Continuing trade recovery

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Rising costs for China's exports seem inevitable, because of growing concerns over the environment and natural resources

According to the World Trade Organisation, China's share of global exports rose to 9.6 per cent by value in 2009. China replaced Germany as the biggest exporter. However, this was achieved in the context of the global economic downturn. China's foreign trade actually decreased 13.9 per cent last year. The fall was the first in 11 years and the biggest drop since 1978, when the country embarked on its reform and opening.

This year exports and imports are expected to continue recovering. The first half saw robust growth. Total foreign trade went up 43.1 per cent year on year, exceeding expectations. The value was 9.6 per cent more than the corresponding figure for 2008, when the economic crisis was beginning to unfold.

Ministry of Commerce (MOC) spokesman Yao Jian said this did not warrant optimism in the second half. On several occasions this year, Commerce Minister Chen Deming called for caution in estimating "recovery growth." After all, the impressive growth of the preceding months was measured against recession-related low base figures. Demand for stock replenishment and rushed exports in anticipation of changes to the export tax rebate policy were major factors. Analysts said exports growth would probably slow in following months and the trade surplus would fall.

In a report released in August, the State Information Center (SIC) predicted the country's total exports would grow 24.5 per cent for the whole year. Imports were likely to climb 33.6 per cent and the trade surplus would fall to around US$153.1 billion.

The performance in the first half was credited to the picking up of economies at home and abroad. Demand and consumption grew gradually on the international market and the domestic market proved fairly strong. Procurement for inventory replenishment was a major impetus for exports growth. The total value was driven up by price rises of major bulk imports such as crude oil, up 30.2 per cent by volume and 113.1 per cent by value.

In March imports out-valued exports by US$7.24 billion, resulting in the first monthly deficit since May 2004. The deficit was modest, just 3.1 per cent of total trade. The first six months ended with imports growing (52.7 per cent) faster than exports (35.2 per cent), resulting in a smaller surplus, setting the scenario in months to come. The proportion of exports to 'new' economies such as ASEAN, South Africa, Russia and Brazil grew, while those to the United States and Japan shrank, indicating efforts to diversify export destinations had paid off and dependence on the developed Western market eased. However, exports to the three major partners, the European Union included, still accounted for 45.5 per cent of the total.

Conventional trade in the first half grew faster than the total by 3.4 percentage points. Its share of the total value climbed 0.5 points, while that of processing trade fell 0.8 points. The figures are an indication that measures for optimising trade forms are taking effect. More than ever before, the Chinese are alert to the fact that by accommodating numerous processing operations, they earn a very small proportion of the profit, but take the blame for huge trading figures. A case in point was the HP computer. For every HP notebook sold for US$1,000 on the US market, a survey conducted by the Shanghai Customs found, the Chinese company received US$30.30 as a processing fee, while the US company gained US$169.60.

Rapid growth of energy-intensive and highly polluting exports was an embarrassing, dark side of trade in the first half. Exports of steel blocks and crudely forged steel pieces, for instance, surged 1,322.7 per cent year on year. This was caused by over-capacity and an anticipation of related policy changes. Such industrial lines have since been discouraged as highly polluting, counter to the government's efforts to reduce energy consumption per unit of GDP, and endangering sustainable social development.

On 15th July, the government terminated the export tax rebates on 406 items, including such steel products. Looking ahead, the global economy shows hope of a continued recovery. A wide spectrum of goods, from primary goods and non-durables to durable consumer goods and investment products, are being traded vigorously on the international market. Prices of bulk commodities are expected to stabilise too. Many international institutions have revised up their expectations. A WTO report released in March predicted that global trade would have a powerful rebound of 9.5 per cent in 2010, after the biggest fall in 70 years. Exports by developed countries are estimated to rise 7.5 per cent collectively and from other nations by 11 per cent.

The situation augurs well for China's exports. But many unpredictable elements exist. The overseas demand is threatened by lingering low employment rates in many Western countries. The early withdrawal of stimulus policies by some of those countries is also a concern. The impact of sovereign debt in some European countries gained media attention when SINOSURE Fujian Company said in August that its handling of cases involving exports to Southern Europe and the amount of claim payments grew markedly. Trade disputes are rife. The MOC announced in August the reinstatement of China International Trade Representatives Office, headed by three MOC deputy ministers. Part of its express mission is to handle international trade disputes.

China's GDP growth was targeted at 9.5 per cent this year, close to the average for the past three decades. Steady demand for imports could be expected. But, in the second half, demand is likely to fall as delayed demand from stock replenishment dwindles, new investment declines, and the rush to export energy-gorging and highly-polluting products stops with the end of tax rebates.

Rising costs for China's exports seem inevitable, because of growing concerns over the environment and natural resources. Labour shortages earlier this year led 14 provincial regions to raise minimum wages by an average of 20 per cent. Strikes for higher pay and better conditions gained much media attention, and the government is reportedly conceiving a new income redistribution scheme that allows all people to share the fruits of the reform and opening policy. Growing labour costs could impair exports, but more money in workers' pockets could also boost spending. Considering that the base figures of 2009 grew in the third and fourth quarters, many analysts are expressing cautious optimism over the trade performance in the second half.

The SIC report said imports growth would slow to about 19.3 per cent on average for the rest of the year, with the lowest figure in the last quarter. Exports growth would be close to 16.3 per cent on average, with the mix of products improved. The second half might add about US$ 97.8 billion to the trade surplus, slightly more than the first half. Exports to established markets would be steady or slower, and the proportion of exports to new markets would continue to grow.

"The environment for China's foreign trade has many unpredictable elements. Steadiness and perfection will be the key note of government policy in the second half," Deputy Commerce Minister Jiang Yaoping said at an international fair in Beijing in August.

The trial practice of settling cross-border trade with the Chinese currency could be expected to continue. The scope would be broadened for RMB currency swap agreements. Export credits would be increased and export insurance would have wider coverage. China would maintain a relatively stable RMB exchange rate. Other trade-related policies for financing and taxation would remain largely unchanged and efforts to facilitate trade operations would continue.

The principal guideline on foreign trade set out by the government in December 2009 was to "probe the market, adjust structure, and promote balance." Official media called for adherence to the principle and implementation of the measures without compromise.

In April the MOC released its *China's Foreign Trade Development Strategy in the Post-Crisis Era* report, which stated clearly the goal of making the country a strong trading power by 2030. Specific targets for the year 2020 were a total trade value of US$5.3 trillion, breaking down to US$4.3 trillion in goods and US$1 trillion in services. China is expected to own a host of multinational corporations and world-class brands, and to play a leading role in setting up international trade rules and deciding on prices of commodities.

On the same occasion in April, Deputy Commerce Minister Zhong Shan said the financial crisis was a blow to foreign trade. It was also a push to altering trade modes. It would help China achieve this strategic goal. F

Many analysts are expressing cautious optimism over the trade performance in the second half of 2010

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Mawei Port in Fuzhou City, east China's Fujian Province