

## As China's Trade Surplus Grows, ATF Openness Indicator Drops

### Indicator Change

December 2006: 57.7

June 2006: 62.5

Period-to-period change: -7.7%

December 2005: 61.5

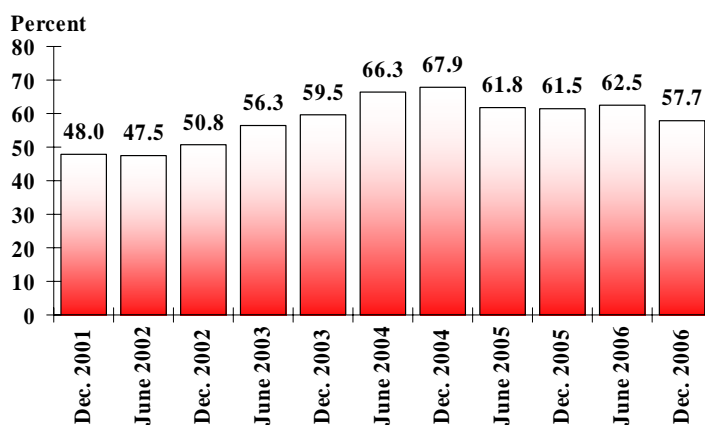
Year-to-year change: -6.3%

Please [Click here](#) to download the chart.

### Highlights

China's Adjusted Trade and Financial Openness Indicator dropped to 57.7 in December 2006, down from 62.5 in June, indicating a greater degree of imbalance in trade and cross-border investment. A traditional measure of openness (which does not adjust for the degree of trade imbalance) increased from 80.3 to 84.1 over the same period. The divergent movements reflected the increasing overall trade and investment imbalance.

China's ATF indicator score



### Analysis

Although China's combined exports and imports of goods increased by 12 percent, exports grew more rapidly, which contributed to the growing trade imbalance. At the same time, foreign direct investment rose at a slower pace than GDP for the first time since 2001, which also played a factor in lowering the indicator value.

### Methodology

The Adjusted-Trade and Finance Indicator consists of two sub-categories: a trade flow measure and a financial flow measure. The trade flow measure includes the ratio of exported goods to GDP, the ratio of imported goods to GDP, the ratio of exported services to GDP, and the ratio of imported services to GDP. The financial flow measure includes the ratio of portfolio inflow to GDP, the ratio of portfolio outflow to GDP, the ratio of FDI inflow to GDP, and the ratio of FDI outflow to GDP. These ratios are adjusted so that each component reduces the indicator score whenever it is in imbalance. In other words, the overall indicator score will decrease as the degree of imbalances increases.

### Xinhua Finance/Milken Institute China Indicators

The Xinhua Finance/Milken Institute China Indicators provide investors, analysts, and financial professionals insight into China's money and capital markets. Five of the eight indicators have been launched since November 2006: the Renminbi Pressure Indicator, the Chinese IPO Indicator, the Market Adjusted Debt (MAD) Indicator, the Banking Strength Indicator (BSI), and the Adjusted Trade and Finance (ATF) Indicator. The remaining three indicators (the China M&A Indicator, the China Privatization Indicator, and the China Corporate Governance Indicator) will be launched later this year.

### Period Coverage and Frequency

The indicator covers the period beginning with the data for year-end 2001 and is updated on a semiannual basis.

### Sources of Data

The historical data used in the construction of this indicator are provided by CEIC and the IMF.

To view additional information, visit [www.xinhuafinance.com/indicators](http://www.xinhuafinance.com/indicators) and [www.milkeninstitute.org/chinaindicators](http://www.milkeninstitute.org/chinaindicators).

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