



National Think Tank 2017 (10)

Understanding China's Foreign Trade(2017)

I Lingyun Gao and Yueju Ni



中国社会科学出版社
CHINA SOCIAL SCIENCES PRESS



National Think Tank 2017 (10)

Understanding China's Foreign Trade(2017)

■ Lingyun Gao and Yueju Ni



中国社会科学出版社
CHINA SOCIAL SCIENCES PRESS

图书在版编目 (CIP) 数据

中国对外贸易报告. 2017 = Understanding China's Foreign Trade. 2017 : 英文 / 高凌云等著. — 北京 : 中国社会科学出版社, 2017.10

(国家智库报告)

ISBN 978 - 7 - 5203 - 1268 - 4

I. ①中… II. ①高… III. ①对外贸易—研究报告—中国—2017—英文 IV. ①F752

中国版本图书馆CIP数据核字(2017)第261009号

出 版 人 赵剑英
责任编辑 王 茵
责任校对 朱妍洁
责任印制 李寡寡

出 版 中国社会科学出版社
社 址 北京鼓楼西大街甲 158 号
邮 编 100720
网 址 <http://www.csspw.cn>
发 行 部 010 - 84083685
门 市 部 010 - 84029450
经 销 新华书店及其他书店

印刷装订 北京君升印刷有限公司
版 次 2017 年 10 月第 1 版
印 次 2017 年 10 月第 1 次印刷

开 本 710 × 1000 1/16
印 张 5
字 数 80 千字
定 价 28.00 元

凡购买中国社会科学出版社图书, 如有质量问题请与本社营销中心联系调换
电话: 010 - 84083683
版权所有 侵权必究

Contents

- The Share of China’s Export in the World Began to Drop** 1
 - 1. China’s Export Share in the World Began to Drop 1
 - 2. A Temporal or a Trend..... 2
 - 3. Why China’s Export Growth Rate Lower than that of the Global Average 3
 - 4. How to Response to this Drop of World Export Share 6
- Service Trade**..... 8
 - 1. Profiles of Development of China’s Trade in Service in 2016..... 8
 - 2. Features of China’s Service Trade Development in 2016 10
 - 3. Prospect of China’s Service Trade Development in 2017..... 14
- Commodity Structure**..... 16
 - 1. Overview of Foreign Trade Based on the Type of Commodities in 2016..... 16
 - 2. Structural Characteristics of Commodities of Export Trade 21
 - 3. Structural Characteristics of Commodities of Import Trade 24
 - 4. Prospects and Suggestions on Foreign Trade Restructure Policy in 2017 27
- Trade by Modes** 29
 - 1. Review of Annual Data 29
 - 2. Development of China’s Foreign Trade from the Perspective of Trade by Modes 30
 - 3. Analysis of Labor Cost in the Transformation of China’s Trade by Modes 35
- Foreign Trade**..... 37
 - 1. Overview on China’s Foreign Trade Development in 2016..... 37
 - 2. Main Characteristics and Causes of Changes in Foreign Trade in 2016..... 46
 - 3. Prospects of China’s Foreign Trade 51
- Regional Trade**..... 52
 - 1. Relations between Regional Economic Level and Trade Development 52
 - 2. Regional Trade Opening Pattern Further Improved 54
 - 3. Latest Ranking of Regional Trade Volume 55

4. New Progress of Free Trade Zones	57
5. Influence on Foreign Trade Development in Central and Western Regions by Advancing the Belt and Road Initiative	59
6. Policy Suggestions on Improving Regional Coordinated Development	63
Forecast and Trend Judgement	67
1. Factors Affecting Export	70
2. Factors Affecting Import	71
3. Factors Affecting both Import and Export	72
4. Comprehensive Analysis and Forecast.....	74

The Share of China's Export in the World Began to Drop

Hong Song*

In 2016, China's share in the global export dropped. Besides, the U.S. replaced China to become the world top1 goods trader, such a title had been sustained by China three years since 2013. The main reason behind this was that China's advantage as the world's low cost manufacturing base gradually weakened. The era of rapid increase of export share in the world in the past 39 years maybe end, it will be more fluctuation in the future. It's imperative for China to forge its new international competitiveness.

1. China's Export Share in the World Began to Drop

Since reform and opening up, Chinese trade has been very resilient. Whether it was during the global economic recession, financial crisis or the global growth gold period,

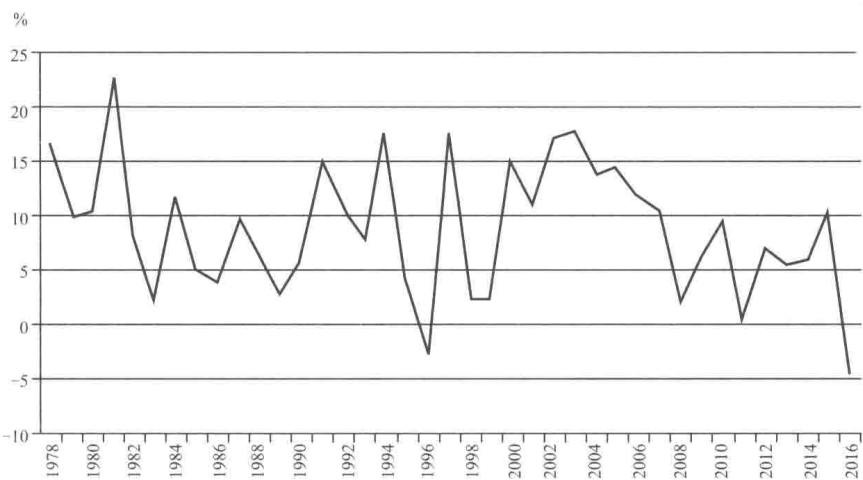


Figure 1 Difference of yearly growth rate between China's and global export

Source: WTO trade database.

* Senior Fellow, Assistant Director of IWEP, CASS.

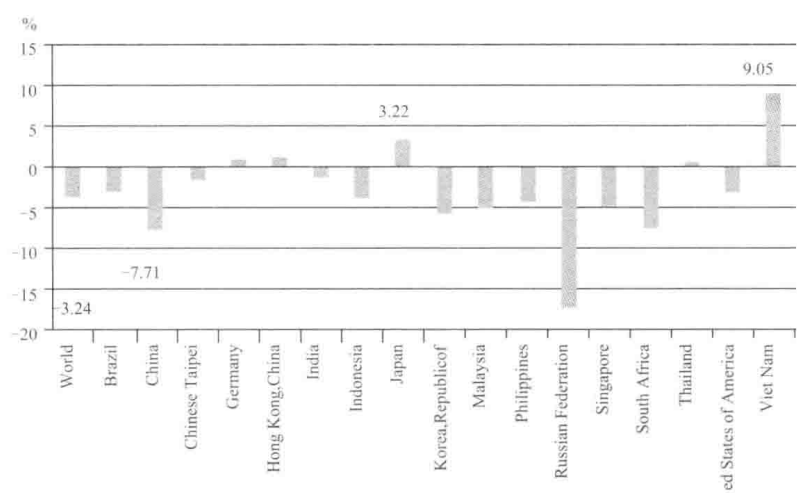


Figure 2 Export growth rate of 2016
Source: WTO trade database.

China sustained the trade growth higher than the average global level. During 1978-2016, compared with the global export trade, there were only two times that China’s export trade growth rate was lower than that of the global average (see Figure 1). First, it was in 1996, the second year after the WTO (1995) was established. Because the new textile quota system (ATC) was introduced in 1995, and only WTO members were qualified for it China was not the WTO member and can’t enjoy the benefits of ATC, and lost a lot of its export markets. At that time, textile and apparel product remained to be our main export product, accounting for around 30% of the annual China’s export (29.72% in 1993, 29.47% in 1994, 25.58% in 1995 and 24.63% in 1996). To a great extent, such an export difficulty led Chinese textile industry into an unprecedented restructuring of “de-capacity”, and a lot of workers were kicked out.

Another time was in 2016. In the trade report of the previous year, we specially pointed out: although China’s trade value experienced drop in 2015, its share among the global export still rose. However, the reversal was happened in 2016 (see Figure 2).

2. A Temporal or a Trend

With respect to the scenario that growth of China’s export trade was lower than the growth of global export trade, is it temporal phenomenon, like that in 1996, or a new trend?

It can be judged at present that it is less and less unlikely to be a temporal phenomenon, and bigger and bigger to be a trend. First, we may analyze growth of China’s export from different perspectives. However, whether it’s viewed from SITC

product classification, enterprise type, export region or mode of trade, China's export growth rate is basically lower than those of global export. For example, viewed from the mode of trade, China's processing export growth rate is far lower than that of the average global level while the growth rate of general export is also lower than that of the average global level. Therefore, the lower growth rate of China's export than that of the global is a general phenomenon in 2016. Whether it's viewed from the mode of trade or the type of enterprise, such a phenomenon existed.

Second, we may get a confirmation from the new data of the first quarter of 2017. Based on the current data available, in the first quarter of 2017, China's export growth remains lower than that of the average global level. Therefore, not just in 2016, China's export growth in the first quarter of 2017 was also lower than that of the global level, or even lower than that of the export growth in Asia.

Third, in 2016, it seemed that there was no unfavorable policy from other trade partners targeting China issued. Instead, there were some good news. For example, the last transition clause since China's entry into the WTO, the 15th clause of the China's Entry into the WTO Protocol has been due. Other WTO members are not entitled to implement anti-dumping and anti-subsidy policy against China's goods and enterprises by referring to the standard of "surrogate country".

Therefore, with respect to China's export growth rate in future, although it might be higher than that of the global export in certain years or a certain period, it can't be always higher than that of the global export anytime—like what happened in the past almost four decades. The gold period of China to gain more global export share annually, maybe, is over.

3. Why China's Export Growth Rate Lower than that of the Global Average

What are reasons that China's export growth rate is lower than that of the average global level, and so China lost its share in the world export? The most important reason is that China's role as the world's low cost producing, processing and manufacturing base has been reduced. For more than three decades since China's reform and opening up to the outside world, by attracting export oriented foreign direct investment from neighborhood economies and integrating into the regional production networks, China very rapidly has emerged as the manufacturing center in East Asia, and even around the globe. By giving full play to the advantage of its cheap labor, China's share among the

global export gradually rose from 0.76% in 1978 to 13.79% in 2015.

However, with rising per capita income and cost of workforce and other factors, China's status as the world's processing and manufacturing center gradually weakens. It's a normal transformation process during economic development: when the economic development level is low, local labor cost is also low, which is thus favorable for the production and manufacture of the labor-intensive product. The exception of China here are as follows. First, China's workforce is cheap but of good quality: hardworking, high education level and good team sense and discipline. Second, thanks to its proactive strategy and policy, China is just at the right time to embrace both the boom of labor-intensive industry transfer from the neighborhood countries and regions, and in the global level, the outsourcing revolution. China determined to open up to the outside world and get integrated into the regional and even global economy help to enable its rapid trade expansion and economic transformation.

Based on experiences drawn from other countries and regions, when the per capita income is up to USD 10,000 (purchasing power parity), the cheap labor cost advantage of this country will gradually be lost, and the new trend of gradual transfer of labor-intensive industry will be forthcoming. When the per capita income is up to USD 20,000, such a process will accelerate. Two corresponding periods in China, one is in 2011 and the other is in 2020. Therefore, it's quite normal that China's export share in the world experienced some fluctuation in this period. It also explains why China's export expansion purely based on cheap labor cost is basically over. Without a new source of successive advantages, China's export market share may not further rise. Instead, it may show further drop.

In fact, there were early signs to show such a change of China's foreign trade. The earliest signs were "labor shortage" that appeared along China's coastal areas in 2002 and 2003. Along with this change comes some consequences such as the export shares of processing trade and foreign-funded enterprises among the domestic export not going up further, and some processing activities of foreign firms in China began to shift towards neighboring countries. According to Figure 3, since 1995, the share of processing export in China export was close to 60%. In ten years to follow, China sustained such a state (55.83% in 1995, 57.41% in 2005, peak value 58.67% in 2002). However, since 2005, it rapidly dropped. Similarly, the share of foreign-funded enterprises among domestic export kept rising, and it was a peak value in 2005 (61.23%). One point is very important, that is, 2005 was the beginning year that China's RMB exchange rate began to rise significantly. The appreciation of RMB gave a big push of this transformation.

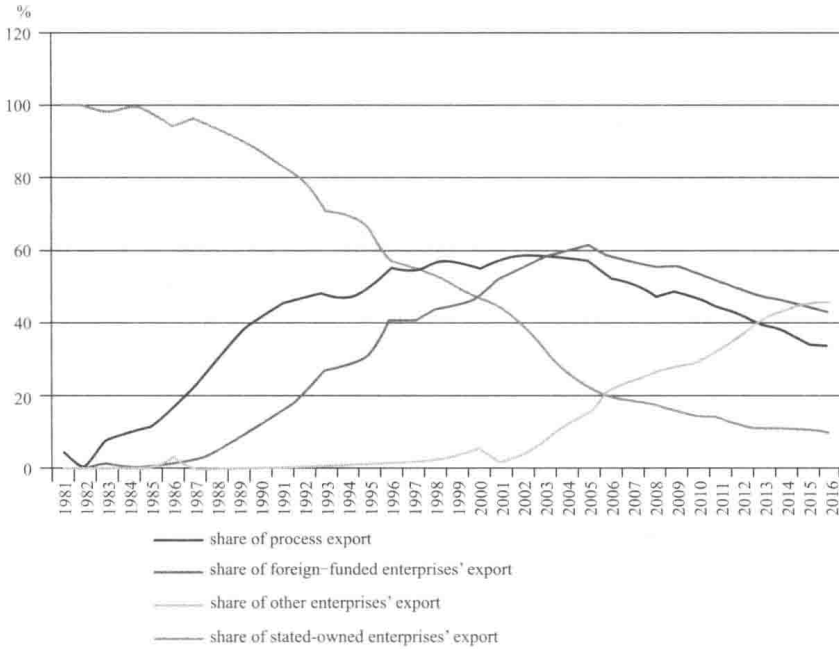


Figure 3 Shares of foreign-funded enterprise and processing trade in China's export, 1981-2016

Source: General Administration of Customs.

With the gradual transfer of labor-intensive export capacity from coastal areas to central and western regions in China, viewed from the source of region of trade, especially export, growth in central and western regions is faster than that in eastern coastal region. Based on the shares of to China's export from Guangdong and central regions (Anhui, Henan and Hubei) and western regions (Chongqing, Sichuan and Shaanxi), it might be clearly shown that China's export capability first shifts towards central region (since 2003 and 2004; accelerated in 2008, 2009 and 2010, 2011), and then western regions (2008, 2009, especially 2010 and 2011). However, such transfer in recent years began to reach the climax (see Figure 4).

In some sense, in 2016, the drop of China's share in the global export was also an integral part of such big change.

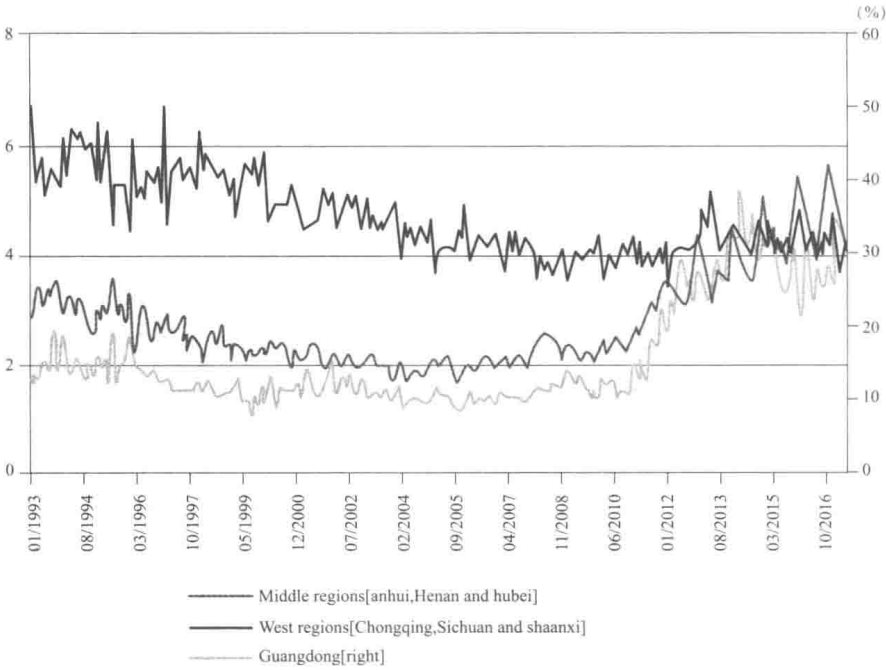


Figure 4 Regional transfer of export capabilities, 1993-2016

Source: CEIC database.

4. How to Response to this Drop of World Export Share

First, the share of China's export won't be dropped dramatically and rapidly in the near future. China's labor-intensive industry will sustain very strong international competitiveness for a long period through automation, excavation of internal management potentials and display of complete support industry capabilities. Besides, although China's labor-intensive industry began to speed up its transfer to the outside world, the scaled external transfer doesn't happen yet.

Second, China may response to this change in two ways: (1) actively guide those industries and enterprises to conduct cross-border investment and capacity transfer. Especially, China shall build the overseas processing network among countries along the Belt and Road Initiative for the transfer of those domestic industries. (2) Chinese government should provide strong financial support and share some of the investment risks of these enterprises (most of them are small-and medium-sized enterprises). The implementation of the Belt and Road Initiative should and must serve the domestic economic development and industry upgrading.

Third, China shall proactively build its new sources of international competitive

advantages. There are two focuses: (1) strong support technological innovations. In new industrial and technological field, we shall break existing bottlenecks and leap forward with respect to technology and product innovations. In this regard, China had achieved remarkable change. A large batch of new business models, industries, enterprises and products and services are growing up, and have huge potentials. (2) More importantly, with respect to existing ordinary product, China shall proactively guide and push forward existing enterprises and industries to improve their qualities. Simply speaking, China shall produce ordinary products with better quality. The same good may have many different varieties, and with different price, quality and consumption experience. With rising income, China has lost some traditional advantages, such as advantage of cheap labor. However, along with this change comes many new advantages, such as higher purchase power and consumption capability. It's the strong intrinsic logic of economic development. Based on the procurement of Chinese consumers during their oversea travelling, it can be found out that: what they have bought and needed in large quantity are some ordinary product, but of better quality. This is the huge potentials that Chinese enterprises may tap in the near future.

Service Trade

Yueju Ni*

In recent years, amidst the grave and complex international seconomic enviroment, development of global service trade obviously slowed down. During 2012-2015, average annual growth of global service trade was only 2.2%, and export of global trade in services in 2016 showed zero growth. In the meantime, China's trade in goods was still in the shadow of negative growth in 2006^①. Due to slow recovery of world economy and downward growth of China's service trade e associated with the trade in goods, China's trade in service in 2016 didn't keep the strong growth momentum since 2010. Instead, a slight negative growth showed. Service trade "imbalance" remained very serious. Deficit of trade in service in 2016 was USD 245.5 billion, a growth of 19% over the previous year. It reflected that the international competitiveness of traditional Chinese service sector remained weak. Especially, the decline in transport service indicated that slowdown in the growth of trade in service was closely related to the weak trade in goods. If the trade in goods in 2017 can pick up, export of trade in service, especially that of transport and insurance trade associated with trade in goods will usher in the bright future.

1. Profiles of Development of China's Trade in Service in 2016

Against decline in the growth of global trade in goods and service and negative growth of China's trade in goods, China's trade in service in 2016 didn't keep the fast growth momentum. Instead, a slight negative growth showed. According to statistics conducted by the State Administration of Foreign Exchange, import and export volume of China's trade in service in 2016 was USD 661.5 billion, a drop of 0.72% over USD

* Senior Fellow, IWEP, CASS.

① Based on WTO *World Trade Statistical Review 2017*, growth of export of China's trade in service in 2016 was -4%, and growth of import 4%. According to latest statistical data released by the State Administration of Foreign Exchange, drop in service was 6.7%, that in import 3.9%, and that in import and export volume 0.72%.

666.3 billion^①. In the previous year, wherein the export volume of trade in service amounted to USD 208 billion, a year-on-year drop of 6.7%; import amounted to USD 453.5 billion, a growth of 3.9%. Proportion of import of China's trade in service to the aggregate of global export of service reduced to 4.3%, ranking No.5 behind the U.S., the U.K., Germany and France; import of trade in service accounted for 9.6% of the global aggregate, ranking No.2 around the globe, just secondary to the U.S.. Despite decline in the proportion of China's trade in service to the aggregate of global service, China in 2016 remained the No.2 economics of trade in service because of faster growth of the import of service.

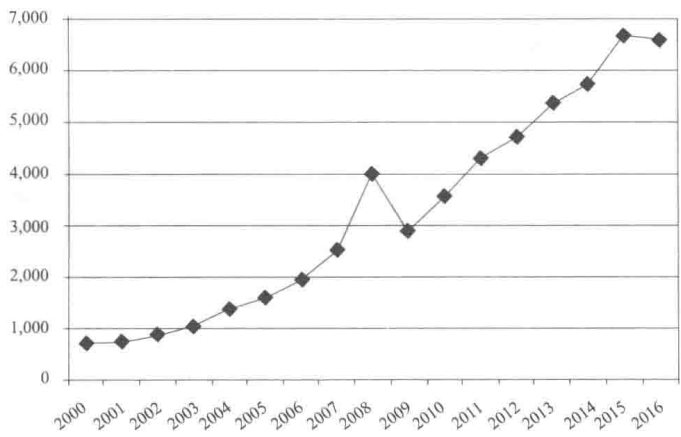


Figure 1 Import and export volume of trade in service in 2000-2016 (USD 0.1 billion)

Source: Website of the State Administration of Foreign Exchange.

In 2017, with the recovery of growth of China's trade in goods, trade in service swiftly shook off the shadow of negative growth. According to statistics, in the first half of 2017, China's service import and export reaped two-digit growth, and the import and export volume was RMB 2287.14 billion, a year-on-year growth of 12.9%, wherein: export was RMB 695.09 billion, a growth of 5.6%; import RMB 1592.05 billion, a growth of 16.5%. Especially during April and June, service import and export growth was respectively 5.0%, 14.1% and 29.7%, wherein the year-on-year growth in June reached a new peak in 18 months while the month-on-month growth reached a newpeak in consecutive 15 months. It

^① Such data were sourced from data of Chinese international trade in goods and service updated by the State Administration of Foreign Exchange on July 31, 2017 (BPM6, after 2015), having bigger difference with statistical data in 2016.

indicated that slight decline in China’s trade in service in 2016 was only temporary. In 2017, China’s trade in service would return to the quick growth momentum.

2. Features of China’s Service Trade Development in 2016

First, service trade “imbalance” remained very serious. Deficit of trade in service in 2016 was up to USD 245.5 billion, a growth of 19% over USD 206.5 billion of the previous year. Deficit of trade in service mainly came from tourism, transport and intellectual property royalties. Deficit was respectively USD 217.7 billion, USD 47.7 billion and USD 22.7 billion, separately accounting for 88.7%, 19.4% and 9.0% of the aggregate deficit.

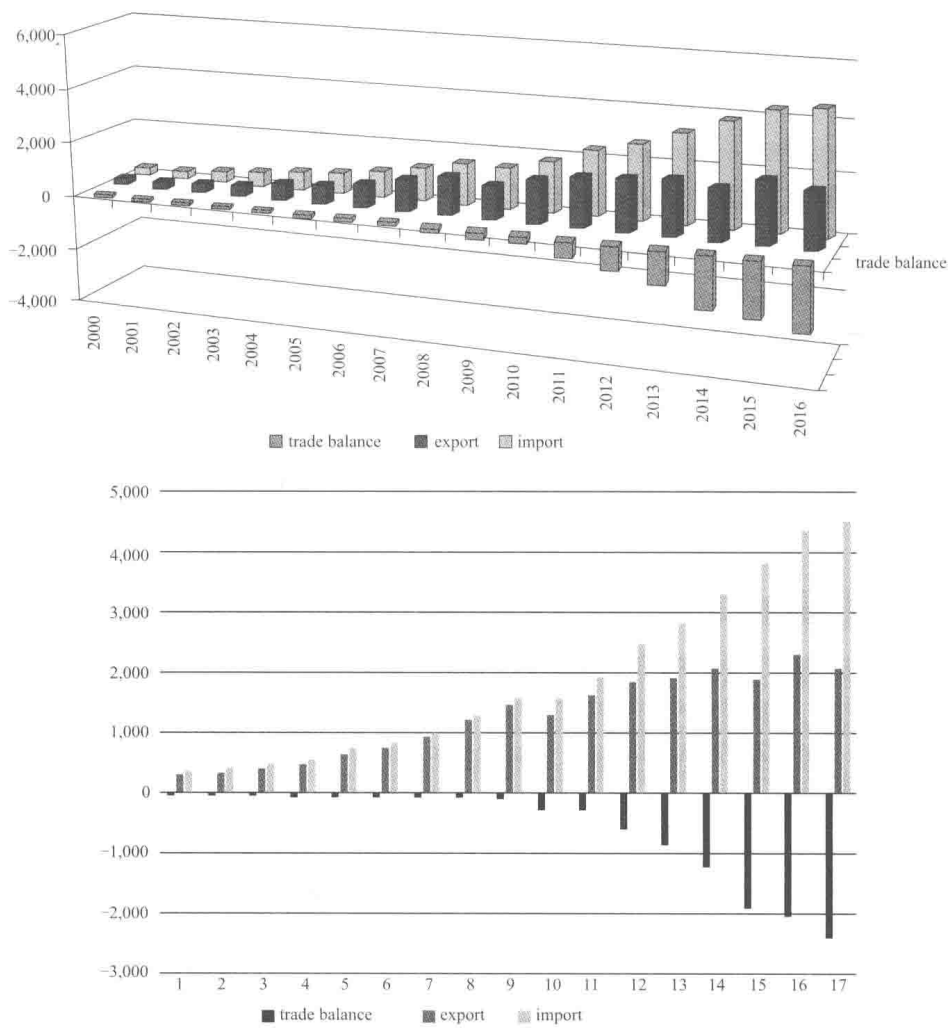


Figure 2 Import and export difference of trade in service in 2000-2016 (USD 0.1 billion)

Source : Website of the State Administration of Foreign Exchange.

Second, tourism service continued to lead the growth of China's trade in service. Because of the undiminished "craze of going abroad", import and export volume of China's trade in tourism service in 2016 was up to USD 306.5 billion, accounting for nearly half of the aggregate of trade in service, with the ratio as high as 46.3%. Import of trade in service accounted for 79.3% of tourism service, and 57.8% of the aggregate of import of trade in service, making biggest contributions to the growth of trade in service. Tourism export reduced as high as 23.5%, which might be closely related to the weak global economy, changeable international political environment, more rational consumption of foreign tourists and incomplete tourism environment. Significant growth of tourism import and drop in export made tourism an important source of deficit of China's trade in service.

Table 1 Import and export of China's trade in service in 2015-2016 (USD 0.1 billion)

Items	2015			2016		
	Difference	Export	Import	Difference	Export	Import
Volume of trade in service	-2,065	2,300	4,365	-2,455	2,080	4,535
1. Processing	203	205	2	185	186	1
2. Maintenance & repairing	23	36	13	30	50	20
3. Transport	-488	385	873	-471	338	809
4. Tourism	-1,914	580	2,494	-2,177	444	2,621
5. Building	62	163	101	41	125	84
6. Insurance and pension service	-30	50	80	-88	42	130
7. Telecommunication, computer and information service	131	245	114	130	256	126
8. Finance	-4	22	26	12	32	20
9. Intellectual property royalties	-209	11	220	-227	12	239
10. Individual, culture and entertainment	-12	7	19	-15	7	22

(Contd.)

Items	2015			2016		
	Difference	Export	Import	Difference	Export	Import
11. Other commercial service	188	585	397	141	576	435
12. Governmental service unmentioned elsewhere	-15	11	26	-17	12	29

Source: Website of the State Administration of Foreign Exchange.

Third, growth of trade in production service associated with trade in goods continuously declined. Influenced by the weak recovery of global economy and slow growth of trade in goods, growth of trade in production service associated with trade in goods seriously declined. According to WTO statistics^①, import and export volume of China's trade in service associated with trade in goods dropped by 1%, and its ratio in the global volume of trade in service reduced from 18.3% in 2010 to 14.3% in 2016. And again, transport with higher relevance with trade in goods showed a year-on-year drop by 8.8%. Export was USD 33.8 billion, a drop of 12.2%; import was USD 80.9 billion, a drop of 7.3%. Transport, only secondary to tourism, emerged as the No.2 source of deficit of China's trade in service, accounting for 19.4% of the deficit of trade in service.

Fourth, China's service with stronger international competitiveness mainly focused on traditional service sector. As shown in Figure 3, trade in processing service had highest competitiveness index, up to 0.98, followed by maintenance and repairing, with TC index 0.47, building 0.23. Overall competitiveness of emerging service was relatively low, especially TC index of intellectual property royalties was -0.9, posing a sharp contrast with trade in processing service. Besides, TC index of individual, culture, entertainment, insurance and pension was respectively -0.52 and -0.51. In recent years, with more and more importance attached to the transformation and upgrading of trade in service, its international competitiveness increased a little bit. Especially, telecommunication, computer, information and finance service achieved significant performance, with TC index of 0.34 and 0.23 respectively. Such trend would continue.

^① WTO, *World Trade Statistical Review 2017*.