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China's International Trade Performance and Outstanding Results of the World-Market Oriented Development Strategy

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In this note, we briefly review China's international trade performance since 1978. In the same year, the Chinese leadership decided to change its development strategy from inward-looking/import substitution to an outward-looking/world-market oriented development strategy

Since 1978, China's foreign trade has experienced 40 years of rapid development. The total value of imports and exports increased from 206 billion USD in 1978 to 4.1 trillion USD in 2017. Exports increased from 10 billion USD to 2.2 trillion USD, while imports increased from 11 billion USD to 1.8 trillion USD.[1] The EU, the United States, and China accounted for 45% of world trade in goods in 2017.[2]

From 1978 to 2017, the average annual growth rate of China's total foreign trade, averaging 14.1%, was far higher than the global average. From China's accession to the World Trade Organization (WTO) in 2001 to the Global Financial Crisis in 2008, China's value of trade increased annually. Since the slowdown in world trade growth, the growth rate of Chinese exports has also rapidly declined.[3] According to the WTO, China was the world's largest exporter of merchandise trade in 2017 (up from the 11th in 1995), reaching 2263 billion USD.[4] Applying a continental lens, about half (47.8%) of Chinese exports by value were delivered to fellow Asian countries, while 22.4% were sold to North American importers. China shipped another 19.1% worth to clients in Europe.[5]

China's global ranking in the scale of foreign trade has risen from 32 in 1978 to number one. The proportion of China's exports in global trade increased from less than 2% in 1978 to about 18% in 2017.[6]

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[1] Kunwang Li and Wei Jiang, "China's foreign trade: Reform, performance and contribution to economic growth," in *China's 40 Years of Reform and Development: 1978–2018*, edited by Ross Garnaut, Ligang Song, and Cai Fang, 575–593 (Acton: Australian National University Press, 2018), available at http://press-files.anu.edu.au/downloads/press/n4267/pdf/book.pdf?referer=4267.
[2] "International Trade in Goods," Eurostat, accessed March 18, 2019, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_trade_in_goods.
[3] Li and Jiang, "China's foreign trade."
[4] World Trade Organization, "World Trade Statistical Review 2018," https://www.wto.org/english/res_e/statis_e/wts2018_e/wts2018_e.pdf, 125.
[5] Daniel Workman, "China's Top Trading Partners," WTEx, March 3, 2019, accessed March 18, 2019, http://www.worldstopexports.com/chinas-top-import-partners/.
[6] Li and Jiang, "China's foreign trade."

Chinese trade with the rest of the world

Table 1: Development of China's Foreign Trade, 2013-2017

Foreign Trade Indicators	2013	2014	2015	2016	2017
Imports of Goods *(million USD)*	1,949,990	1,959,233	1,681,951	1,587,431	1,841,889
Exports of Goods *(million USD)*	2,209,005	2,342,293	2,274,949	2,098,161	2,263,329
Imports of Services *(million USD)*	329,419	450,805	466,330	453,014	464,133
Exports of Services *(million USD)*	205,778	279,423	285,476	208,488	226,389
Imports of Goods and Services *(in % of GDP)*	22.1	21.4	18.1	17.4	18.0
Exports of Goods and Services *(in % of GDP)*	24.5	23.5	21.3	19.7	19.8
Trade Balance *(million USD)*	358,981	435,042	576,191	488,883	476,146
Trade Balance (Including Service) *(million USD)*	235,380	221,299	357,871	255,737	210,728
Foreign Trade *(in % of GDP)*	46.6	44.9	39.5	37.0	37.8

Source: WTO – World Trade Organisation ; World Bank , Latest Available Data

Source: Santender-Trade Portal, https://en.portal.santandertrade.com/analyse-markets/china/foreign-trade-in-figures.

Table 1 shows the development of China's foreign trade between 2013 and 2017. The share of foreign trade in GDP has been decreasing since 2013, and it dropped from 46.6% in 2013 to 37.8% in 2017. It is important to notice that the share of exports of goods and services to GDP was 19.8% in 2017, and the import of goods and services was 18.0%. According to the WTO, China was the world's 5th largest exporter of commercial services in 2017 (up from the 16th in 1995), reaching 226 billion USD.[7]

The total amount of exports and imports of goods remains more or less unchanged. Another important point is that the import of services is growing faster than the export of services. So, the trade deficit for services has widened in the last four years. As a result of this fact, the total trade surplus of goods has been reduced from 476.1 billion USD to 207.1 billion USD (including services). In September 2018, exports (in terms of USD) increased by 14.5%, while imports (in terms of USD) increased by 14.3%, resulting in a trade surplus of 34.13 billion USD.[8]

China recorded a current account surplus of 1.30% of the country's GDP in 2017. Current accounts to GDP in China averaged 2.22% from 1980 until 2017, reaching an all-time high of 10.10% in 2007 and a record low of -3.70% in 1985.[9]

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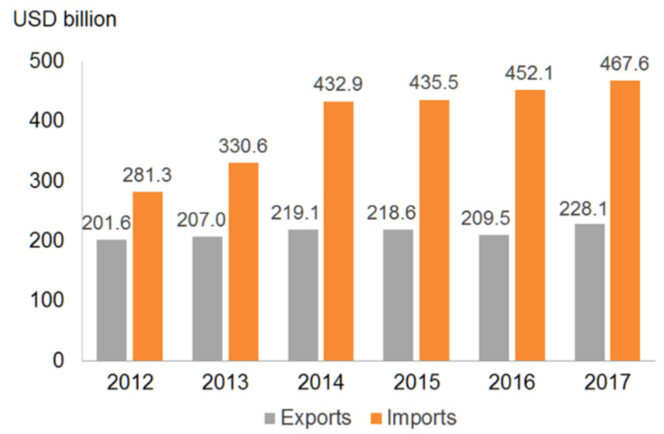
[7] "Economic and Trade Information on China," HKTDC Research, February 28, 2019, accessed March 18, 2019, http://china-trade-research.hktdc.com/business-news/article/Facts-and-Figures/Economic-and-Trade-Information-on-China/ff/en/1/1X000000/1X09PHBA.htm.

[8] "Country Profile: China, Economic and Trade Information on China," Belt and Road, HKTDC, accessed March 18, 2019, http://beltandroad.hktdc.com/en/country-profiles/china; Huileng Tan, "China posts record trade surplus with the US in September, Beijing Says," CNBC, October 11, 2018, accessed March 18, 2019, https://www.cnbc.com/2018/10/12/trade-war-china-record-surplus-with-the-us-in-september-beijing-says.html.

[9] "China Current Account to GDP," Trading Economics, accessed March 18, 2019, https://tradingeconomics.com/china/current-account-to-gdp.

Figure 1: Trade in Services



Source: Ministry of Commerce, General Administration of Customs

Thanks to its enormous trade surplus over the past years, China accumulated a huge amount of official reserves held by the Chinese Central Bank. According to the International Monetary Fund, China has the largest foreign currency reserves as of December 2017, reaching 3,140 billion USD.[10]

The geographical pattern of China's foreign trade relations

The following two diagrams (Figure 2 and Figure 3) show the changes in the geographical pattern of China's exports between 1995 and 2017. In the early stages of its economic development, China relied heavily on exports to Hong Kong, under British rule until 1997, as a transit port. However, its share in total exports to Hong Kong dropped from 44% to 12% in this period. The U.S. share in China's total exports has risen from 10% in 1995 to 19% in 2017, while Japan's has experienced a sharp decline.[11] In the same vein the importance of the EU (namely Germany and Holland) has

[10] "Economic and Trade Information on China," HKTDC Research.
[11] Li and Jiang, "China's foreign trade."

gained more importance, receiving nearly 5% of total exports in 1995 to 16% in 2017. These figures draw a picture suggesting not only regional integration but also integration into a division of labor with developed countries far away.

Figure 2: Market distribution of destinations for Chinese exports, 1995

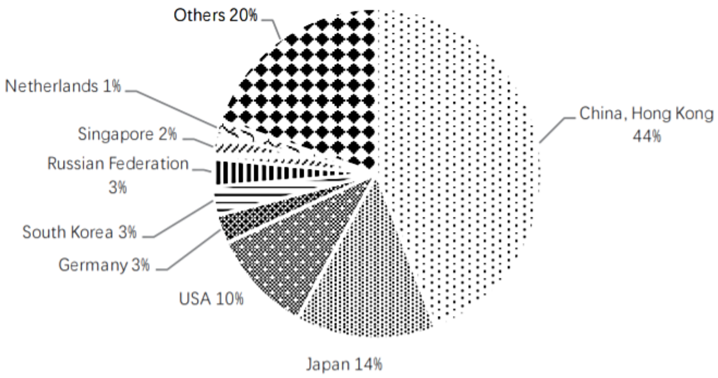
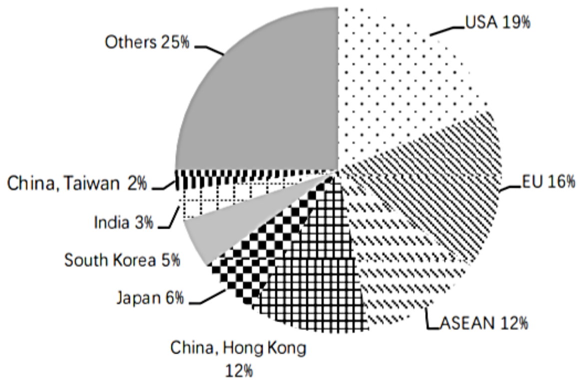


Figure 3: Market distribution of destinations for Chinese exports, 2017



Source: Kunwang Li and Wei Jiang, "China's foreign trade: Reform, performance and contribution to economic growth," in China's 40 Years of Reform and Development: 1978–2018, edited by Ross Garnaut, Ligang Song, and Cai Fang, 575-593 (Acton: Australian National University Press, 2018), available at http://press-files.anu.edu.au/downloads/press/n4267/pdf/book.pdf?referer=4267.

An interesting change can be observed in the ownership structure of Chinese export enterprises in 1995 and 2017. In 1995, the share of state-owned enterprises in total trade was 67% and dropped to 10% in 2017. Private enterprises started to play an important role in Chinese trade, and their share increased remarkably, from 2% in 1995 to 47% in 2017. Meanwhile, the share of foreign-funded enterprises has been an increasingly important part of China's export growth. The share of foreign-funded enterprises in total trade rose from 31% to 43%—slightly lower than the export contribution of Chinese private firms.[12]

[12] Ibid.
Below are China's biggest export companies organized by asset value. Shown within parentheses is the primary industry in which each company operates. Also shown is the change in asset value as of December 2018 compared to 2017. See Daniel Workman, "China's Top 10 Major Export Companies," WTEx, February 14, 2019, http://www.worldstopexports.com/chinas-top-10-major-export-companies/. The companies are as follows: Petro China (oil, gas): 381.1 billion USD, up 10.5% from 2017; China Petroleum & Chemical/Sinopec (oil, gas): 249.9 billion USD, up 15.3%; SAIC Motor (car/truck makers): 118.4 billion USD, up 39.3%; Alibaba (global commerce): 114 billion USD, up 61.3%; China Shenhua Energy (diversified metals): 91.2 billion USD, up 10.8%; Fosun International (iron, steel): 82 billion USD, up 17.1%; CRRC (heavy equipment): 59.2 billion USD, up 21.6%; Baoshan Iron & Steel (iron, steel): 56.2 billion USD, up 40.5%; China National Building (construction materials): 53.3 billion USD, up 0.1%; China Shipbuilding Industry (heavy equipment): 32 billion USD, up 11.8%. The leading Chinese multinational companies in terms of asset growth were global commerce leader Alibaba via its 61.3% advance from 2017 to December 2018. In second place was iron and steel producer Baoshan (up 40.5%) ahead of automobile maker SAIC Motor (up 39.3%) and heavy equipment firm CRRC (up 21.6%).

Figure 4: Ownership structure of China's exports, 1995

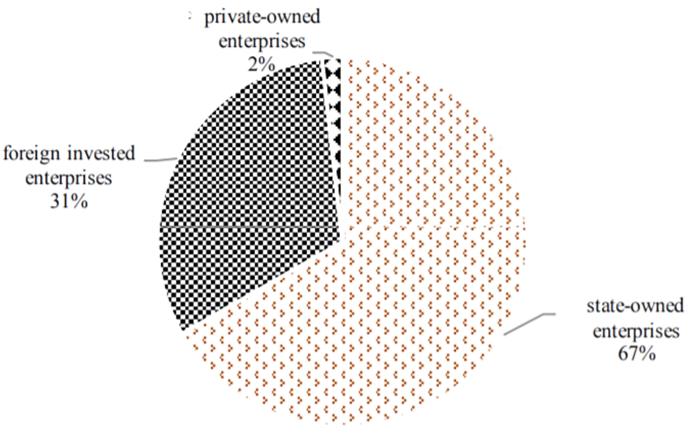
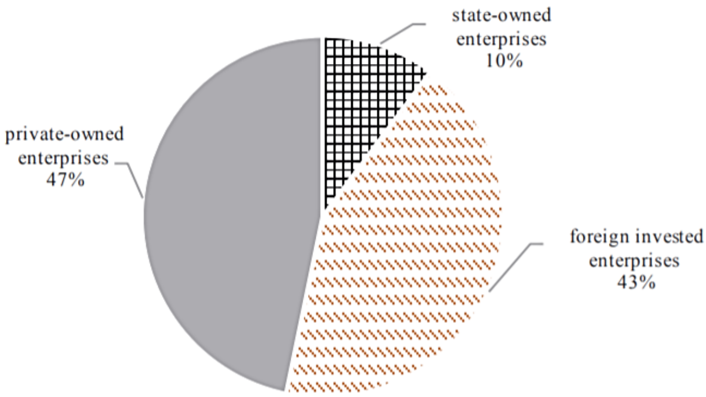


Figure 5: Ownership structure of China's exports, 2017



Source: Kunwang Li and Wei Jiang, "China's foreign trade: Reform, performance and contribution to economic growth," in China's 40 Years of Reform and Development: 1978–2018, edited by Ross Garnaut, Ligang Song, and Cai Fang, 575-593 (Acton: Australian National University Press, 2018), available at http://press-files.anu.edu.au/downloads/press/n4267/pdf/book.pdf?referer=4267, 585-86.

On the import side, comparable tendencies are governing the pattern of origins of Chinese imports. In 2017, 55.9% of China's total imports by value were purchased from other Asian countries. European trade partners accounted for 17.7% of imported goods bought by China while 10.2% originated from North America. Smaller percentages of overall Chinese imports came from Latin America, excluding Mexico, but including the Caribbean (6.2%), Australia and other Oceanian sources (5.8%), and Africa (4%).[13] Again, Asian partners, the European Union, and North America are the main destinations for imports.

Top 15 Export Destinations and Import Sources[14]

The following list shows 15 of China's top trading partners in terms of export sales in 2017. Also shown is each import country's percentage of total Chinese exports: Over two-thirds (67.9%) of Chinese exports in 2017 were delivered to the top 15 trade partners:[15]

United States (19%), Hong Kong (12.4%), Japan (6%), South Korea (4.5%), Vietnam (3.2%), Germany (3.1%), India (3%), Netherlands (3%), United Kingdom (2.5%), Singapore (2%), Taiwan (1.9%), Russia (1.9%), Malaysia (1.8%), Australia (1.8%), and Thailand (1.7%).[16]

Among China's trading partners that generate the greatest positive trade balances, Chinese surpluses with India (up 10.6%), the United States (up 10.5%), and Mexico (up 9.9%) grew at the

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[13] Daniel Workman, "China's Top 10 Imports," WTEx, March 4, 2019, accessed March 18, 2019, http://www.worldstopexports.com/chinas-top-10-imports/.
[14] Daniel Workman, "China's Top Trading Partners," WTEx, March 3, 2019, accessed March 18, 2019, www.worldstopexports.com/chinas-top-import-partners/.
[15] Ibid.
[16] Ibid.

fastest pace from 2016 to 2017. Among China's trading partners that cause the greatest negative trade balances, Chinese deficits with Saudi Arabia (up 17.0%), Japan (up 71.5%), and Australia (up 57.8%) grew at the fastest pace from 2016 to 2017.[17]

The People's Republic of China imported 1.841 trillion USD worth of goods from around the globe in 2017. This dollar amount reflects a -5.6% slowdown since 2013 but a 15.9% gain from 2016 to 2017. Chinese imports represent approximately 11.5% of total global imports, which totaled an estimated 16.054 trillion USD one year earlier in 2016.[18]

Given China's population of 1.379 billion people and its total 1.841 trillion USD of imports, this translated into roughly 1,350 USD in yearly product demand from every person in the country in 2017.

The commodity patterns of China's exports and imports

On the export side the share of agricultural products in total export revenues in 2017 was 3.2%, fuels and mining products 2.4%, manufacturing 94.3%, and others 0.1%.[19]

The following export product groups represented the highest dollar value in Chinese global shipments during 2017. Also shown is the share each export category represents in terms of overall exports from China. China's top 10 exports accounted for about two-thirds (67.7%) of the overall value of its global shipments:[20]

Electrical machinery, equipment (26.4%); Machinery, including computers (16.9%); Furniture, bedding, lighting, signs, prefab buildings (4%); Clothing, accessories (not knit or crochet) (3.2%); Knit or crochet clothing, accessories (3.2%); Optical, technical, medical apparatus (3.1%); Plastics, plastic articles (3.1%); Vehicles (3%); Articles of iron or steel: (2.5%); Toys, games (2.4%).[21]

In the same year, imports have been distributed according to the sectors as follows: agricultural products 9.5%; fuels and mining products 21.3%; manufacturers 64.4%; others 4.8%.[22]

Another important change took place in the commodity patterns of exports between 1985 and 2017. China moved from producing a 21.9% share of low-tech and medium-tech products and only a 2.1% share of high tech goods in 1985 to 55.9% and 32.6% in 2016, respectively. Interestingly, the share of low-tech products increased in early stages and began to fall in the last years. The share of medium-tech products has increased throughout time and reached 24.5% of production.[23]

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[17] Ibid.
[18] Workman, "China's Top 10 Imports."
[19] "Importing from China," Trade Finance Global, accessed March 18, 2019, https://www.tradefinanceglobal.com/imports/china/.
[20] Workman, "China's Top 10 Exports."
[21] Ibid.
[22] Workman, "China's Top 10 Imports."
[23] Li and Jiang, "China's foreign trade," 583.

Table 2: Structural change of exports by technology: China and the world (%)

		1985	1990	1995	2000	2005	2010	2016
Low-tech	China	17.0	40.2	46.4	41.2	15.9	29.3	30.9
	World	14.1	16.6	16.7	14.7	9.7	13.0	14.5
Medium-tech	China	4.9	20.8	18.9	19.6	23.0	24.0	24.5
	World	32.4	33.5	32.6	29.6	26.8	27.6	29.7
High-tech	China	2.1	5.3	13.0	22.4	41.0	34.9	32.6
	World	13.3	15.6	19.6	23.0	18.6	19.6	21.3
Others	China	76.1	31.6	21.1	16.1	19.9	11.4	11.3
	World	37.5	31.1	27.3	27.6	44.6	33.9	27.7

Source: Calculated from UN Comtrade database.

Source: Kunwang Li and Wei Jiang, "China's foreign trade: Reform, performance and contribution to economic growth," in China's 40 Years of Reform and Development: 1978–2018, edited by Ross Garnaut, Ligang Song, and Cai Fang, 575-593 (Acton: Australian National University Press, 2018), available at http://press-files.anu.edu.au/downloads/press/n4267/pdf/book.pdf?referer=4267, 583.

Until now, China's economic growth has been led largely by foreign demand over the last decades, with help from foreign firms' producing for re-exports and using cheap labor cost to their advantage. In this case, foreign direct investments were an important source of capital accumulation. However, as living standards and labor costs increase, this pattern has caused foreign companies to consider China as a market rather than the place for production activities.

Conclusion

The Federation of German Industries (BDI) pointed out in its report "Challenge 1.1 China as a systemic competitor" that the main obstacle to China's expanding business development is establishing fair trade relations between the two partners.[24] China is profiting from the advantages of the open and free market economies in the EU and Germany, whereas German companies in China are suffering from administrative restrictions and discrimination. German firms operating in China face the enforcement of joint venture in some specific sectors and no entry to some sectors, or in some branches, only minority participation is possible. The fundamental requirement to continue bilateral economic relations between the two countries should be that China must open its market for foreign companies and abolish discriminations and unfair trade regulations.

China has immensely benefited from free trade with the rest of the world. One of the main reasons for the rapid growth of Chinese exports is its entrance into other markets without any serious barriers to trade. China has not correctly or transparently fulfilled the regulations and principles set by the WTO.

[24] Policy Paper, China – Partner and Systemic Competitor, January 2019, BDI Berlin, pp.2-7. https://english.bdi.eu/article/news/strengthen-the-european-union-to-better-compete-with-china/

Today, China is facing several challenges to reforming its trade regime, which may be summed up as follows:[25]

1. The Chinese government protects its domestic industries with the help of non-tariff barriers to trade through government procurement, red-tape policies, laws, and regulations that maintain priority for state-owned enterprises (SOEs) and discriminate against foreign suppliers.[26]

2. For intellectual property rights, civil procedures and relief need to be improved. Light administrative penalties and high thresholds for criminal proceedings do not deter piracy and infringements. Law enforcement needs to be strengthened. The Chinese economy must be more transparent and accountable. Then, they should accept the rules of free trade.

3. There are still various barriers to entry and commercial restrictions in service sectors such as banking, securities, insurance, telecommunications, transportation, postal and couriers. These include discriminatory minimum capital requirements, application restrictions for establishing branches, requirements for economic testing and mandatory joint venture requirements; the nationalization component is also still on the high side. The entry threshold for private and foreign-funded enterprises is still high.

[25] Ibid, 580-81.
[26] By the end of 2016, China had been the subject of 866 antidumping measures—the highest number in the world. India has initiated the most antidumping measures against China, followed by the United States and the European Union. Ibid, 580.