

International Trade and Development in China

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Research Objectives

1. Introduction to Chinese Economy
2. The Development of International Trade
 - a. Trend of Exports and Imports;
 - b. The Structure of Exports and Dynamic Changes of Comparative Advantages;
 - c. China's major trading partners;
 - d. China's Processing Trade.
3. Export Promotion Policies
 - a. Decentralization;
 - b. Incentives (foreign exchange retention system, tax rebates, etc.)
 - c. Special Economic Zones;
 - d. Promoting export-oriented FDI;
 - e. Trade liberalization.

Research Objectives

4. The Evolution of China's Exchange Rate Regime

- a. Yuan's Devaluations and Revaluations since 1980;
- b. Yuan's Devaluation and China's trade balance;
- c. Yuan's Devaluation and FDI inflows.

5. FDI and Trade Nexus

- a. The contribution of FDI to China's Exports;
- b. The contribution of FDI to China's Hi-tech exports and the structure change of China's exports.

6. Export-led growth strategy and external shocks

- a. Chinese Economy and the Asian Financial Crisis in 1997;
- b. Chinese Economy and the global financial crisis in 2008.

1. Introduction to Chinese Economy

2008 marks thirty-year's anniversary of China's economic reform;

China adopted the **export-led economic growth strategy** from the beginning of the economic reform.

- GDP growth Rate: 10% annually on average from 1980-2008;

- In 2008

China's GDP: 30 trillion Yuan/\$4.38 trillion (\$1=6.84 Yuan), the third largest in the world;

GDP per capita: \$3300;

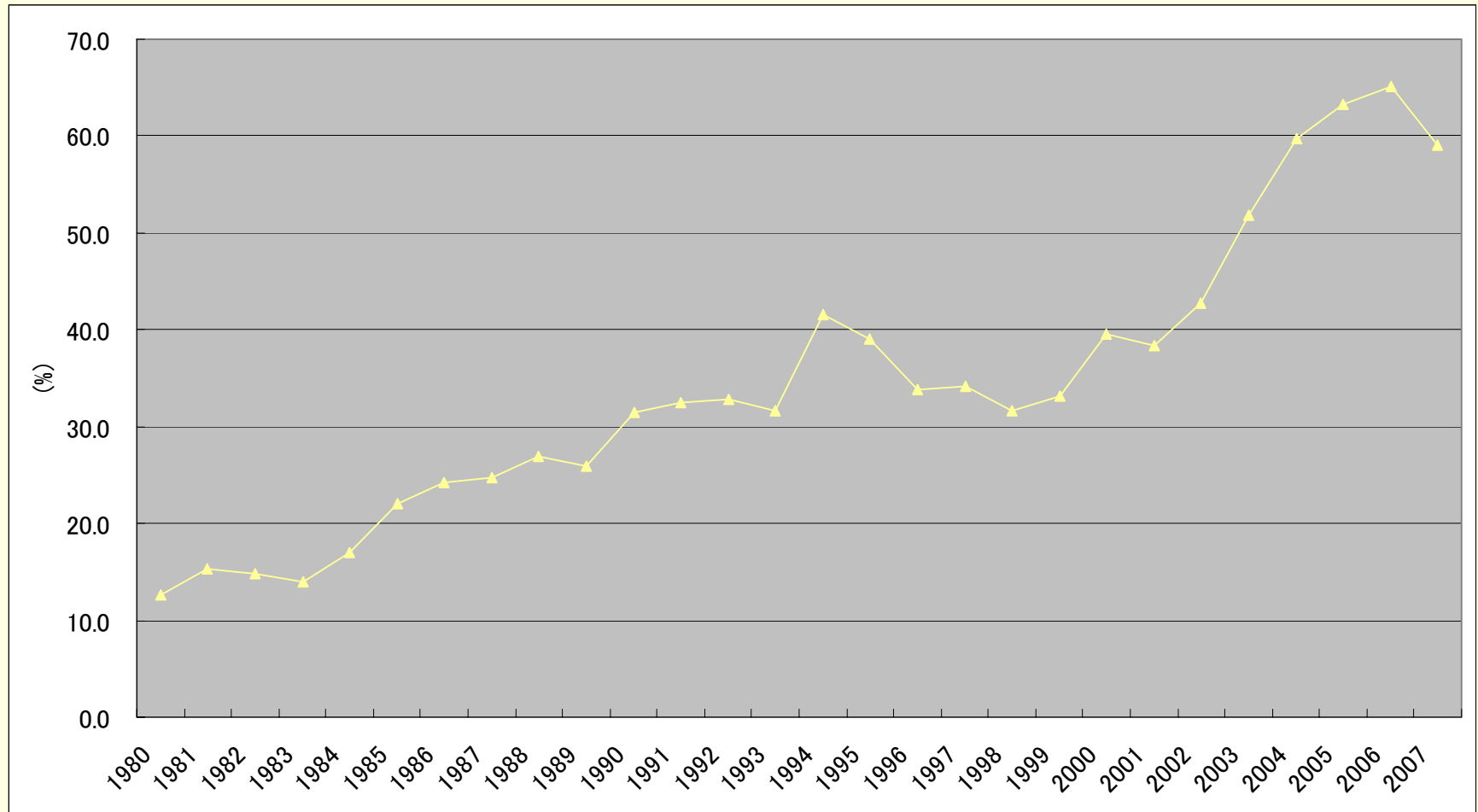
Total trade: \$2.56 trillion, the third largest trading economy in the world;

Foreign Exchange Reserve: \$1.95 trillion, the largest in the world;

2. The Trends of China's Export and Import (\$Billion)



3. The Importance of Trade to Chinese Economy (Trade/GDP)



4. China's Major Trading Partners (in 2008)

Market	Exports		Imports	
	Value (\$Billion)	Share (%)	Value (\$Billion)	Share (%)
EU	292.9	20.5	132.7	11.7
USA	252.3	17.7	81.4	7.2
Hong Kong	190.7	13.3	12.9	1.1
Japan	116.1	8.1	150.7	13.3
ASEAN	114.1	8.0	117.0	10.3
Korea	74.0	5.2	112.2	9.9
Russia	33.0	2.3	23.8	2.1
India	31.5	2.2	20.3	1.8
Taiwan	25.9	1.8	103.3	9.1

5. The Dynamic Comparative Advantage I: China's Top Exports in 1994

SITC	Commodities	Value (\$billion)	Share of Total export (%)
843	Womens Outerwear nonknit	6.46	4.79
851	Footwear	5.99	4.44
894	Toys, Sporting goods, ect.	5.48	4.06
842	Mans outerwear not knit	5.48	3.94
845	Outerwear knit nonelastc	3.93	2.91
764	Telecom eqpt, pts, acc nes	3.49	2.59
652	Cotton fabric, woven	3.08	2.29
848	Headgear, nontxtl clothng	2.65	1.96
846	Under garment knitted	2.62	1.94
831	Travel goods, handbages	2.62	1.94

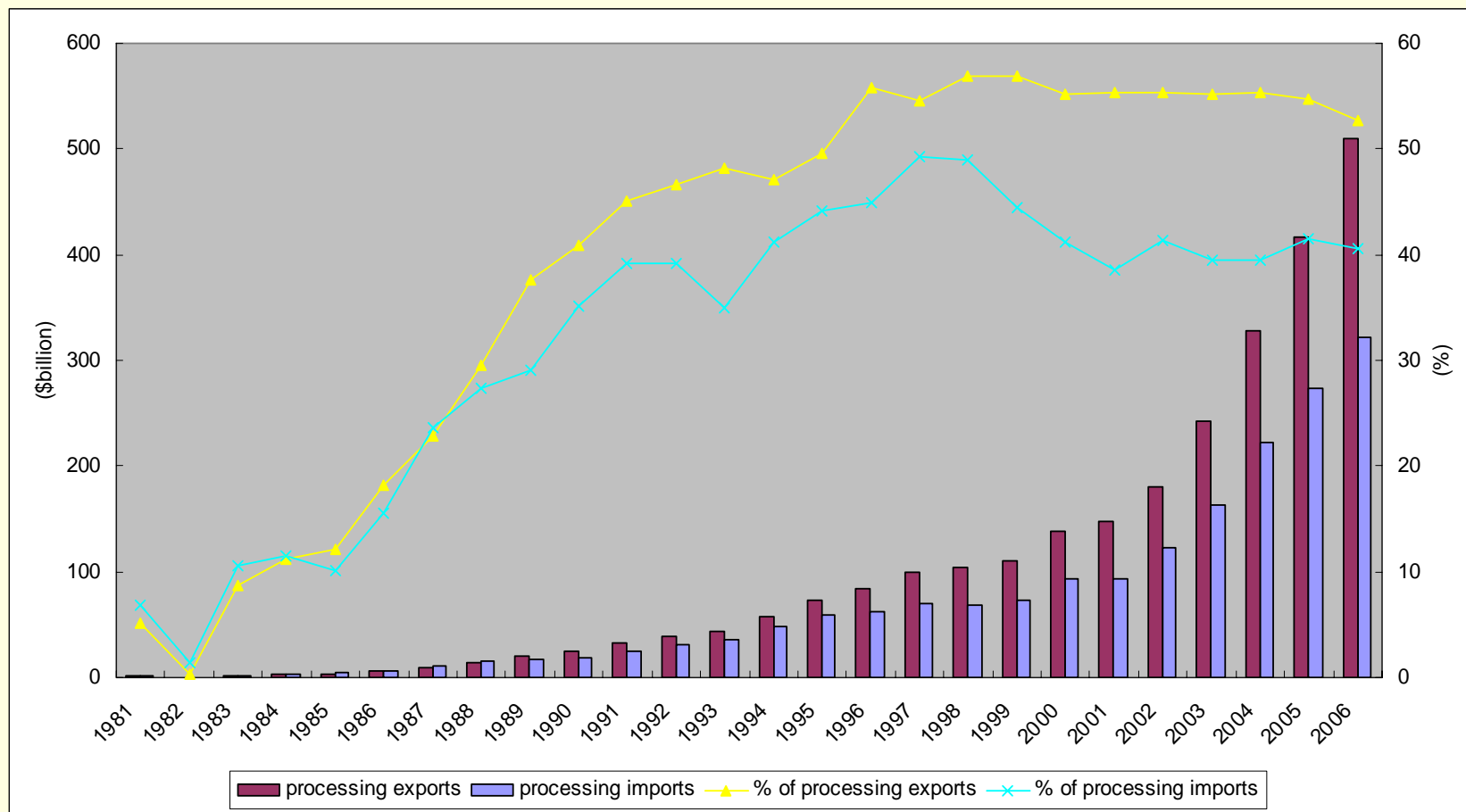
Sources:
UNCOMTRADE and the
author's calculations

6. The Dynamic Comparative Advantage II: China's Top Ten Exports in 2004

SITC	Commodity	Value (\$billion)	Share (%)
752	Auto. Data Processing Machine	87.1	14.7
759	Parts for Office Machine	68.5	11.6
764	Tele. Equip. and Parts	61.9	10.4
845	Outerwear	59.5	10.0
894	Baby Carriage, Toys, Games	38.3	6.5
776	Transistors, valves	33.4	5.6
763	Sound recording or reproducing apparatus	20.9	3.5
851	Footwear	19.9	3.4
778	Electric Mach and Parts	16.4	2.8
842	Women, girl clothes	15.2	2.7

Sources:
UNCOMT
RADE and
the
author's
calculation

7. Processing Trade: An Unique Characteristics of China's foreign Trade



8. Export Promotion Policies

- Decentralization;
- Incentives:
 - foreign exchange retention system;
 - tax rebates;
- Trade Instruments:
 - tariff reduction/exemptions for imports used for exports;
- Special Economic Zones;
- Promoting export-oriented FDI;
- Exchange Rate Policy;
- Trade Liberalization (Reciprocal Principle, WTO)

9. Making Exchange Rates Right

- Chinese Yuan was artificially overvalued before 1994. For instance, \$1=1.78 Yuan in 1980;
- The Chinese government devalued Chinese Yuan a few times, by Nov. 1994, \$1=8.7Yuan;
- The exchange rate regime has been reformed from fixed to managed floating, from simply pegging to the US dollar to a basket of currencies.

10. The Impact of Yuan's devaluation on China's Exports

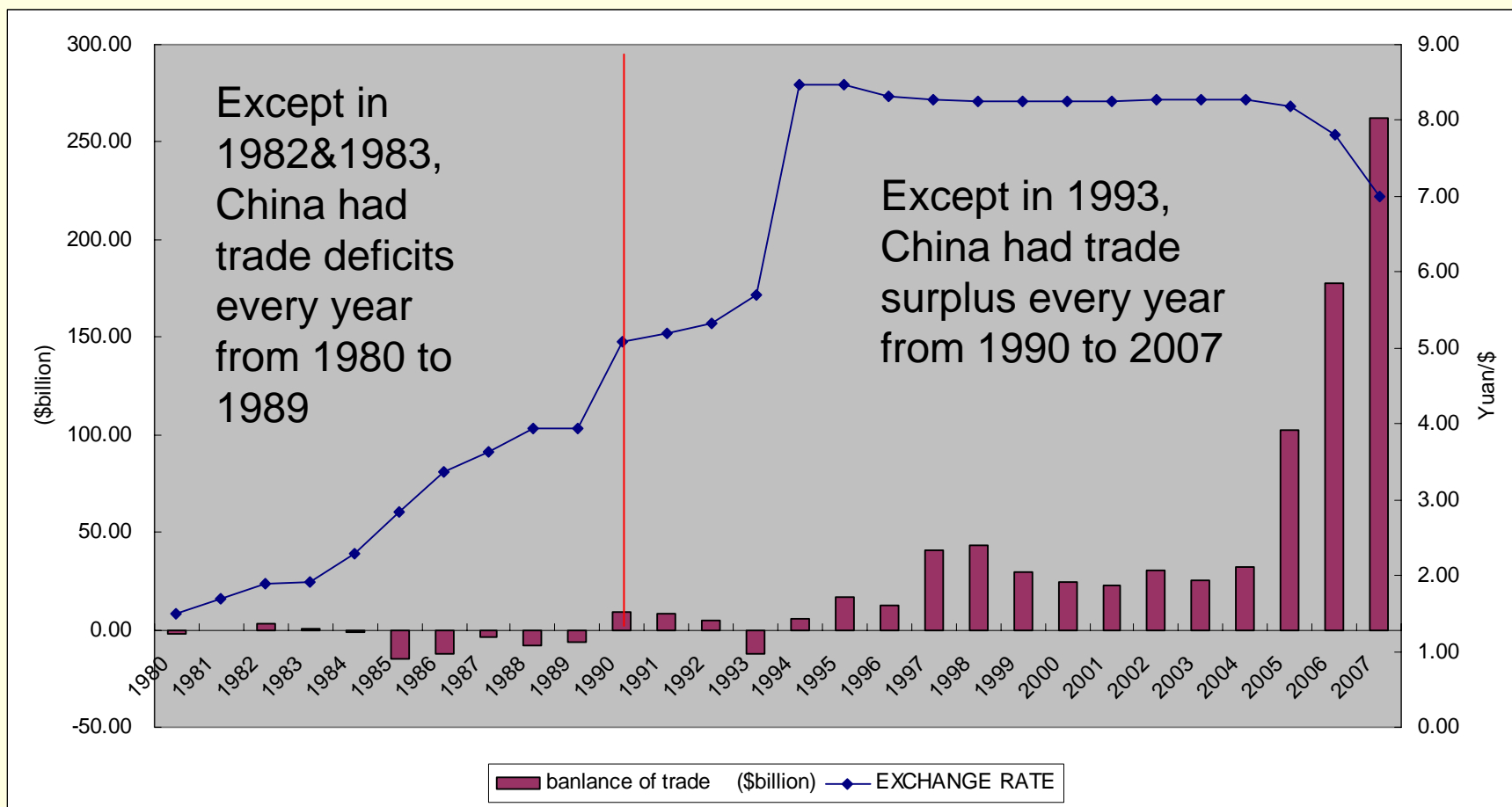
The cumulative devaluation enhanced China's export growth through two channels:

Direct Channel: devaluation → made-in-China products cheaper/more competitive → more exports;

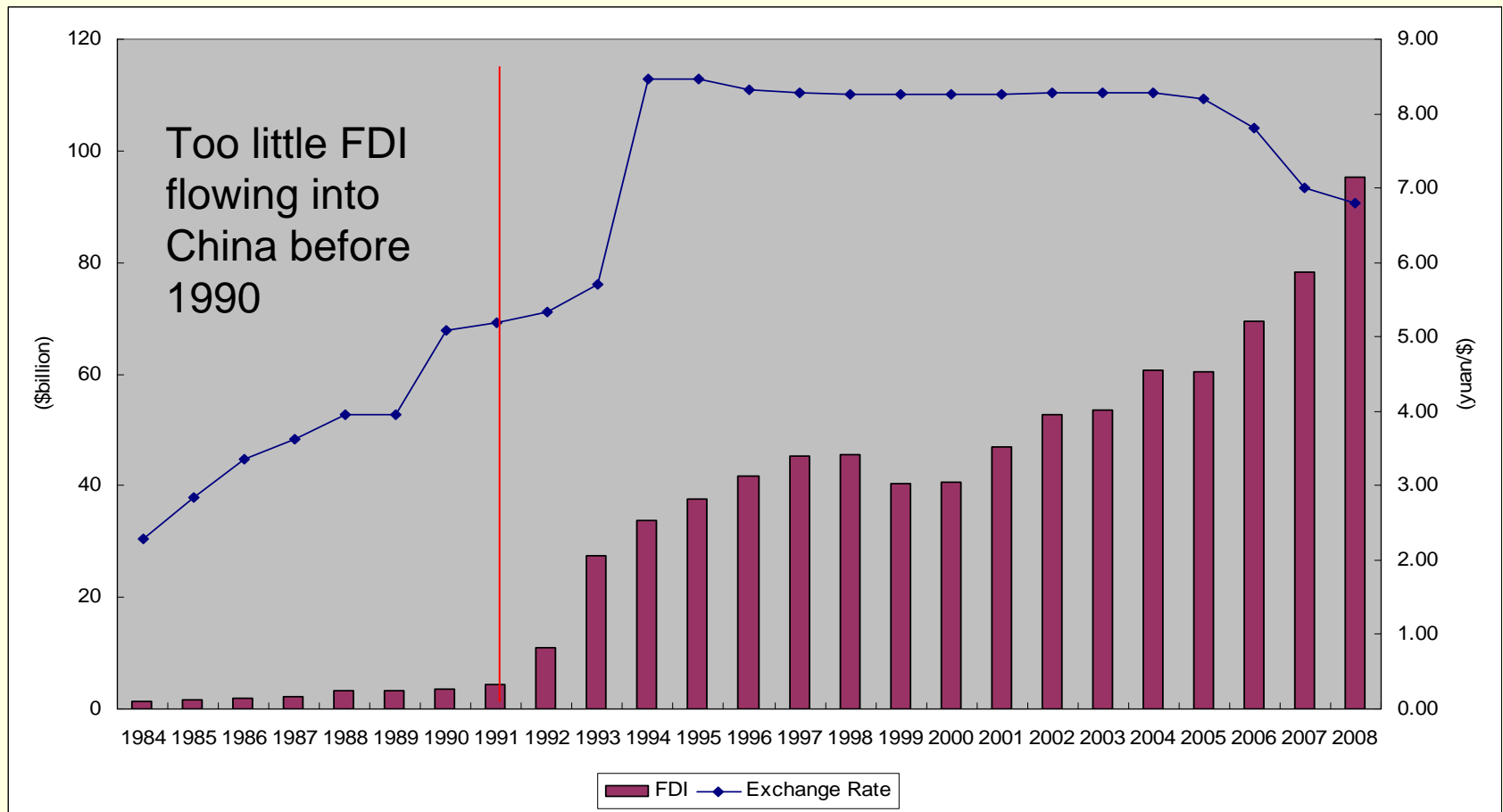
Indirect Channel: devaluation → more inflows of export-oriented FDI →

The Indirect Channel played a more important role in promoting China's exports.

11. Yuan's Devaluation and China's Trade Balance: 1980-2007



12. Yuan's Devaluation and Inflows of FDI in China

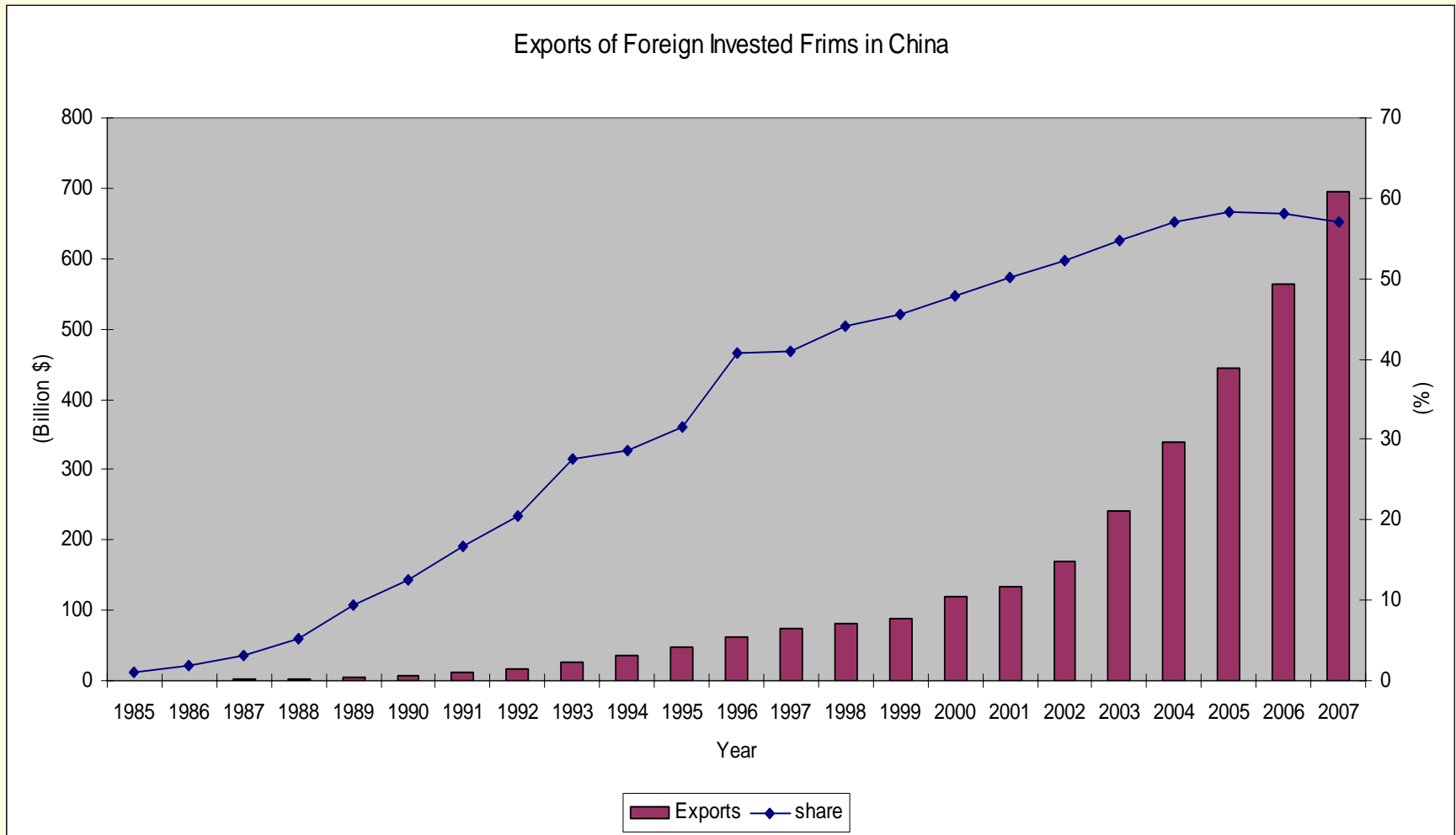


13. FDI-Trade Nexus

Export-oriented FDI

- A vehicle for made-in-China products available in global market;
- An effective means to for made-in-China products overcome barriers in distribution, marketing and brand name recognitions in global market ;
- A shortcut for China to utilize its comparative advantage.

14. The Contribution of Foreign Invested Firms to China's Exports

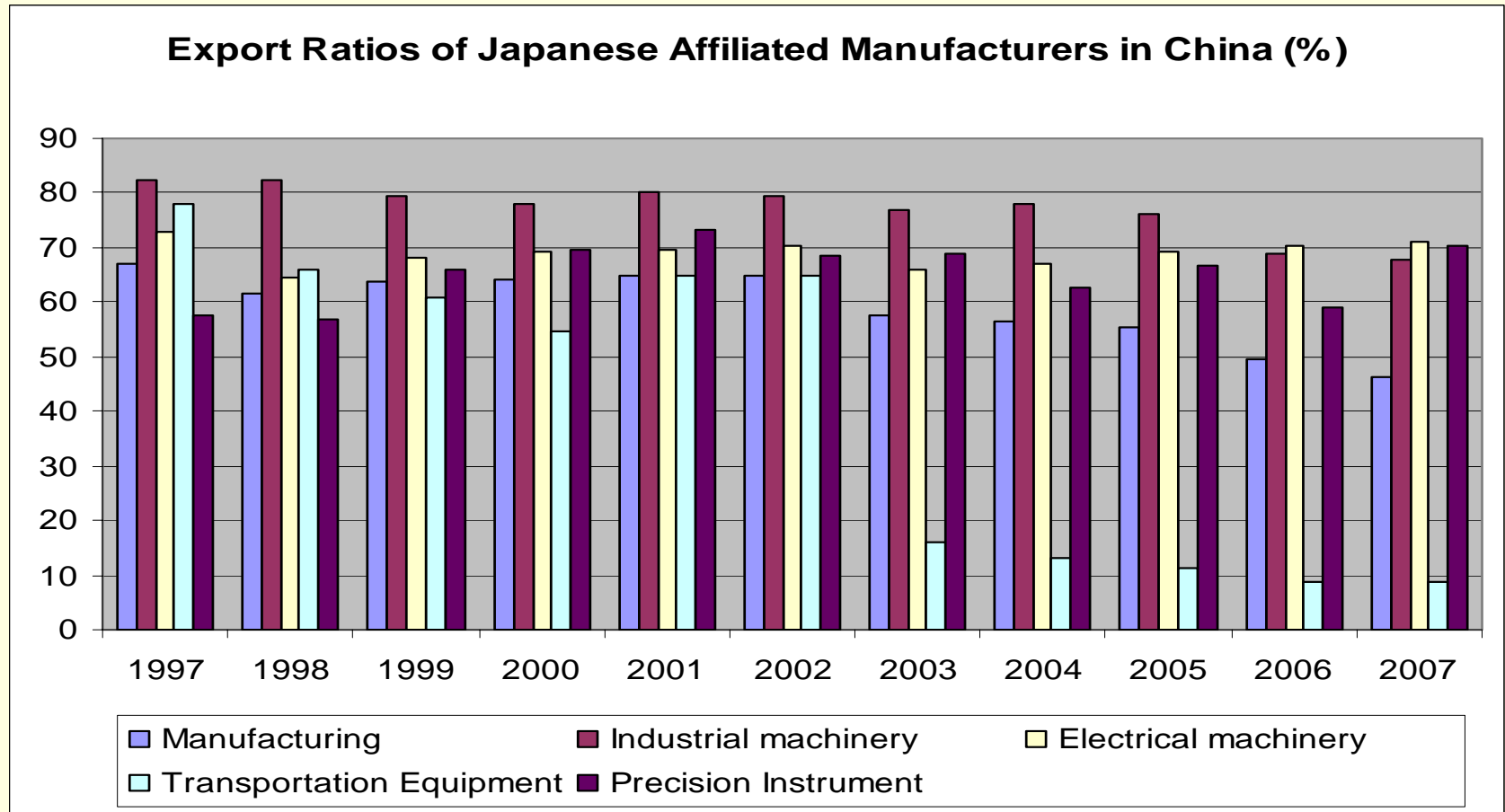


Sources: China Statistics Yearbooks

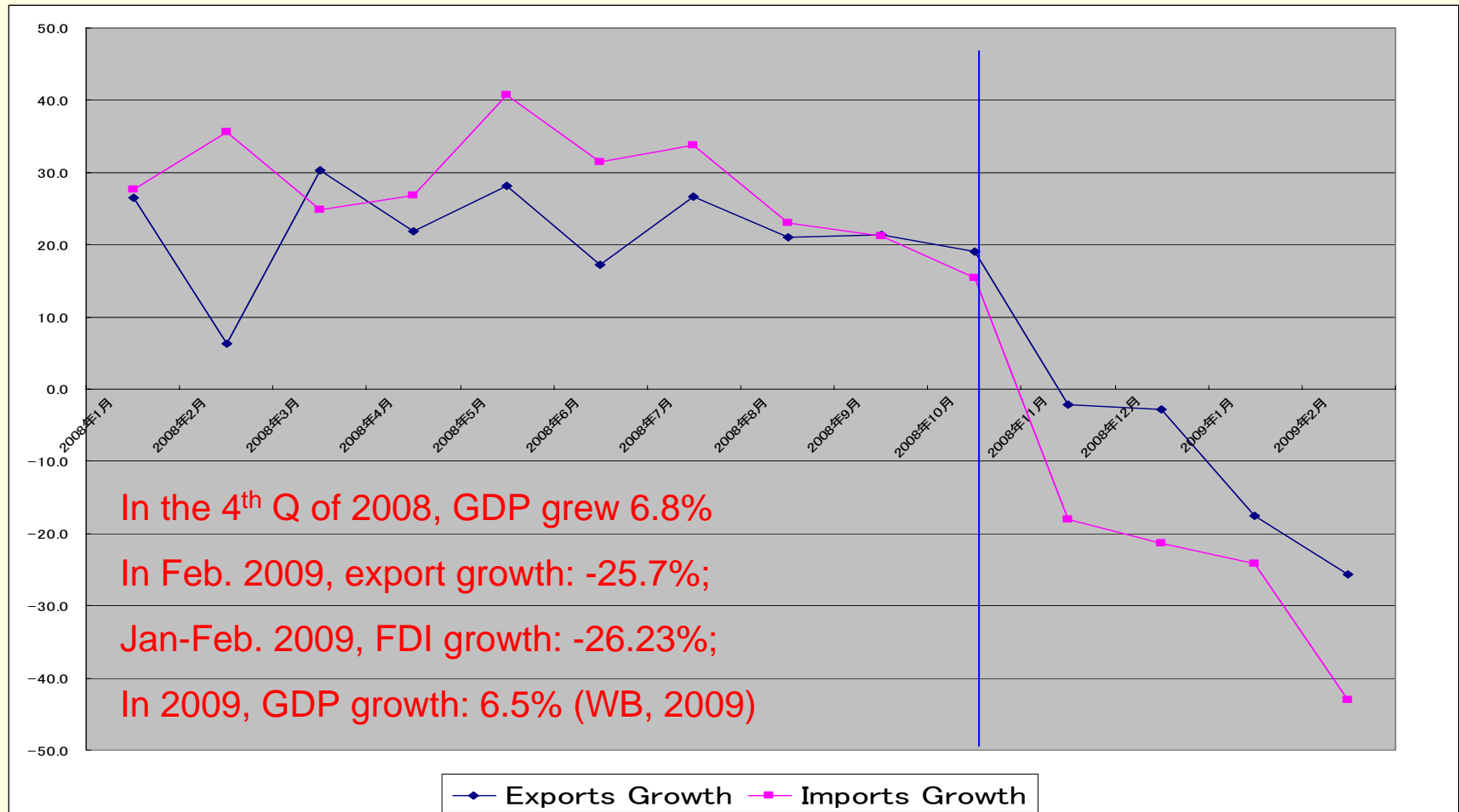
15. FDI and China's Hi-Tech Exports

	High-Tech Exports		High-Tech Exports of Foreign Invested Firms (%)
	Value (\$ Billion)	Share in total Exports	
1998	▪ 20.3	▪ 11.0	▪ 73.7
1999	▪ 24.7	▪ 12.7	▪ 76.0
2000	▪ 37.0	▪ 14.9	▪ N.A
2001	▪ 46.5	▪ 17.5	▪ 81.5
2002	▪ 67.9	▪ 20.8	▪ 82.2
2003	▪ 110.3	▪ 25.2	▪ N.A
2004	▪ 165.4	▪ 27.9	▪ 87.3
2005	▪ 281.5	▪ 28.6	▪ 88.0

16. Japanese FDI in China: Promoting China's Exports



17. Export-Oriented Growth Strategy and External Shocks



*Your Comments and questions will be
highly appreciated.*

Thank you!