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Recent trends in China's trade

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Preface

NZIER is a specialist consulting firm that uses applied economic research and analysis to provide a wide range of strategic advice to clients in the public and private sectors, throughout New Zealand and Australia, and further afield.

NZIER is also known for its long-established *Quarterly Survey of Business Opinion* and *Quarterly Predictions*.

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Authorship

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1. Introduction

Who would have thought thirty years ago China could become one of the world's most influential trading nations? At that time the Chinese government was reluctant to open up its door for foreigners and the country was barely self-sufficient in providing clothing and food for its own citizens. Today, we often see "made in China" in our daily life and read news features on China's expanding influence on world trade.

China's recent rapid economic development and trade record are capturing great attention at home and abroad. According to the World Trade Organisation, China was the fourth-largest merchandise trader in 2002, if the European Union was counted as a single unit.[1]

A series of successful economic reforms has invigorated China and made it dynamic and unlocked its potential. The economy has grown at a phenomenal pace, averaging an annual growth rate of 9% over the last two decades. China has also grown to become a key player on the international trade platform. With relatively low-cost labour, a strong desire to enter global markets and better foreign access to Chinese markets, China's trade is contributing to its overall economic growth. In 2004, China's imports and exports in goods and services equated to three quarters of its GDP.

People are interested to know how much China has been exporting and importing, what is the composition of its trade, whom is it trading with and to what extent. The purpose of this brief report is to familiarise readers with these matters by depicting recent trends in China's trade, with a focus on merchandise trade in particular.

The report is organised as follows. Section 2 has the recent trends in China's commodity trade and its composition, followed by Section 3 on service trade. Section 4 describes the direction of trade in terms of export destinations and ranking of "who's who" in China's top trading partner list. Finally, Section 5 provides a summary and conclusion. All the data are in current US dollars.

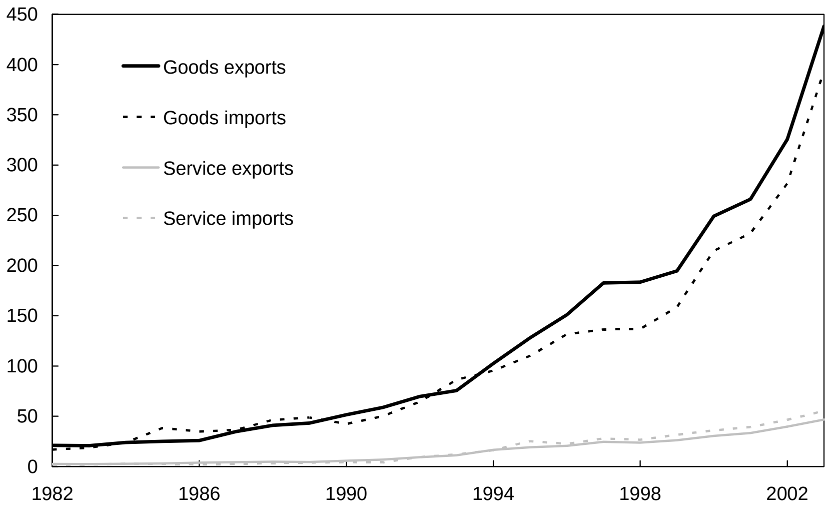
[1] *International Trade Statistics 2003*, World Trade Organisation. Web link accessed on 19 January 2006: www.wto.org/english/res_e/ statis_e/its2003_e/its2003_e.pdf

2. Merchandise trade

Merchandise trade takes up the majority of China's trade. On average, between 1970 and 2004, merchandise trade accounted for about 93% of total trade in goods and services. Between 1992 and 2004, the average growth rate of the total value of China's merchandise trade was 17.6% per year. This followed annual average growth of 11.7% and 22.8% in the 1980s and 1970s, respectively.

Figure 1 Trade in goods and services

Current US$ billion

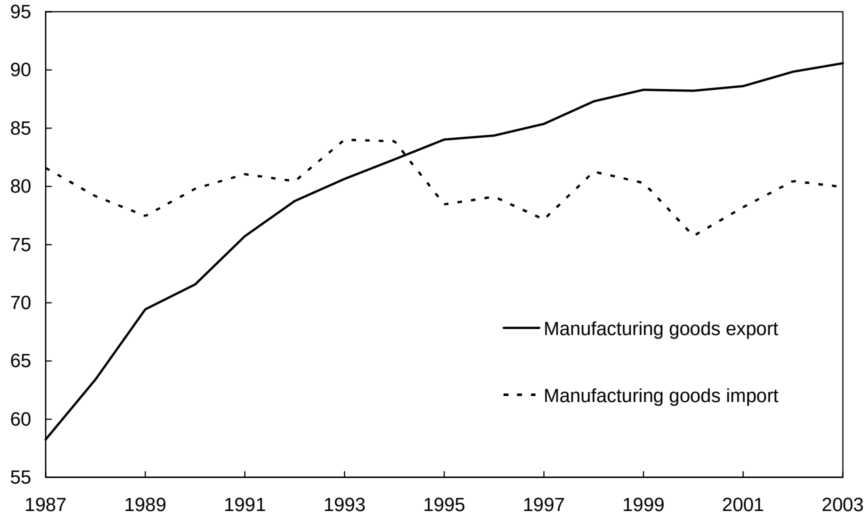


Source: World Development Indicators, World Bank

Figure 2 shows exports and imports of manufacturing goods expressed as shares of merchandise trade.

Figure 2 Manufacturing goods trade

% of merchandise export and import



Source: World Development Indicators, World Bank

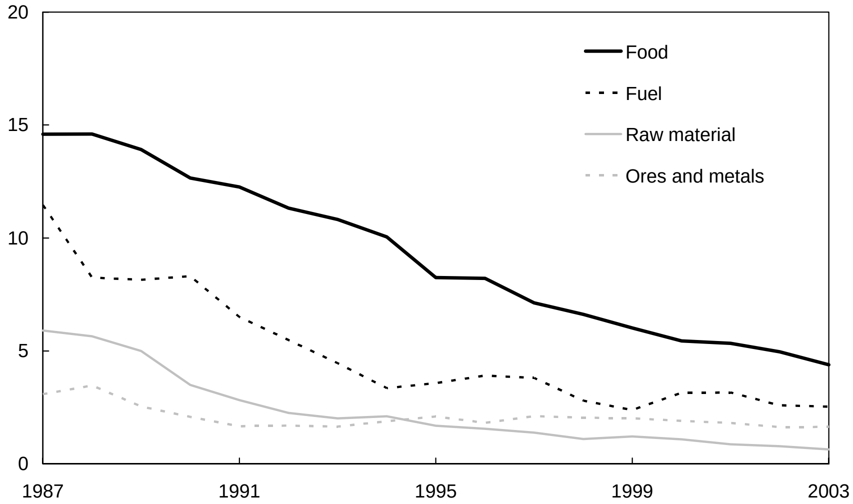
Manufacturing goods, including chemicals, machinery and transport equipment, basic and miscellaneous manufactured goods, comprised on average approximately 80% of merchandise imports. There is a discernable upward trend in manufacturing goods exported, whereas the trend is relatively constant in import figures.

Data availability has placed limitations on describing the composition of manufacturing goods imported. We do not have all the information on which sub-category is driving the popularity of Chinese manufacturing goods in foreign markets. Nevertheless, we have observed the remarkable progress in China's exports in textile goods and garments. Prior to China's accession to the World Trade Organisation, exports of textile and garments reached US$6.77 billion in 2000, an annual growth of 44.6% from 1999.[2] This level of growth was due to a low starting point and the resilient demand from the international market.

While manufacturing goods became an increasing share in merchandise exports to overseas, shares in some non-manufacturing goods are not growing as fast (see Figure 3). In absolute terms, though, non-manufacturing goods exports have been growing fast in recent years, reaching over US$40 billion in 2003, up 25% from 2002.

[2] Source: Statistics by China Customs, People's Daily, April 15, 2000.

Figure 3 Non-manufacturing goods merchandise exports
% of merchandise exports



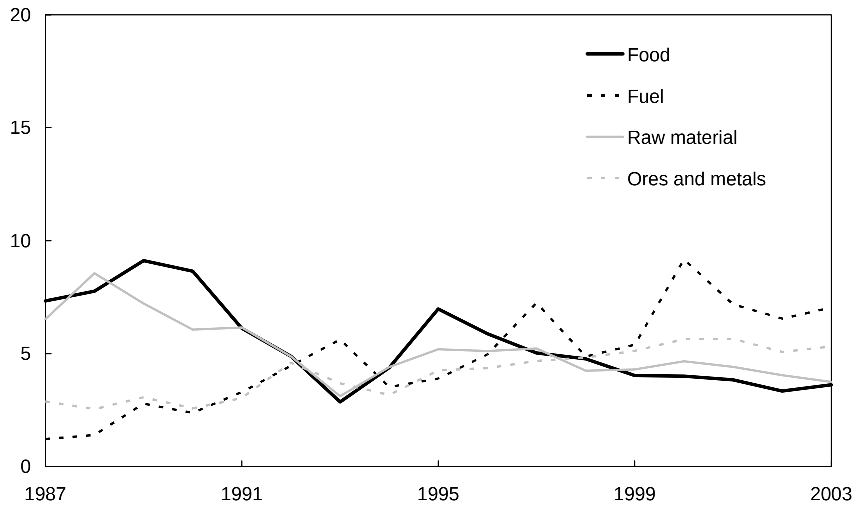
Source: World Development Indicators, World Bank

Figure 4 shows the composition of non-manufacturing goods in merchandise imports. While proportionally less food, fuel and raw material were contributing to merchandise exports, there has been a mix of patterns in the imports. One of the major features of non-manufacturing imports is the cyclically increasing share in fuel imports.

China's fuel imports reached over US$29 billion in 2003, a more than 50% increase from the US$19 billion in 2002. Its huge appetite for fuel has not only triggered its increase of imports but also distortions in the world oil market. Fingers were pointing to China's exploding demand for partially causing the recent fuel price surge.[3]

[3] There were certainly other factors contributing to the price hike, for instance, tensions in the Middle East, OPEC's production-cut strategy, insufficient refinery capacity and US's rising demand.

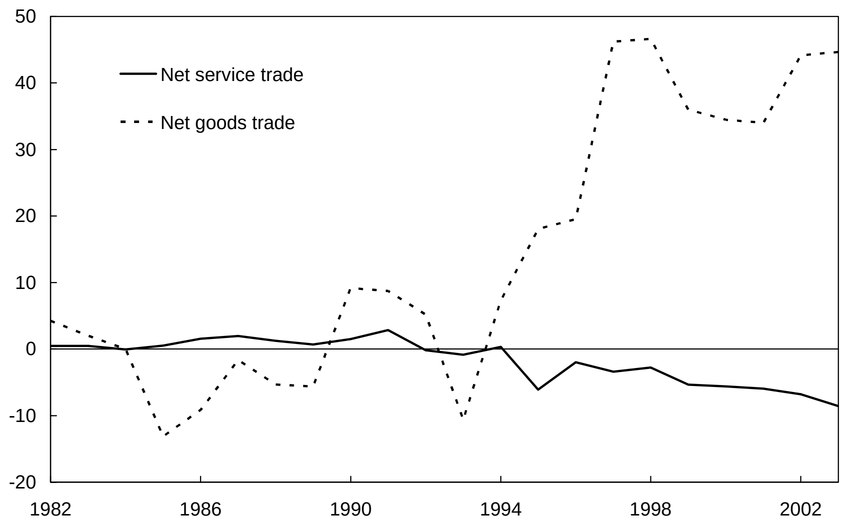
Figure 4 Non-manufacturing goods merchandise imports
% of merchandise imports



Source: World Development Indicators, World Bank

3. Commercial service trade

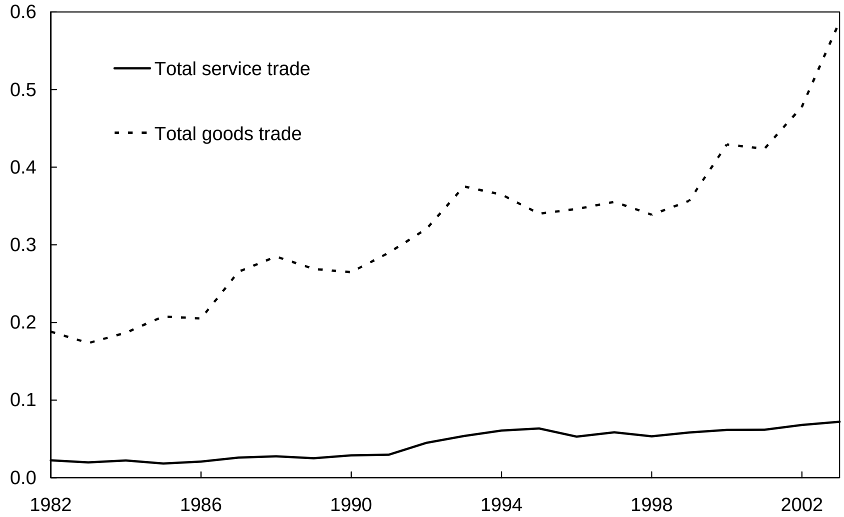
Figure 5 Service trade balances
Current US$ billion



Source: World Development Indicators, World Bank

While net trade in goods is flourishing, China's service trade balance has not been improving as much. Between 1982 and 1994, what was earned from service exports was just able to cover what has been paid to service imports. However, since 1995 the break-even stopped and red figures continuously show up in China's balance of payments.

Figure 6 Trade measured as % of GDP



Source: World Development Indicators, World Bank

One of the issues associated with China's service trade is that it concentrates mainly on fields that embody a relatively low level of technology, for example, tourism, transportation and freight services. It is still far behind in technology oriented or knowledge based industries such as education, consultancy, insurance and financial services. The increased need for importation of technology based services is expected to contribute to further deterioration in the service trade deficit.

Take computer and communications services for example. Computer and communications services are defined by the World Bank to include activities in international telecommunications, postal and courier services, computer data, royalties and license fees, miscellaneous business, professional and technical services. Table 1 shows how much China's needs for imported computer and communications related services has expanded during the last two decades.

Table 1 Computer and communications service import

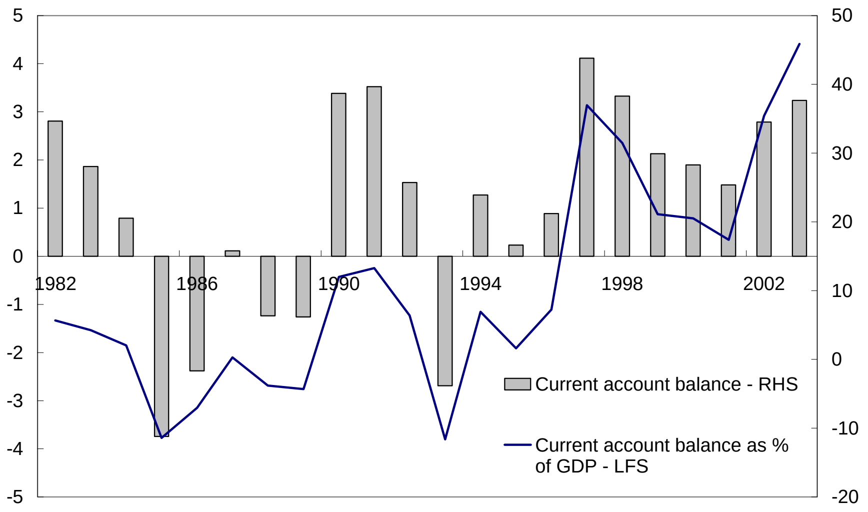
	1983	1993	2003
Share in service imports (%)	6	36	44
Value (current US$ million)	324	2,925	16,635

Source: World Development Indicators, NZIER

4. Direction of trade

Figure 7 China's current account balance, 1982-2003

LHS: percent. RHS: current US$ billion.



Source: World Development Indicators, World Bank

China has maintained a surplus in goods and services trade over the last decade. China's General Administration of Customs reported a growth of 28.4% in China's exports for the year 2005, hitting US$762 billion, while imports rose by just under 18% to US$660.12 billion. This means a more than tripled trade surplus for 2005, at US$102 billion, following a surplus of US$32 billion in 2004.

Table 2 China's top 10 export markets in 2005

US$ billion

Rank	Country/Region	Jan.- Aug.	Increase ±%
	Total	410.9	32.2
1	USA	101.8	32.8
2	EU	90.7	38.7
3	Hong Kong	73.9	21.9
4	Japan	54.2	19.9
5	ASEAN	35.6	37.6
6	ROK	22.6	35.2
7	Taiwan	10.5	28.9
8	Russia	7.5	55.3
9	Canada	7.3	44.8
10	Australia	6.8	29.7

Source: Ministry of Commerce, People's Republic of China

New Zealand has been an active trade partner with China in recent years. The latest figures on China's exports to and imports from New Zealand are

NZ$3.67 billion (US$2.64 billion) and NZ$1.55 billion (US$1.12 billion), respectively,.[4]

China's key export products to New Zealand include textiles, clothing, footwear, electronic goods and other manufactured products. China's key import products from New Zealand include dairy and other agricultural products.

Table 3 lists "who's who" on China's top ten trading partners in 1999. Table 3 also ranks these trading partners by values of exports in that year so that a comparison can be made in terms of changes in China's exports to its major trading partners during the last half decade.

Table 3 China's Top 10 Trading Partners in 1999

US$ billion

Rank by total trade	Country & Region	Import & Export	Export	Import	Rank by export
	Total	319.5	172.1	147.4	
1	Japan	66.2	32.4	33.8	3
2	USA	61.5	42.0	19.5	1
3	EU	55.7	30.2	25.5	5
4	Hong Kong	43.8	36.9	6.9	2
5	ASEAN	27.1	12.2	14.9	4
6	ROK	25.0	7.8	17.2	6
7	Taiwan	23.5	4.0	19.5	7
8	Australia	6.3	2.7	3.6	8
9	Russia	5.7	1.5	4.2	10
10	Canada	4.7	2.4	2.3	9

Source: People's Daily, 20 January 2000

The U.S. was China's top export destination in both 2005 and 1999. In fact, the U.S. has had China as its largest trading partner by value of deficit since 2001. According to the U.S. Consensus Bureau, the U.S.'s trade deficit with China grew from US$83 billion in 2001 to $185 billion in 2005. The deficit with China has been growing at an average rate of 22% since 2001. China was ranked at the third place by total trade with the U.S. in 2005, valued at US$261 billion, following Canada (US$456 billion) and Mexico (US$266 billion) which were first and second, respectively.

The European Union (the EU) was the fastest among the ten to climb up the ladder from China's fifth largest export recipient in 1999 to the second six years later. The EU-China trade went from a surplus in the 1980s to a deficit of €78 billion in 2004, the EU's largest trade deficit with any partner.

[4] Data source: Statistics New Zealand, New Zealand External Trade Statistics June 2005. Note that these numbers are provisional at the time this paper is being written. The export data includes insurance and freight costs and the import data is Free On Board.

5. Conclusion

The "rise of China" in world trade has been exceptional. What has been even more exceptional is the potential that China brought to other nations around the globe, with a huge, cheap workforce and an "open to trade" policy.

This report has presented readers with a broad picture of China's commodity trade. Data showed that on average total merchandise trade has been growing at a double-digit rate over the past four decades and its composition has changed significantly as well. In merchandise exports, which has been surpassing merchandise imports since the mid-1990s, there have been continuously increasing shares in manufacturing goods and decreasing shares in non-manufacturing goods such as food and raw materials. In merchandise imports, the movements in component contribution were cyclical rather than monotonic as in merchandise exports.

The report also provided a snapshot of the top ten destinations for Chinese exports in 2005. For comparison purposes, a table of trade numbers with China's top ten trading partners is also summarized as to give readers a sense of by how much China's trade has grown within the last few years.

While China is creating immense opportunities, it also brings new risks. Data shows that trade balances with China for many countries have been negative and the trends appear to suggest they will become increasingly negative. These deficits, to some extent, reflect the effect of market access barriers. Such barriers are reported to mainly include bureaucratic procedures, human resources, price control, discriminatory requirements and restrictive regulations.[5]

[5] Sources: *White Paper 2000* issued by China American Merchants Association and *The EU's China Policy* by EUROPA, visit http://europa.eu.int/comm/external_relations/china/intro/