China's Trade Surplus

One Trillion Dollars and Counting

With its trade surplus reaching a record of nearly $1 tn in 2024, China becomes the world's first country to achieve this milestone.

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China's trade surplus soared to nearly $1 tn in 2024. Its exports grew 6% in 2024 to $3.58 tn while imports were up too, at $2.59 tn, resulting in a trade surplus of $992.2 bn—by far the highest ever achieved by any country. How would this increase tensions with the United States and other trade partners? How would a potentially intensifying trade war with the US play out? What domestic and international challenges China is facing? How is it responding to them and what is the outlook for 2025 and beyond for China, in particular, and for the rest of the world, in general?

The curious case of rising export and faltering domestic consumption

With the advent of the borderless and digitized Fourth and Fifth Revolutions, global value, and supply chains have become ever more interconnected and interdependent, playing to China's long-established dominance as the world's largest trader and manufacturer delivering ultra-price-quality-competitive goods and services.

A vast array of goods and products across the globe is either 'Made in China' or has China imbedded in them, in terms of minerals, materials, parts, components, or logistics. China has become the largest trading partner for some 120 countries worldwide, compared to some 50 countries for the US. Seven of the world's top-eleven busiest container ports are located in China (including Hong Kong).

As the world has well and truly emerged from the shadows of the Covid-19 pandemic, China's exports have been returning with a vengeance. Though, in the meantime, its domestic consumption has remained depressed, owing to a weighty overhang from the bursting of the gigantic property bubble, weakened productivity due to worsening demographics, massive youth unemployment, and headwinds of hostile geopolitics. This mismatch has been generating consistent trade surpluses for China and deficits for most of China's trading partners. What is more, as a result, many manufacturing jobs have migrated to China or China-related supply-chain locations or have seen fall in wages in order to survive. Hence, the prevalence of a perceived "China Threat".

China, the 'New Detroit'?

According to a *Forbes* report of November 28, 2024 (1), China's automotive sector is gearing up for explosive growth in the coming decade. Production in 2023 crossed 30 million units and is likely to top 38 million units by 2030/32. Further, by 2030, exports could cross 9 million units, thanks to rising supplies of internal combustion engine (ICE) vehicles to countries like Russia, Brazil, Chile, Mexico, Egypt, and South Africa, and that of EVs to the UAE, Australia, Thailand, Malaysia, Indonesia, UK, Germany, Norway, and several other European countries. In fact, China's contribution to global passenger vehicle production is likely to increase by over 38%, which will help it cement its position as the global automotive giant.

Last year, BYD, Geely, Chery, Changan, SAIC, and Great Wall Motors (GWM) ranked among the top 10 domestic passenger vehicle companies in China, by sales, and by 2030, the global top 10 automotive brands, by volume, will likely feature many Chinese carmakers. Chery, in fact, has already established itself as the largest vehicle exporter from China while BYD has become the world's largest electric vehicle (EV) manufacturer, leading the global EV market with cutting-edge technology and rapid production growth.

China accounts for some 60% of all EV sales globally. This is partly due to its dominance in the mining and processing of critical minerals used in batteries, and the manufacturing prowess of long-lasting battery cells. Currently, over 60% of raw material processing for batteries and over 80% of all battery manufacturing in the world takes place in China.

According to the *Forbes* report, another advantage that China enjoys is its huge cost-cutting technologies. For example, Chinese cars are leaders in Gigacasting, a new manufacturing technique for EVs that uses high-pressure molds to create the body chassis architecture. With EVs, the bill of material (BOM) of the chassis and cell-to-chassis integration can constitute about 60 to 80% of the vehicle cost, therefore providing a huge cost advantage. Almost all gigacasting manufacturers are Chinese. Also, importantly, despite being 25-45% cheaper than their foreign rivals, China's cars deliver at least comparable and often superior innovative technologies.

The *Forbes* report also flags up the so-called "Chinese speed" as what helps drive Chinese car competitiveness. The Japanese car companies reduced the development cycles of new models to 48 months in the past. The Chinese are pushing the boundaries to 24 months and this includes new digital operating systems which no one in the West, except Tesla, has figured out so far.

At the end of the day, the dramatic rise of China's EVs owes in no small measure to the country's aim of achieving a carbon peak by 2030, 50% electrification by 2035, and carbon neutrality by 2060. "CHINA 7" regulations, expected to be brought into effect by 2030, will drastically lower the permitted amounts of CO_2, NOx, and PM, leading to a shift in focus from ICE to EVs.

Andrew K P Leung

China's ever expanding technological capacity

The Economist of June 12 (2) reveals some game-changing realities, including:

- From 2022, China had surpassed both America and the European Union (EU) in the number of high-impact peer-reviewed scientific papers, according to data from Clarivate, a science analytics company, topping citations in material science, chemistry, engineering, computer science, environment and ecology, agricultural science, physics, and mathematics.
- Though the US and EU still retain top slots in molecular biology, space science, neuroscience, clinical medicine, and immunology, these areas are unlikely to be safe for long. For example, China is growing impressively in biological and health sciences.
- China now also contributes around 40% of the world's research papers on artificial intelligence (AI), compared with around 10% for America, and 15% for the EU and Britain combined. In areas like computer vision and robotics, China has a significant lead in research publications.
- There are now six Chinese universities or institutions in the world's top 10, and seven according to the Nature Index. Tsinghua is considered the number one science and technology university in the world.
- China excels in Applied Research, for example, in perovskite solar panels, producing more patents than any other country, helped by its unparalleled industrial base.
- China's scientific advance is demonstrated by its Chang'e-6 robotic spacecraft which promises to become the first mission to bring back samples from the hard-to-reach far side of the Moon.
- When it comes to basic, curiosity-driven research (rather than applied), China is still playing catch-up—the country publishes far fewer papers than America in the two most prestigious science journals, *Nature and Science*. America still spends around 50% more on basic research.
- However, China is spearheading applied research and experimental development in quantum technologies, AI, semiconductors, neuroscience, genetics and biotechnology,


Image: Freepik

regenerative medicine, and exploration of "frontier areas" like deep space, deep oceans, and Earth's poles.

- China's universities paid staff bonuses—estimated at an average of $44,000 each, and up to a whopping $165,000—if they published in high-impact international journals. Between 2000 and 2019, more than 6 million Chinese students left the country to study abroad. Since the late 2000s, more scientists have been returning to the country than leaving, partly attracted by state-of-the-art equipped labs in China and partly pushed by increasing suspicion and discrimination in Western countries. China now employs more researchers than both America as well as the EU.

The Economist piece tallies with the Australian Strategic Policy Institute's (ASPI) recent finding that China is leading in 37 of the 44 critical technologies, often producing more than five times as much high-impact research as its closest competitor, the US. Also, among the categories of critical technologies, China dominates in all the subsectors in artificial materials and manufacturing; energy and environment; and sensing, timing, and navigation with a substantial lead in all other categories.

These observations are supported by China's immense scientific manpower pool, according to George Town University's Center for Security and Emerging Technology (CSET). By 2025, Chinese universities will be producing more than 77,000 STEM PhDs per year compared to approximately 40,000 in the US. Further, excluding international students, Chinese STEM PhD graduates would outnumber their US counterparts by more than three hundred.

China's changing relationship with its trading partners

According to the McKinsey Global Institute report of July 1, 2019, the world's relative exposure to China had increased, while that of China to the world has fallen, largely as a result of China's technological upgrading and continuing expansion of productive capacities. This was confirmed by a research note (3) dated October 9, 2019 of Nataxis, a French bank, as follows:

"The world seems to have entered a deglobalization mode, at least as far as trade is concerned, well before the US-China trade war. The relatively small decoupling by China, at least as far as global value chains (GVCs) are concerned, can be explained by its increasing reliance on domestic inputs for production. Furthermore, the rest of the world is increasingly dependent on China's exports of intermediate goods for their exports. In essence, the world is now more linked to China than ever due to the integration of Chinese intermediates through the global value chain but meanwhile, China is rapidly becoming less dependent on the rest of the world's inputs."

Trade and geopolitical frictions

Among China's main trading partners, notably the US and the EU, manufacturing jobs have long been migrating to China and its related supply chain destinations, while related wages have stayed stagnant. This has been fueling a groundswell of anti-China sentiments, not helped by China's perceived problematic trade practices, relative lack of market access, as well as geopolitical rivalry, souring relationship between the two sides.

Unfortunately, these fractions are set to intensify with Donald Trump's triumphant return to the White House on a powerful ticket to 'Make America Great Again'.

He has lined up a top team of anti-China ultra-hawks and has vowed to impose 60% tariffs on all Chinese goods, along with high tariffs on America's allies, including 25% tariffs on Mexico and Canada. He thinks tariff is a beautiful American tool, potentially as a substitute for income tax.

Nevertheless, Donald Trump is by nature transactional. Tariffs are mainly a ploy to achieve desired outcomes, including bringing manufacturing jobs back. As Trump's trusted lieutenant, Elon Musk, with his massive Tesla EVs investment in China, could well be a pivotal bridge in brokering suitable Chinese manufacturing investments in the US, creating American jobs, including but not limited to EVs (for example, solar panels).

Indeed, China-owned foreign manufacturing operations are common in Africa and other parts of the developing world. During my London visit last year, I witnessed many black cabs (with a resemblance to the century-old black London taxis) bearing the mark LEVc (London Electric Vehicle Company in Coventry). Migration from 'Made in China', to 'Created in China', and now to 'Owned by China' could well turn out to be a healthy development creating win-win relationships with China's trading partners or adversaries.

China in 2025 and beyond

As the world's second-largest economy, China's growth rates can no longer be

compared with its much smaller size in the past. As a simplified analogy, it's easy to make 10% on ten dollars, but with an $18 tn economy, anything approaching 5% would appear acceptable, if not laudable. Witness the US' growth rates in recent years. However, China is also facing almost a perfect storm of worsening demographics, a massive burst property bubble, widespread youth unemployment, overhanging local government debt, sluggish domestic consumption, and unprecedented geopolitical headwinds from multiple directions.

Fortunately, Beijing has long prepared for these challenges and opportunities "not seen in a hundred years", according to President Xi Jinping's early warnings. Through a sustained process of self-reliant innovation, technological breakthroughs, "a circular economy" balancing exports with domestic services and consumption, ground-breaking economic connectivity both domestic (world's peerless high-speed rail network) and external (Belt and Road Initiative), China has been able to expand its global trade, technological uplifts, military capabilities, and global gravitas, both economic and diplomatic, global turbulence notwithstanding.

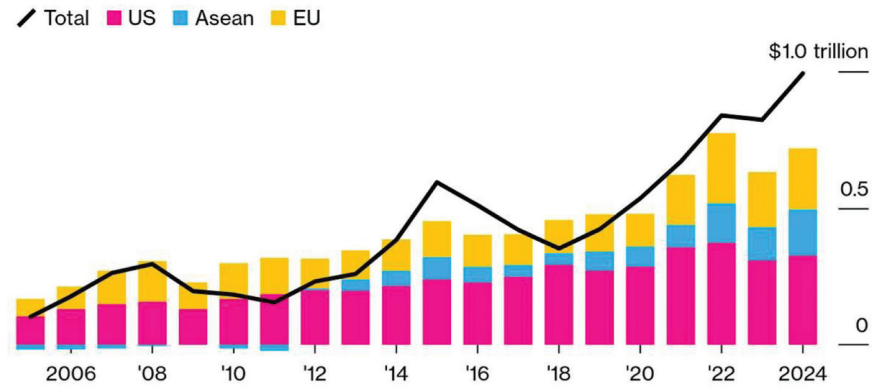
According to a *South China Morning Post* report, on the National Bureau of Statistics press conference on January 17, salient pointers for the past year and the way forward are as follows:

- China achieved 5% economic growth in 2024, meeting its annual target after stimulus measures boosted fourth-quarter growth to 5.4%.
- China's population fell for a third consecutive year in 2024, with a modest rise in new births outnumbered by deaths.
- Consumption slightly recovered, with retail sales of consumer goods growing 3.5% year-on-year, and 3.7% in December.
- The property market showed signs of stabilizing. Among the 70 large and medium-sized cities surveyed by the NBS, new home prices in first-tier cities edged up by 0.2%, their first increase since June 2023.
- Industrial output rose 5.8% in 2024, with expansion observed in tech manufacturing sectors such as new energy vehicles, integrated circuits, and industrial robots.
- China's surveyed urban unemployment rate was 5.1%, 0.1 percentage points lower than a year earlier, with the youth unemployment figure dropping by 0.4 percentage points in December, the fourth consecutive monthly drop.
- Officials expressed confidence in economic growth for 2025 but acknowledged challenges like insufficient demand, production difficulties for some businesses, and external hurdles.

Whilst by no means China economy is out of the woods as yet, it, nonetheless, seems to have dealt with its perfect storm of domestic and external challenges reasonably well. Several inbuilt strengths are now pitched against massive headwinds ahead—the top of it all, a transactional Trump 2.0 administration. Many twists and turns, including possible fireworks, smoke, and mirrors are on the cards, however, Beijing seems to be able to remain steady as it goes on a narrow and winding road towards its goal of national renaissance. ■

China's Surplus Continues to Soar

Frontloaded demand from US only explains part of the surge

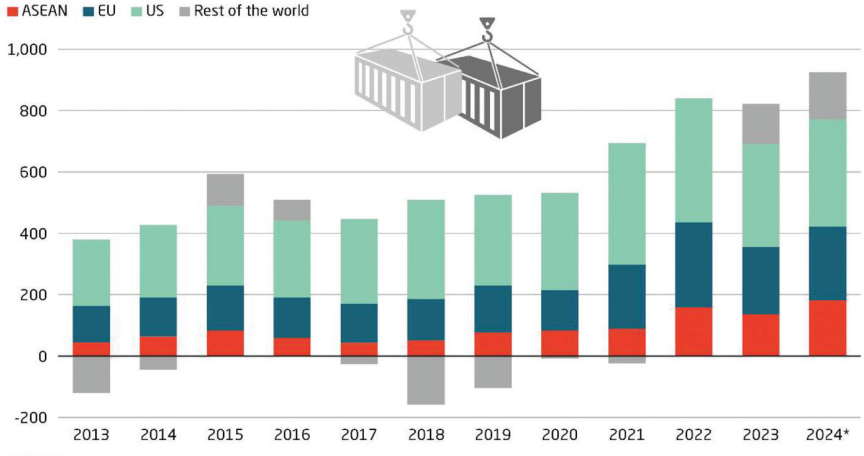


Source: China's General Administration of Customs

Bloomberg

China's Record Trade Surplus is a Global Challenge

Trade balance by trading partner, in US$ billion



*MERICS estimate

Source: General Administration of Customs

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