U.S. Bureau of Economic Analysis, CEIC database.

Figure II-1-2-37 Change in stock of outward direct investment of China

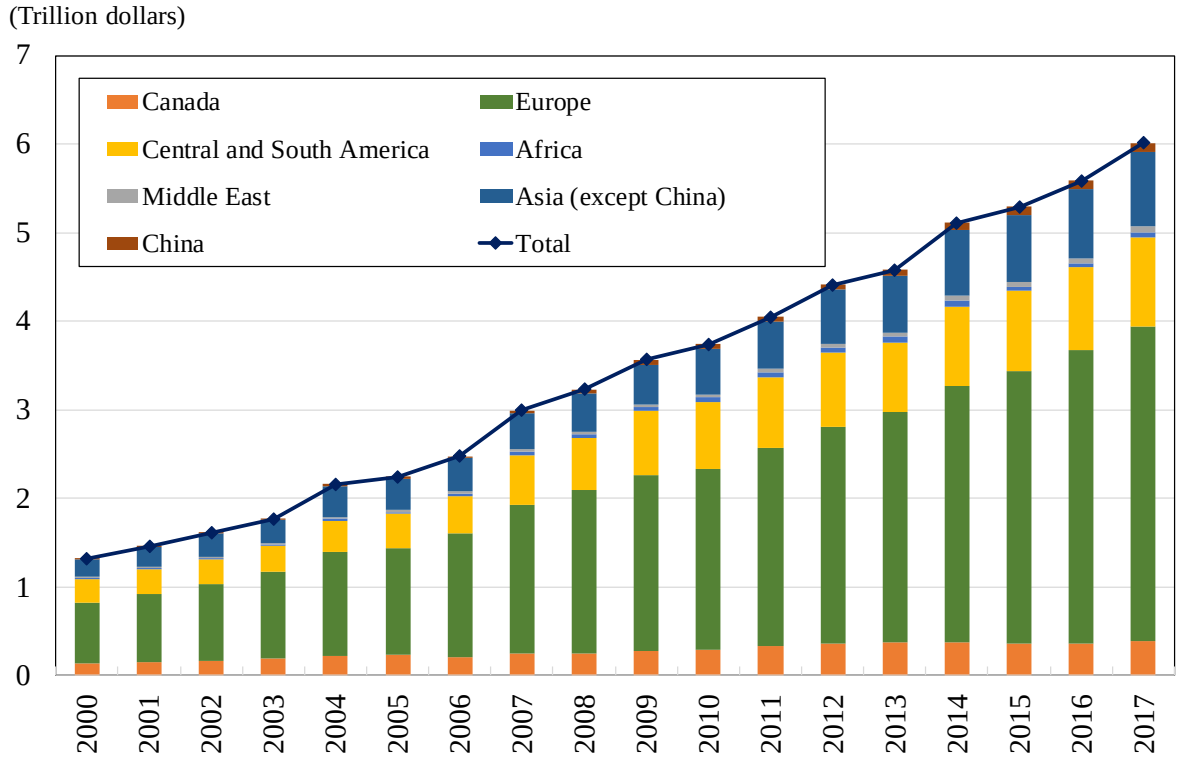


Source: Ministry of Commerce of China, CEIC database.



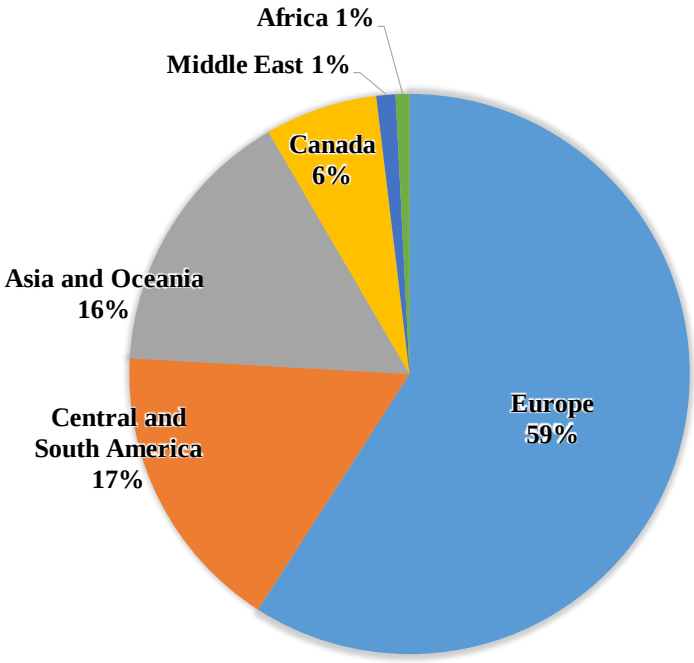
Source: Ministry of Commerce of China, CEIC database.

Figure II-1-2-38 Change in stock of outward direct investment of U.S.



Source: U.S. Bureau of Economic Analysis, CEIC database.

Figure II-1-2-39 Stock of outward direct investment of U.S. (2017)

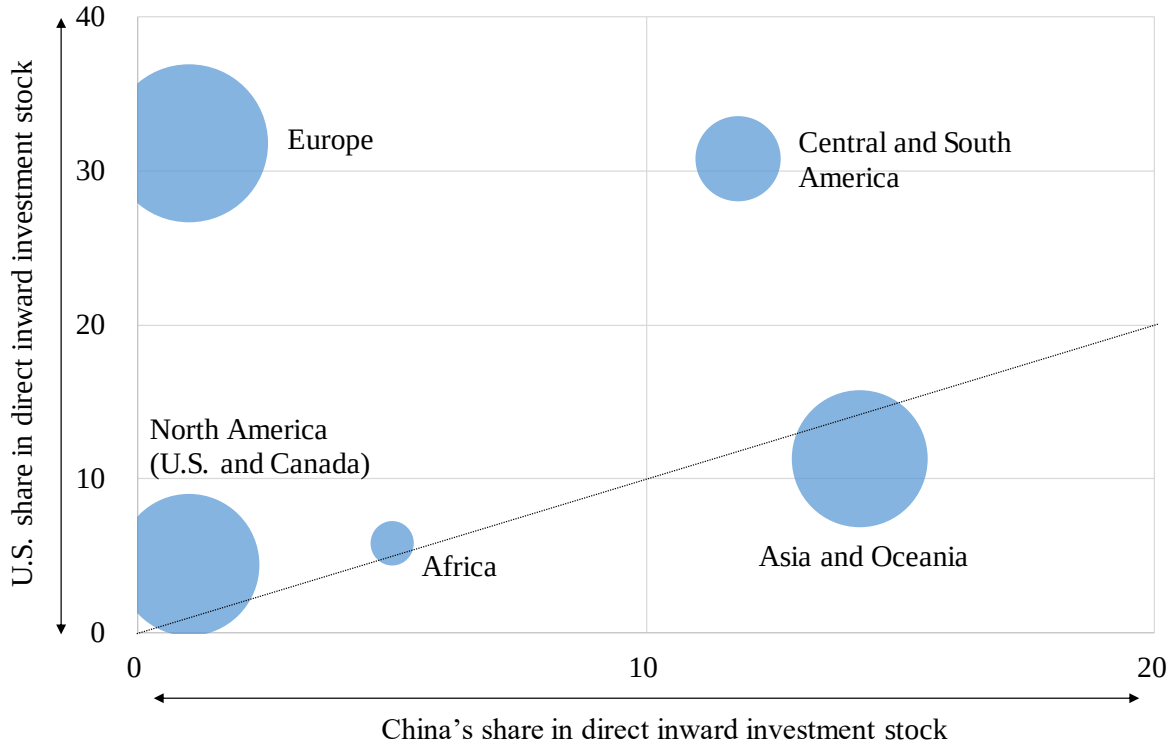


Source: U.S. Bureau of Economic Analysis, CEIC database.

Next, we look at the U.S.'s and China's share of their investment in foreign countries from the viewpoint of such countries' inward investment. China has bigger shares in Asia and the Pacific, while the U.S. has larger share in other regions in general (Figure II-1-2-40).[5] For examples, in Europe, the U.S. has a very large share. In Central and South America, China has a certain share, which, however, is lower than the U.S.'s share. In Africa, both countries have a relatively low share to almost the same degree.

5 Data of the inward direct investment of each country are from the investees' statistics of UNCTAD. Data of the U.S. and China are calculated based on the outward direct investment statistics of the U.S. and China respectively. As the data come from different sources, please note that statistical inconsistency may occur for some countries. For example, according to the calculation, the U.S. would hold almost all of the Netherlands' stock and fourfold value of Luxembourg's stock. From this reason, the Netherlands and Luxembourg are excluded from Figure II-1-2-41 showing each country's share.

Figure II-1-2-40 U.S.'s and China's shares in direct inward investment (by region)

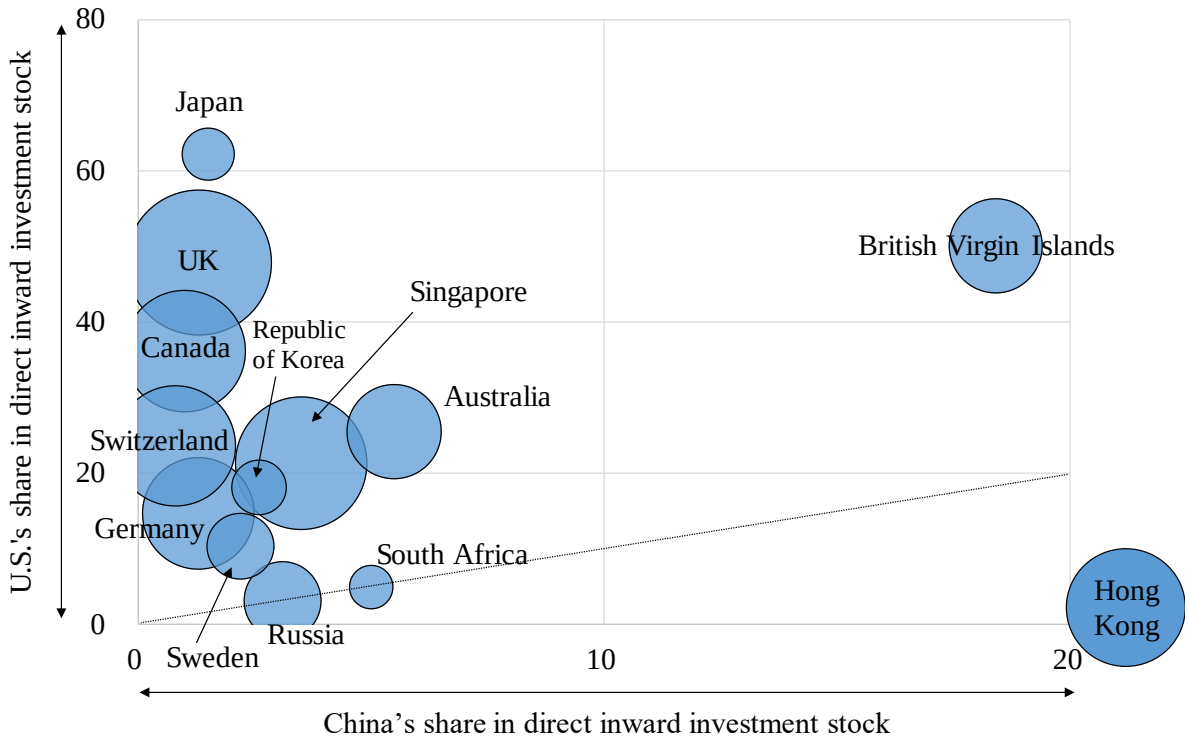


Note: 1. The size of the circle shows the total inward direct investment.
2. The inward direct investment of each region is extracted from the investee' statistics of UNCTAD. The values for the U.S. and China are calculated based on the foreign direct investment statistics of China and the U.S. respectively.

Source: UNCTAD, U.S. Bureau of Economic Analysis, Ministry of Commerce of China, CEIC database.

When we look at the situation by country, we find that the U.S. has a large share in major countries. However, as noted before, since a large part of China's direct investment goes to financial centers, such as Hong Kong, the British Virgin Islands, and the Cayman Islands, it may not necessarily reflect the actual situation. Meanwhile, in Russia and South Africa, the U.S. and China rival each other (Figure II-1-2-41).

Figure II-1-2-41 Shares of U.S. and China in stock of inward direct investment (by country/region)



Note: 1. The size of the circle shows the total stock of inward direct investment.
2. Data of the inward direct investment of each country are from the investees' statistics of UNCTAD. Data of the U.S. and China are calculated based on the outward direct investment statistics of the U.S. and China respectively.
3. Figure shows major countries whose data relating to the U.S. and China could be obtained. Hong Kong (coordinate: 49.8, 4.1) is shown outside of the chart because it represents an extremely large value.

Source: UNCTAD, U.S. Bureau of Economic Analysis, Ministry of Commerce of China, CEIC database.

3. China's Belt and Road Initiative (BRI) and economic cooperation

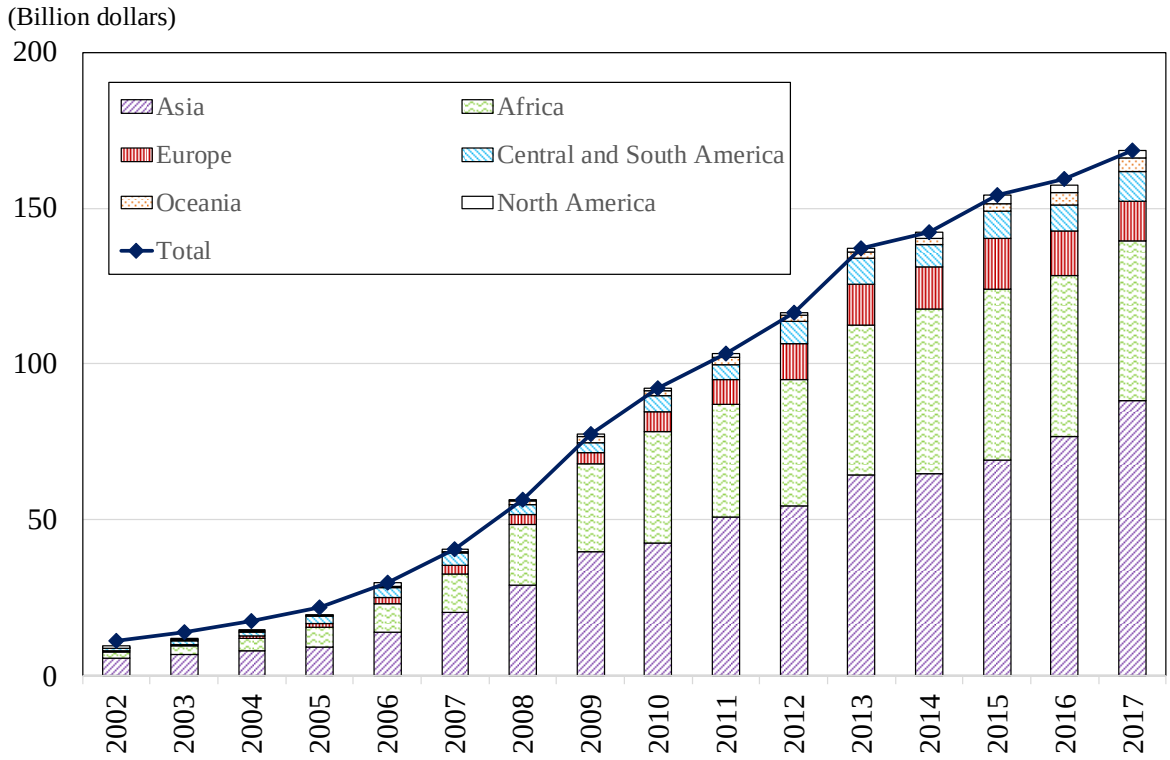
China has promoted the "One Belt and One Road (New Silk Road)" initiative, likened to the ancient silk road.[6] This initiative aims to establish a huge economic zone covering countries and regions from China to Europe by developing infrastructure such as roads, railways, ports, and communications lines of surrounding areas and expanding the flow of people, goods, capital, information, etc. There is no clear definition of partner countries; China calls for many countries to join this initiative. As a financial backbone for promoting infrastructure development, the Silk Road

6 China's president, Xi Jinping announced "New Silk Road Economic Belt" initiative (overland routes) during an official visit to Kazakhstan in September 2013 and then "The 21st Century Maritime Silk Road" initiative (sea routes) in his speech given at the Indonesian Parliament in October, 2014. These two silk road initiatives are collectively referred to as "New Silk Road (One Belt One Road)" initiative. In May 2017, the Belt and Road Forum for International Cooperation was held, with participation by around 100 countries/regions and international organizations. This high-level forum was held again in May 2019.

Fund was established in addition to the existing financial institutions such as the Export-Import Bank of China and China Development Bank. Also, China has led establishment of the Asian Infrastructure Investment Bank to promote infrastructure investment in Asia.

Since before promoting the One Belt and One Road Initiative, China has been implementing infrastructure development mainly in Asia and Africa in the form of economic cooperation.[7] The amount funded by China for such economic cooperation is gradually increasing. In terms of partner countries, although Asian countries occupy almost half of the total fund amount, the share of African countries is increasing (Figures II-1-2-42, 43, and 44). If in these countries, infrastructure is developed with the funds of China, their economic relationship with China may be enhanced, since there will be larger flow of people, goods, funds, and information with China. On the other hand, however, as these funds are borrowed from China for the projects, it is pointed out that China may suffer from debt problems due to over-borrowing by these countries against their capacity to repay.

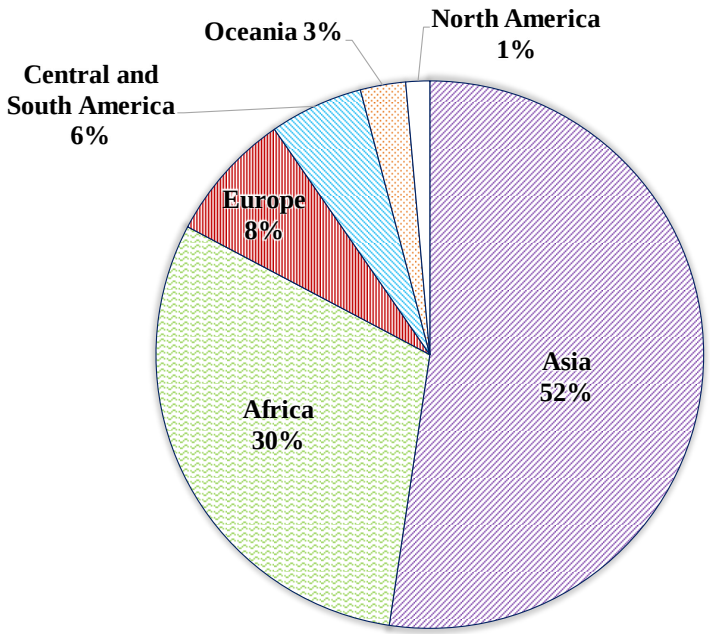
Figure II-1-2-42 Change in China's economic cooperation (project completed value)



Source: Ministry of Commerce of China, CEIC database.

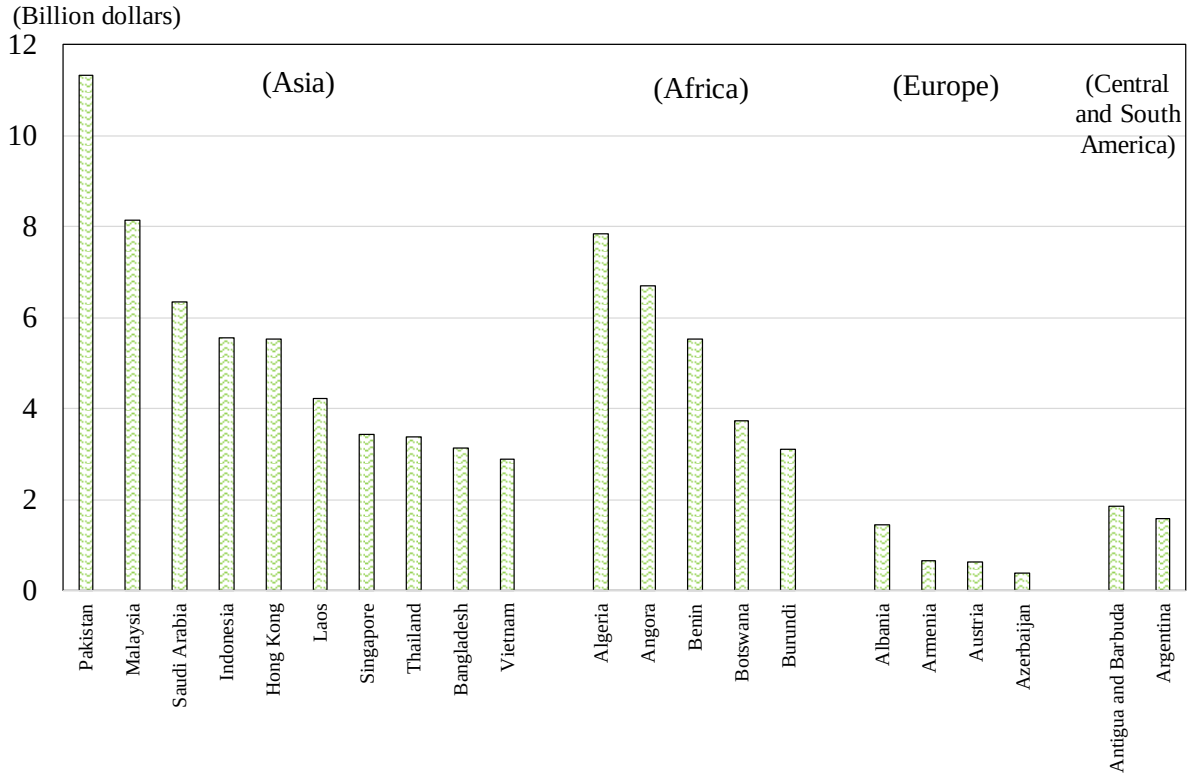
7 China's "対外経済合作" is translated in English as "Economic Cooperation with Foreign Countries or Regions" (*China Statistical Yearbook*, National Bureau of Statistics of China). As China is not a member of the OECD, this may be different from the concept of "cooperation to developing countries via ODA" in Japan. "対外経済合作" is thought to be a concept comprehensively covering "External contract work" and "External labor corporation."

Figure II-1-2-43 Share by region in China's economic cooperation (project completed value/2017)



Source: Ministry of Commerce of China, CEIC database.

Figure II-1-2-44 China's economic cooperation (project completed value/2017)



Source: Ministry of Commerce of China, CEIC database.

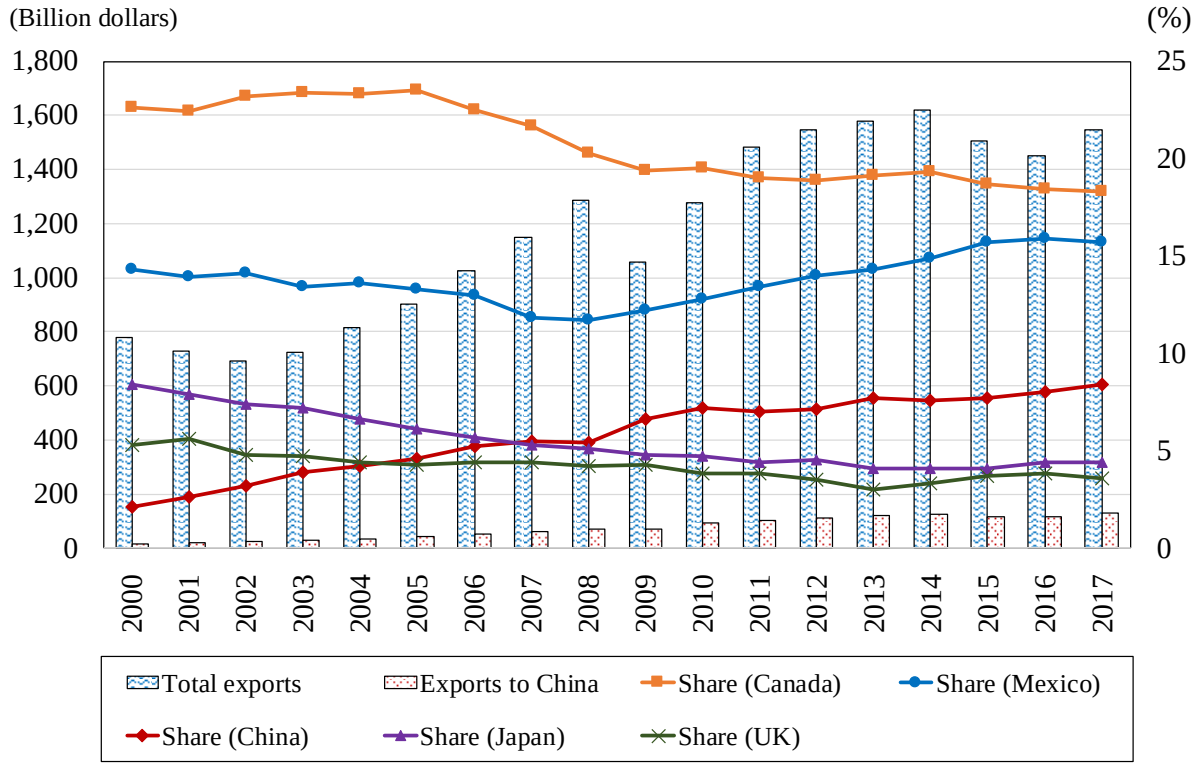
4. Relationship between U.S. and China

So far, we have discussed the economic relationship between the major countries/regions in the world and the U.S. or China; here let us consider the direct economic relationship between the U.S. and China. While the U.S. complains about its trade imbalance with China, when looking at the trade and investment of both countries, we can find that the two countries are strongly interconnected.

(1) Trade

First, with respect to trade, not only are China's exports to the U.S. expanding, but U.S.'s exports to China are growing year by year. Currently, China is the 3rd place export destination of the U.S., following Canada and Mexico (Figure II-1-2-45 and Table II-1-2-46).

Figure II-1-2-45 Change in major U.S.'s export destinations



Note: The chart shows the shares of 2017's top 5 countries retroactively.
Source: Global Trade Atlas.

Table II-1-2-46 Top 10 countries/regions of U.S.'s export destinations (2017)

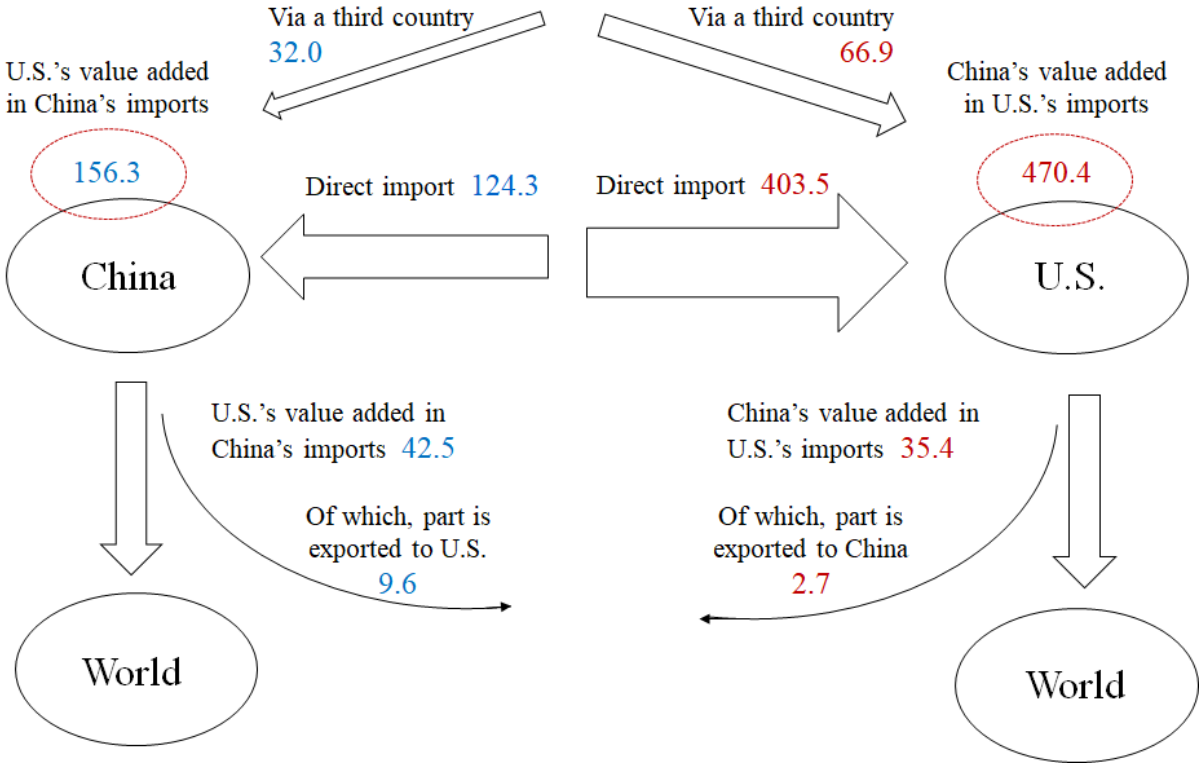
(Unit: Billion dollars, %)

Rank	Destination	Exports	Share
1	Canada	282.3	18.3
2	Mexico	243.3	15.7
3	China	129.9	8.4
4	Japan	67.6	4.4
5	UK	56.3	3.6
6	Germany	53.9	3.5
7	Republic of Korea	48.3	3.1
8	Netherlands	41.5	2.7
9	Hong Kong	39.9	2.6
10	Brazil	37.2	2.4
—	World total	1,546.3	100.0

Source: Global Trade Atlas.

When looking at the trade between the U.S. and China from the viewpoint of value added, the two countries are complicatedly linked to each other, with the involvement of third countries via GVCs. For example, the U.S.'s value added exports to China consist of not only direct exports but those via third countries (Figure II-1-2-47). China's valued added imports from the U.S. are not only consumed in China but also are incorporated in products in China and exported to other countries. As such products are exported to the U.S., "U.S.'s imports from China" used in traditional trade statistics may contain U.S.'s value added exports; i.e., products reexported to the U.S. Conversely, the U.S.'s exports contain a certain level of China's value added. The fact that each country's exports contain the other's value added means that the countries import intermediate goods from each other for manufacturing export items.

Figure II-1-2-47 U.S.'s and China's direct and indirect value added exports (2015)



Note: Values in red refer to China's valued added. Values in blue refer to U.S.'s value added. (Unit: billion dollars)
Source: OECD TiVA.

(2) Investment

When we look at the U.S. direct investment in China, there are many U.S. affiliates located and doing business in China. Let us see how important China is for business of U.S. affiliates operating worldwide according to the statistics of U.S. multinational enterprises released by the Bureau of Economic Analysis, U.S. Department of Commerce. In terms of sales of U.S. overseas affiliates, China is in second place following Canada, and exceeding Germany in third place and the U.K. in fourth (Table II-1-2-48). Nearly 10% of sales of overseas affiliates of the U.S. enterprises are made by those in China. In terms of profits, although financial centers like Ireland, the Netherlands, and Singapore are ranked high, China places in the top 10, making the same value of profits as Germany. For value added, China ranks 7th, serving as an important base for the U.S. companies as well. This way, currently, China is an important area for economic activities of U.S. multinational enterprises.

Table II-1-2-48 Performance of U.S. overseas affiliates (2015)

(Sales)

(Unit: Billion dollars, %)

No	Country	Sales	Share
1	Canada	236	9.2
2	China	221	8.6
3	Germany	218	8.5
4	UK	206	8.0
5	Singapore	175	6.8
6	Ireland	138	5.4
7	Mexico	131	5.1
8	Netherlands	116	4.5
9	France	107	4.2
10	Brazil	96	3.7

(Profits)

(Unit: Billion dollars, %)

No	Country	Profit	Share
1	Ireland	33	14.9
2	Netherlands	31	13.8
3	Singapore	19	8.6
4	Canada	19	8.3
5	UK	14	6.1
6	Germany	12	5.2
7	China	12	5.2
8	Switzerland	11	5.1
9	Mexico	6	2.8
10	Japan	5	2.3

(Value added)

(Unit: Billion dollars, %)

No	Country	Value added	Share
1	UK	60	10.4
2	Canada	54	9.3
3	Germany	48	8.3
4	Ireland	41	7.2
5	China	39	6.7
6	Mexico	26	4.5
7	France	25	4.3
8	Brazil	21	3.6
9	Singapore	20	3.5
10	Netherlands	18	3.2

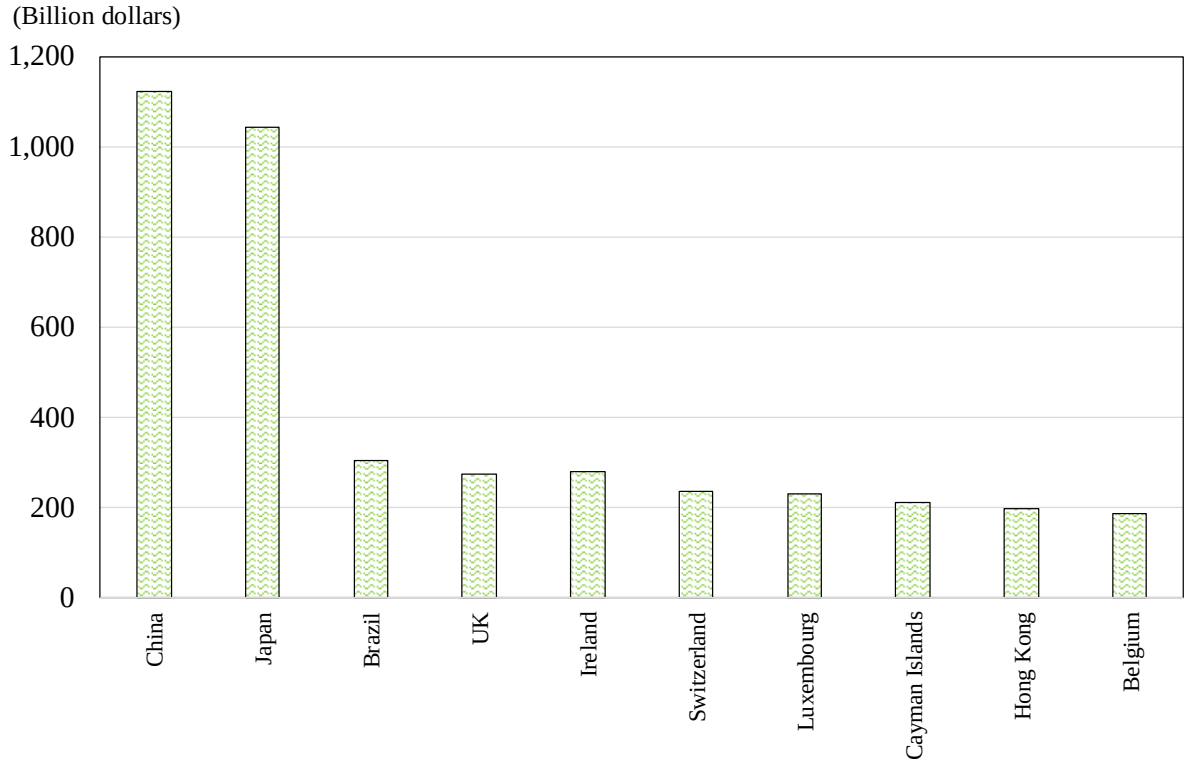
Source: U.S. Bureau of Economic Analysis (BEA).

(3) Others

The U.S. has a current account deficit, which should be financed by financial account surpluses in terms of balance of payments. Value of the U.S. treasury bonds, one of important instruments of U.S. international financing, held by country shows that China and Japan have especially large shares and, as of the end of 2018, China holds the most (Figure II-1-2-49). When we look at the change over time, at the beginning of the 2000's, Japan was the world's largest holder of U.S. bonds. However, China overtook Japan in 2009 immediately after the global financial crisis and has kept the top place until now (Figure II-1-2-50).

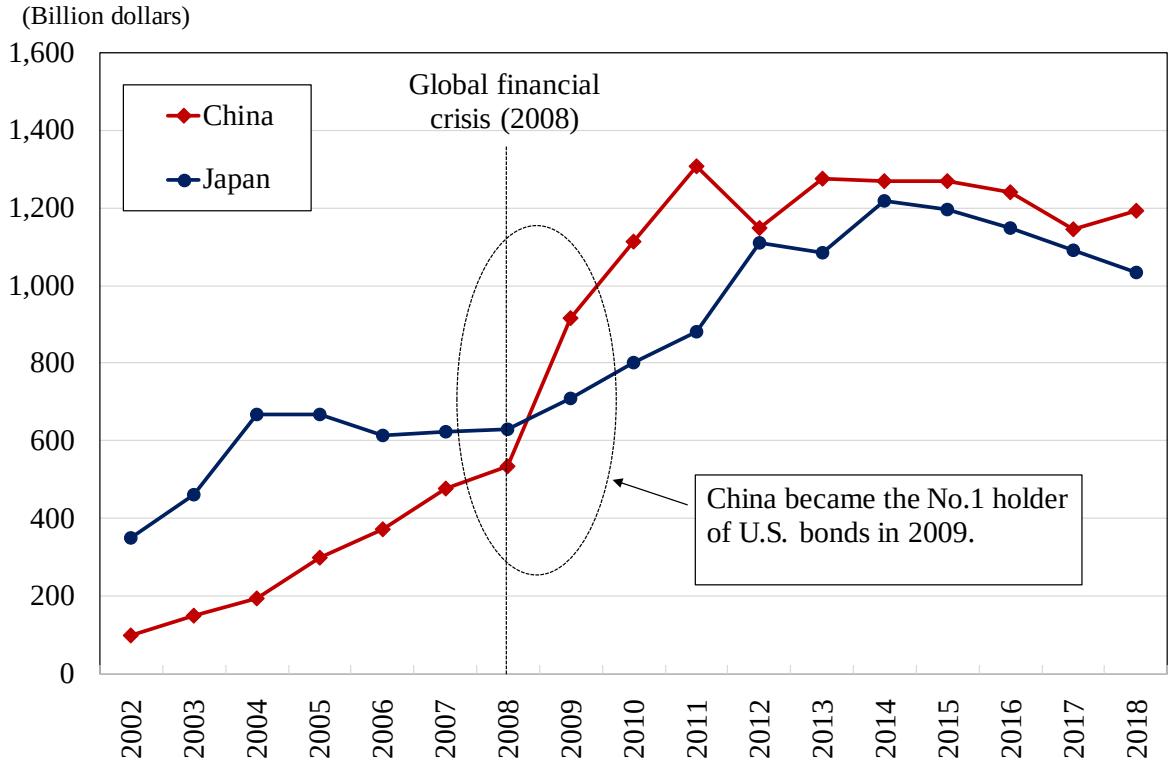
This way, for the U.S., China is an important destination in trade, a field where U.S. companies do business in investment, and the biggest U.S. treasury bond holder in financial balance.

Figure II-1-2-49 Top 10 countries/regions holding U.S. treasury bonds (as of December 2018)



Source: U.S. Department of Treasury website.

Figure II-1-2-50 Change in U.S. treasury bonds held by Japan and China



Note: Balance as of the end of June, each year.
Source: U.S. Department of Treasury website.