

# **China: Trade Facilitation Reform and Economic Development**

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- **Development of China's international trade**

# Three stages of China's international trade development

- **1979 - 1991: initial stage of opening-up.** The government incubated market economy initiatives by decentralization, and introducing international competitors by attracting FDI, developing an export-oriented economy mechanism by regional opening-up.
- **1992 - 2001: Critical stage of establishing an export-oriented economic mechanism which is based on the market.**
- **2001 - present: New stage for establishing an open economic mechanism which is consistent with international rules and standards.**

# China's international trade (2005 – 2008)

( USD 100 million )

| Year | Overall volume | Volume of import | Volume of export | Trade surplus |
|------|----------------|------------------|------------------|---------------|
| 2005 | 14221.2        | 6601.2           | 7620             | 1018.8        |
| 2006 | 17606.9        | 7916.1           | 9690.8           | 1774.7        |
| 2007 | 21768.4        | 9588.2           | 12180.2          | 2592          |
| 2008 | 25616.3        | 11330.9          | 14285.5          | 2954.6        |

# Structure of China's international trade

- In 2008, overall volume of China's processing trade accounted for 41.1% of its international trade, with volume of export by processing trade accounting for 47.3% of overall export volume.
- In 2008, China's trade surplus in terms of processing trade was 296.78 billion USD, which basically was equal to China's overall trade surplus.
- In 2008, FDI enterprises' export by processing trade was 572.195 billion USD, accounting for 72.37% of FDI enterprise' overall export.
- Processing trade essentially is an effective combination of international capital and China's cheap labor cost.

# Structural transformation of China's international trade

- In 1986, export of China's textile and clothes surpassed that of oil for the first time, changing China's export structure from resource product to labor-intensive products like textile and clothes.
- In 1995, export of mechanical and electronic products surpassed that of textile and clothes, changing China's export structure from traditional products to non-traditional products.
- Since China's WTO accession in 2001, export of high-tech products has increased rapidly, accounting for more than 25% of China's overall export.

# Structure of China's trade surplus (2001 – 2008)

( USD 100 million )

|                                       | 2001   | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   | 2008   |
|---------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Trade balance of normal trade         | -15.5  | 70.8   | -56.7  | -45.9  | 353.7  | 831.4  | 1099.3 | 899    |
| Trade balance of processing trade     | 534.7  | 5772   | 789.1  | 1063   | 1425   | 1889   | 2492.5 | 2967.8 |
| Trade balance of other trade patterns | -293.8 | -344.5 | -477.1 | -697.1 | -759.4 | -945.6 | -969.9 | -897.3 |
| Overall trade balance                 | 225.4  | 303.5  | 255.3  | 319.5  | 1019   | 1775   | 2621.9 | 2969.5 |

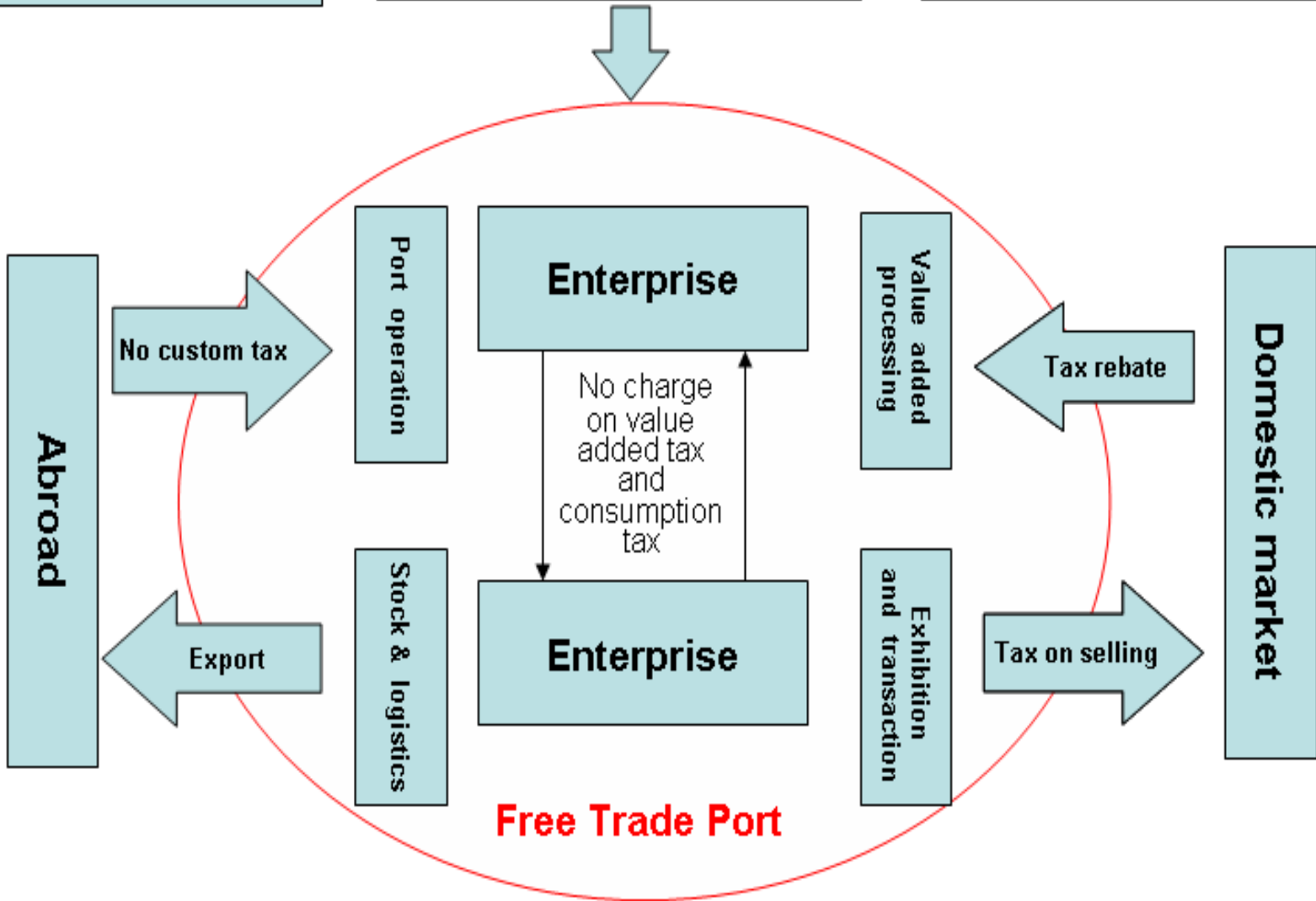
# International trade of China's state-owned enterprises, FDI enterprises and private enterprises in 2008

(USD100 million)

|                               | State-owned enterprises | FDI enterprises | Private enterprises |
|-------------------------------|-------------------------|-----------------|---------------------|
| Volume of trade               | 6110.4                  | 14105.8         | 5400.2              |
| Share of overall trade volume | 23.85%                  | 55.07%          | 21.08%              |

# Comprehensive free trade zone

- Since 1990, China has set up free trade zone, export processing zone, free trade logistic zone, cross-border industrial park, free trade port, and comprehensive free trade zone, implementing preferential policies mainly characterized by tax reduction.
- With functions of ports as well as functions for logistics and processing, free trade port can develop port operation, stock and logistics, international trade, transit delivery, global delivery, global purchase, transit trade, export by processing, check and after sales reparation service, and exhibition as well as R & D. Free trade port enjoys China's most preferential policies such as that free tax for imported manufacturing equipments entering this region, domestic goods entering this region will be regarded as export and have tax rebate, no value added tax or consumption tax for goods transaction between free trade zone's enterprises.
- The reform direction is to unify current 6 kinds of custom special supervising zones to become a 'comprehensive free trade zone'. For instance, if a comprehensive free trade zone is integrated from an export processing zone, probably it will be only granted an export processing function.



# Customs clearance and transit reform

- **Customs clearance and transit reform**
- **The reform includes measures to make better use of information technology, to integrate the inland customs' management resources with those of the port customs, to simplify the transit customs clearance, to carry out customs clearance mode of 'declaring goods at dependency while inspecting and clearing goods at ports' for inter-customs imports and exports and apply 'cross-border express clearance' between Hong Kong, Macao and Guangdong customs. These practices have improved efficiency of customs clearance in China.**

# Trade facilitation and China's economic development

- **During thirty years of reform and opening-up, trade facilitation and trade promotion have compensated China's domestic foreign exchange reserve, management experience as well as commercial contact, and helping China's transformation from planned economy to market economy, introducing international competitors, initiating the 'learning by doing' process for the market and enterprises.**
- **Trade facilitation helps combine international capital with China's rural surplus labor, creating a development pattern which is based on China's own features and characterized by processing trade, and promoting Chinese economic development.**

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- **Financial crisis' impacts on China's SMEs**

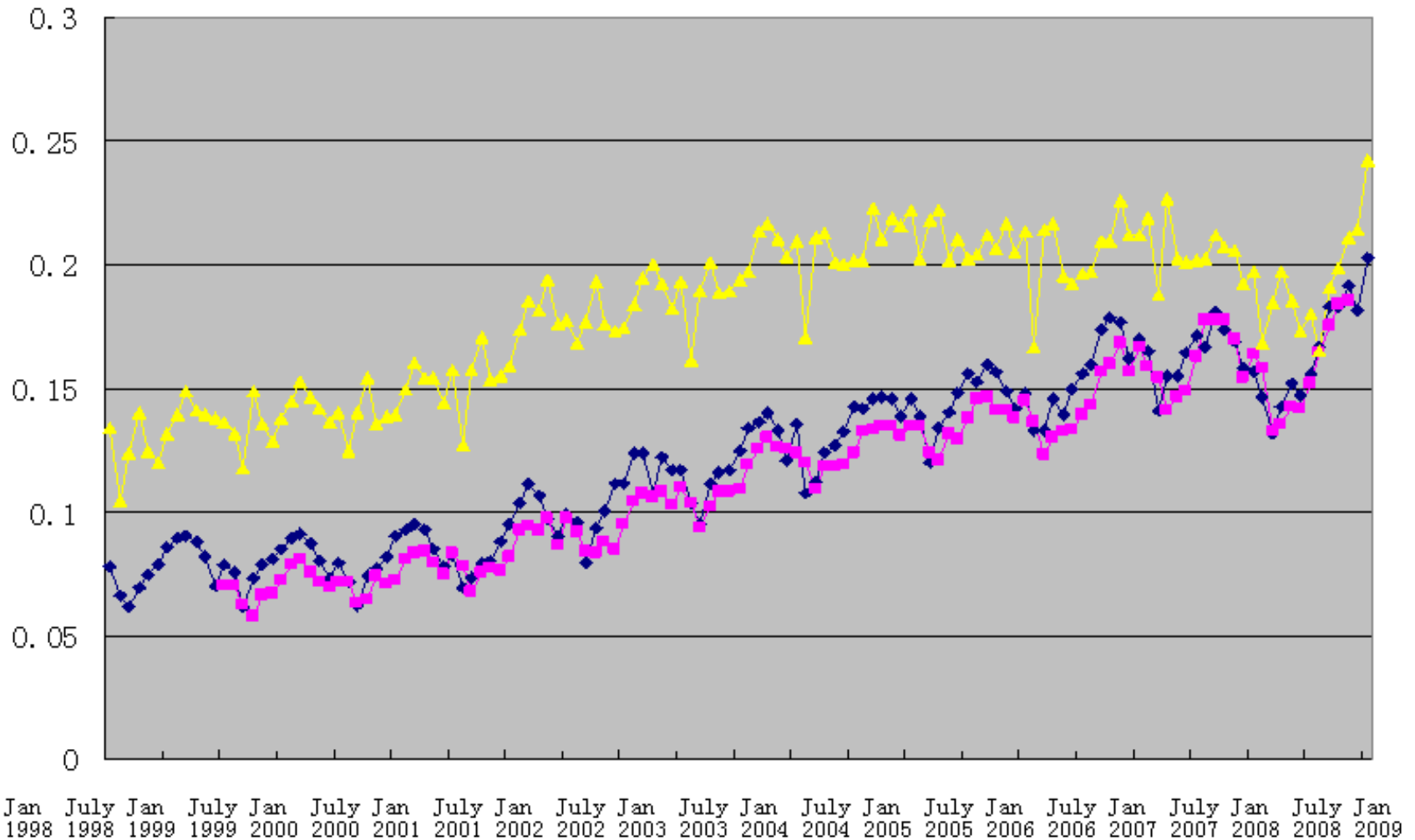
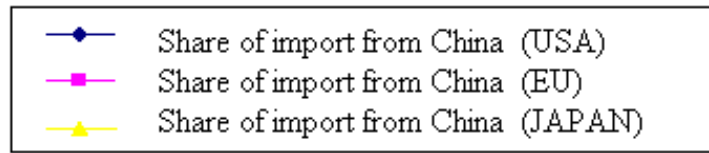
# China's international trade is in a period of significant restructuring

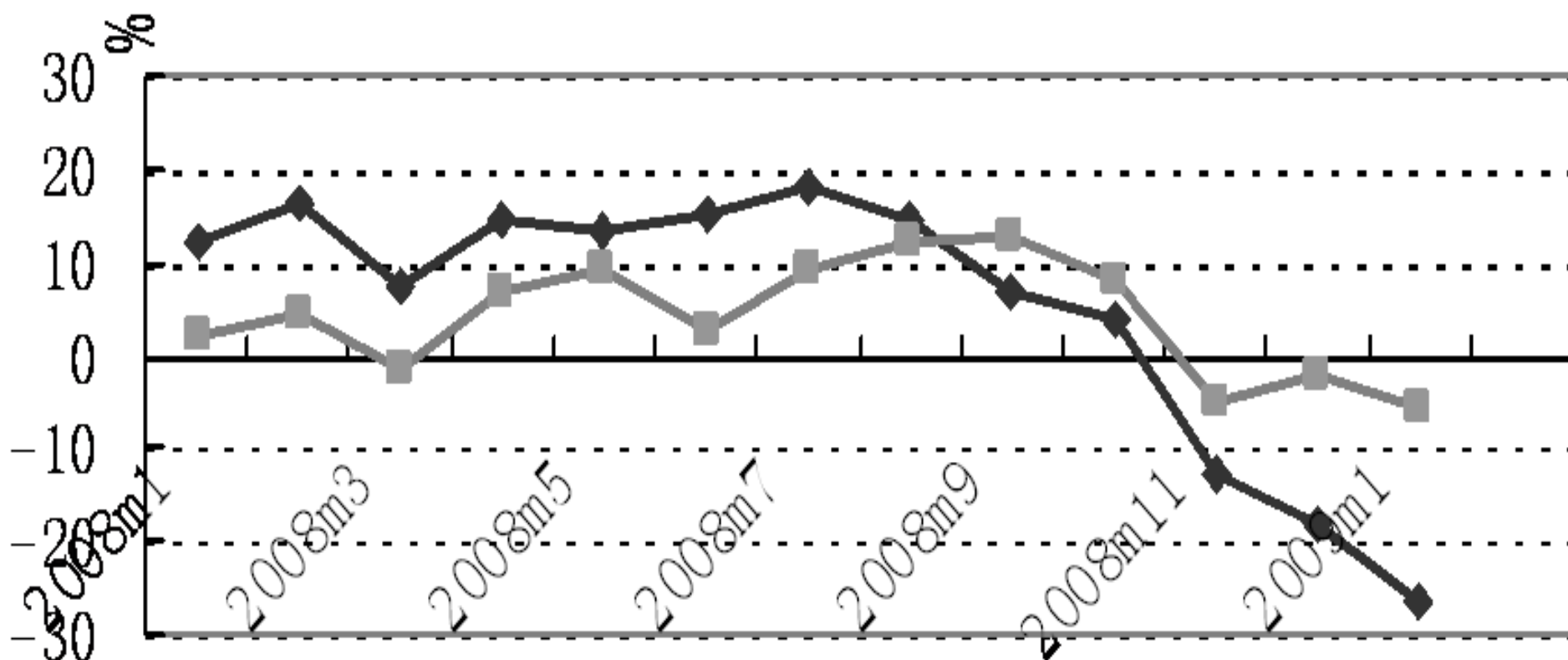
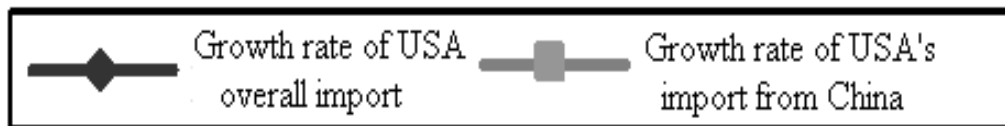
- In recent years, China has been addressing problems such as BOP imbalance, over-consumption of energy resource, imbalance of the investment-consumption ratio, overcapacity in certain industries etc.
- During July 2005 to the end of 2008, RMB nominal exchange rate increased 16.8% while RMB real exchange rate increased 21.6%.
- To reduce trade surplus, relevant trade policies have been adjusted.
- Given the New Labor Law which came into effect in January 2008, average labor cost in the Pearl River Delta region is expected to increase 20%.

# **USA financial crisis' impacts on China's SMEs**

- **Overseas orders have been decreasing significantly, especially in terms of traditional products such as toys, furniture, Christmas gifts, clothes etc. According to enterprises, this trend has become increasingly remarkable.**
- **Traditional qualified customers in EU and USA have extended their payment; lower price orders have shifted to Vietnam and Laos etc; EU and USA customers' default rate has increased remarkably; EU and USA commercial banks are suffering liquidity crunch, leading to enterprises' capital shortage.**
- **Risks of trade finance and export credit increase significantly.**

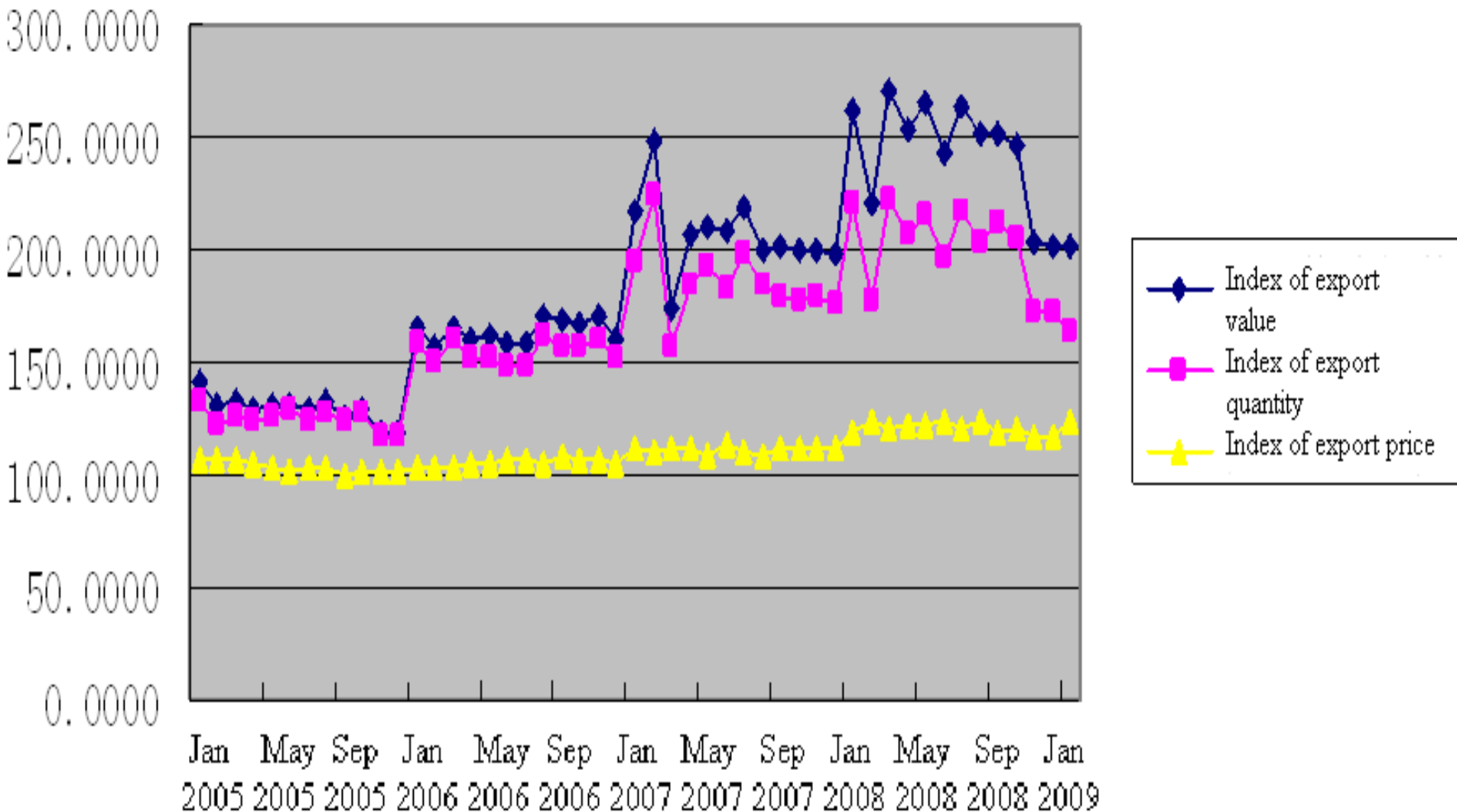
**During October 2007 to March 2008, share of China's export to EU and USA in China's overall export decreased from 18% to 13% (according to USA and EU Customs statistics).**



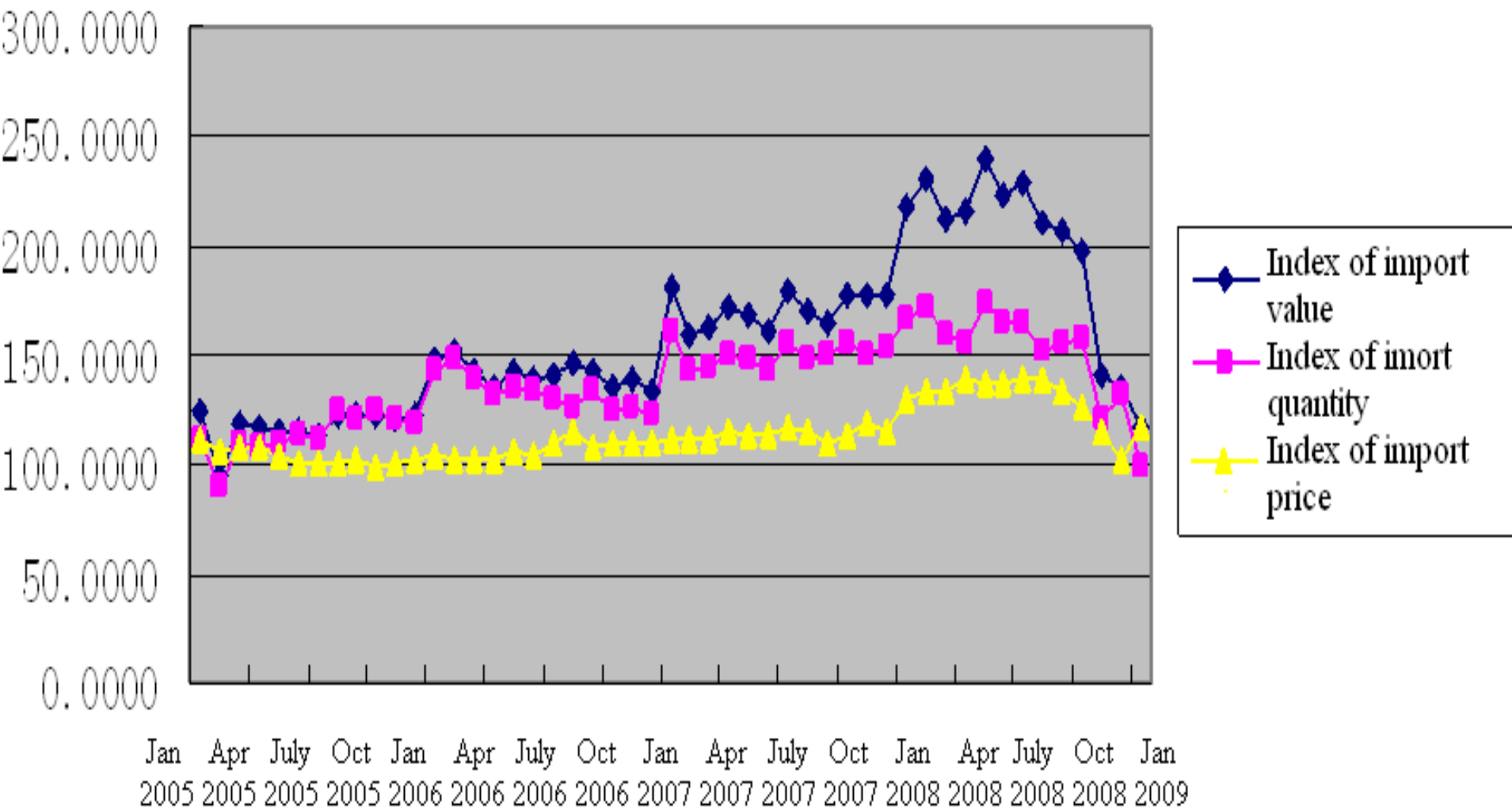


Growth rate of USA import (month on month)

# Indexes of China's export during 2005 – 2009 (value, quantity, price) (2004=100)



# Indexes of China's import during 2005 – 2009 (value, quantity, price) (2004=100)



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- **Implications for addressing financial crisis' impacts on China's international trade**

# **1. China's domestic strategy should mainly focus on 'expanding domestic demand' while its foreign strategy should mainly focus on 'restructuring'**

- **Accelerating a strategic shift of China's economic mechanism from export-oriented to domestic-consumption-oriented (stimulating domestic demand as well as stabilizing export demand).**
- **Accelerating strategic restructuring and promotion of China's trade pattern, trade structure, trade quality as well as trade organization way.**
- **Transformation of processing trade must focus on transformation with local value-added, local subsidiary and local enterprise participation.**

## 2. Structure policy is much more targeted than overall-volume policy

- **Current export fall to a large extent is due to insufficient external demand as well as decrease of overseas order. Effects of RMB depreciation and tax rebate policy have been decreasing in terms of promoting export.**
- **Proactively expanding export products' international marketing channel.**
- **Proactively promoting trade and investment facilitation, as well as improving comprehensive logistics and transportation infrastructure.**

### 3. Addressing SMEs financing and SMEs' export risk

- **Improving SMEs credit mechanism and institutional financial tools. Establishing professional financial organization for SMEs.**
- **Establishing export fund for SMEs, supporting SMEs' export, expanding export credit insurance institutions, diversifying enterprise's export risk.**

## 4. Encouraging diversification of enterprise's export destinations

- **Given EU and USA's sluggish markets, we can help develop enterprises' export to South Asia, Southeast Asia, Middle-east, Gulf region as well as Africa etc by briefing news and holding international exhibitions etc.**
- **Encouraging intra-region trade cooperation, establishing an intra-region trade interaction and stabilization mechanism.**
- **Proactively developing intra-region trade and investment.**

## 5. Proactively implementing a 'go abroad' strategy

- **Encouraging qualified domestic enterprises to invest overseas and to realize localization.**
- **Supporting domestic enterprises to receive service outsourcing contracts, and promoting share of service trade.**
- **Training professional staff, helping enterprises' overseas M&A and engineering contract by providing consultation service.**
- **Proactively conducting acquisition of international brands, global marketing channels as well as R&D centers.**



**Thank you !**