

Research on the Cause of China Long-term Trade Surplus and Policy Proposal

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Abstract

The thesis firstly outlines three stages of trade surplus in China. Then it analyzes the characteristics of trade surplus in current situation. Thirdly we find out that long-term trade surplus arises from statistical caliber used in trade statistics and also the economic conditions of China itself. Lastly, suggestions are given to deal with trade surplus and to promote the sustained, rapid and healthy development of China's foreign trade.

Key words: Trade surplus; Processing trade; Trade structure; Countermeasures

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1. THE DEVELOPMENT PROCESS OF TRADE SURPLUS IN CHINA

1.1 The Initial Stage of Trade Surplus (1981~1989)

After the reform and opening-up, China raised that we must make overall planning in utilizing home and foreign markets, domestic and abroad resources in socialist modernization. And this established the theoretical basis and a guide for attracting FDI. Especially after the reform and opening-up policy as China basic national policy was

put forward, some coastal cities are opened up firstly. Along with the reform of China's trade regime and inflow of FDI, China's foreign trade entered into a new stage of rapid development. China experienced trade surplus in 1982 and in 1983 respectively.

1.2 The Gradual Development Stage of Trade Surplus (1990~1994)

In this stage, the basic characteristic of economy in China was an integration of planned economy and market economy. During this period China management mechanism as well as home and international economy were undergoing great changes. From saving and investment's prospective, China sustained trade surplus resulted from the higher ratio of gross domestic saving than gross domestic investment since 1990. China became the largest recipient of foreign direct investment among developing countries and grew into a large-scale manufacture and processing bases. Except a deficit of 12.22 billion dollars in 1993, other years saw trade surplus and the accumulated surplus were 14.38 billion dollars.

1.3 The High Speed Growth Stage of Trade Surplus (Since 1995)

In this stage, trade surplus in China still maintain a sustained growth trend on the whole except for several years. Especially from the year of 2004 to the year of 2008, trade surplus increased dramatically. Though trade surplus have decreased owing to the international financial crisis since 2008, the surplus is still very large and still reached 181.51 billion dollars in 2010(see Table 1). This is mainly due to the adjustment of economic structure which causes a gap in export growth and slower imports (imports of equipments) and this led to a sharp increase of trade surplus.

Table 1
The Main Historical Years of Trade Surplus Statistics in China

Unit: 100 Million Dollars

Year	1995	1996	1997	1998	1999	2000	2001	2002
Surplus	166.9	122.2	404.2	434.7	292.3	241.1	225.45	304.3
Year	2003	2004	2005	2006	2007	2008	2009	2010
Surplus	254.7	320.9	1020	1774.80	2618.25	2981.30	1956.90	1815.10

Sources: "China Statistical Yearbook" over the years

2. CHARACTERISTICS AND CURRENT SITUATION OF TRADE SURPLUS IN CHINA

2.1 The Surplus of Processing Trade Is More than General Trade

From different trade mode's contribution to trade surplus's point of view, during the years from 1997 to 2010, contribution of processing trade to the surplus is far greater than that of general trade and the contribution gap between them is getting bigger. For example, the

gap between them is 5 billion dollars in 1998 and it expands to 370.15 billion dollars in 2010. This is mainly caused by the speeding up of China's participation in the international division of labor since the reform and opening-up. Making full use of comparative advantage, China has undertaken labor intensive industries or some medium technology industries transferred from developed countries, newly industrialized countries and regions. So we have developed the processing trade of "both material input and finished product abroad" in textile industry and machinery industry, etc (see Table 2).

Table 2
Different Trade Mode's Contribution to Trade Surplus in China

Unit: 100 Million Dollars

Year	1997	1998	1999	2000	2001	2002	2003
General trade	389.44	305.55	120.95	51.02	-15.75	70.76	-56.17
Processing trade	293.96	358.55	373.04	450.94	534.59	577.27	789.47
Year	2004	2005	2006	2007	2008	2009	2010
General trade	-45.39	354.30	831.26	1098.44	907.69	-40.9	-472.5
Processing trade	1062.76	1424.55	1888.83	2490.85	2967.36	2646.37	3229

Sources: sorted out by "China Statistical Yearbook" over the years

2.2 Trade Surplus are Mainly from Foreign-Invested Enterprises and Private Enterprises

From Table 3, exports and imports from foreign-invested enterprises are larger than those of private enterprises and state-owned enterprises in the corresponding period. This is because that the processing trade mode accounts for a larger proportion in foreign-invested enterprises' trade and processing trade is the main source of trade surplus in China. From the Table 3, we can see in the first quarter of 2010, private enterprises and foreign enterprises produced a surplus up to 50.54 billion dollars. State-

owned enterprises in the corresponding period caused trade deficit of 36.15 billion dollars.

Table 3
Trade Volumes of Different Kinds of Trade Enterprises in the First Quarter of 2010 In China

Unit: 100 million dollars

	Exports	Imports	Trade surplus
Private enterprises	920.1	581.4	+338.7
Foreign-invested enterprises	1746.5	1578.8	+166.7
State-owned enterprises	495.1	856.6	-361.5

Sources: China Customs annual report (2010)

Table 4
The Gap of Trade Volumes Between China and Other Countries (Regions)

Unit: 100 million dollars

Year	2005	2006	2007	2008	2009	2010
Total	1020.007	1774.747	2618.255	-803.152	1956.887	1815.103
Asia	-750.719	-696.403	-520.525	-509.489	-348.695	-1030.01
Africa	-23.8053	-20.8386	9.38528	-80.7644	44.03321	-71.3791
Europe	691.9731	1005.129	1481.757	-108.579	1026.076	1373.178
Latin America	-31.0477	18.52757	4.284937	-4.72098	-76.7454	-0.43604
North America	1185.061	1521.916	1717.073	170.5835	1489.959	1887.657
America	1142.69	1442.374	1632.859	179.0188	1433.418	1811.878
Oceania and the Pacific Islands	-51.2647	-53.1445	-73.1263	-256.886	-177.369	-330.013

Sources: sorted out by "China Statistical Yearbook" over the years

2.3 Trade Surplus Are Mainly From Europe and America in North America

China's main partners of foreign trade are from Europe, Asia and North America. China has kept a trade deficit with other Asian countries for many years, with a trade deficit of 103.001 billion dollars in 2010(see Table 4). While in the same year, trade surplus with Europe are 137.3178 billion dollars and with North America are up to 188.7657 billion dollars including surplus of 181.1817 billion dollars to U.S. So Europe and North America are the main sources of trade surplus of China While trade surplus with North America are mainly from U.S. During the years of 2005 to 2010, China's trade surplus With U.S. is even larger than surplus with Europe. The expansion of trade surplus to Europe and North America, especially

to U.S caused the sustained expansion of trade surplus of China.

2.4 Trade in Goods Has a Sustained Surplus While Trade in Service A Sustained Deficits in Successive Years

From the year 2000 to the year 2009(in Table 5), imports of trade in service are larger than exports and the gap has been increasing year by year. The deficit is 5.1 billion dollars in 2000 and 195.69 billion dollars in 2009. It reflects that contribution of service trade to China's trade surplus is negative. In the same time, trade surplus of goods has maintained the basic trend of increase year except for few years. In 2008, trade surplus of goods are up to 298.13 billion dollars. This reflects that trade in goods makes a positive contribution to trade surplus in China.

Table 5
Goods And Service Trade's Contribution to Trade Surplus Over the Years in China

Unit: 100 billion dollars

Year	2000	2001	2002	2003	2004
Surplus of trade in service	-51	-59.3	-67.8	-85.8	-97
Surplus of trade in goods	241.1	225.5	304.3	254.7	320.9
Year	2005	2006	2007	2008	2009
Surplus of trade in service	-92.6	-89.1	-76.1	-115	-295.1
Surplus of trade in goods	1020	1774.8	2618.3	2981.3	1956.9

Sources: sorted out by relevant data from "the People's Republic of China Customs Statistics", "Chinese Trade in Service Guide" and "China Statistical Yearbook"

3. THE CAUSES OF CHINA'S TRADE SURPLUS

3.1 Differences of Statistical Methods Between Home And Abroad

3.1.1 The Recessiveness of Service Trade

In the case of the United States, many multinational companies in manufacturing industry invest in the fields of trade, marketing or finance at the same time. These companies provide products to home market and provide a number of services in order to obtain the internal revenues and support manufacturing and export of goods. In China, exchanging technology for market as a strategy for foreign enterprises is very common. In this situation, though we have paid a higher cost, it can not be reflected in statistics of in service trade. In addition, the service fees in the name of purchasing foreign advanced equipments are not included either. These all make trade data inaccurate.

3.1.2 Confusion of Value of Exports With Value Added in Processing Trade

From the above analysis, processing trade's contribution to trade surplus makes up the absolute proportion. While many China processing enterprises have carried a strategy of "both material input and finished product abroad", raw materials or intermediate products are imported from abroad and their finished products are to be re-exported. In this course Chinese receive a small payment as processing costs. But the whole price of the finished products is

calculated into the export value. So the actual export trade volumes are exaggerated. As Robert Koopman said, "In China's processing trade to the US, the more high-end and complex, the less proportion of domestic value-added will be".

3.2 Trade Policy of "Rewarding Exports and Limiting Imports"

Since the reform and opening-up, China adopted export-led model. To earn foreign exchange through exports became the main purpose of the foreign trade policy. These are all used to achieve economic growth. At the same time, in order to enhance the competitiveness of export commodities, China has accepted a policy of returning indirect tax in the export commodities to exporters. This policy stimulates exports effectively. It is a way of "rewarding exports and limiting imports" policy and plays a significant role in the formation of China's trade surplus.

3.3 China's Low Factor Prices and Environmental Costs

Compared with developed countries, the environmental standards in China are lower since the prices of China's factors such as labor force and land are lower than developed countries. The lower standards encouraged transnational corporations to take China as a processing workshop and develop the processing trade vigorously in China. In the meantime, China's exports of labor intensive products account for a larger proportion because of the

restrictions of factor endowments which are similar to those of Southeast Asian countries'. On the one hand, the world markets have a big appetite for China's labor intensive products. On the other hand, they set restrictions on high-tech products to China. This causes a sustained increase in China's trade surplus.

4. POLICY PROPOSAL

4.1 Optimizing Structure of Import and Export Merchandise and Shifting Trade Patterns

The mix of imports and exports is the base of foreign trade which has an important influence on a country's economy. We have to optimize structure of import and export merchandise in China and reduce the exports of labor-intensive products, resources-intensive products and high pollution products. We should improve the technology contents and enlarge the added-value in traditional export products and raise the industrial level of foreign-invested enterprises and improve the depth of products to raise the domestic value-added rate of export commodities. At the same time, we should import products with a cost advantage and high-tech equipments, especially those strategic resources in order to gradually change the trend of low level of capital goods importation and transform China trade growth pattern.

4.2 To Increase Domestic Consumption and Adjust Trade Policy of "Rewarding Exports and Limiting Imports"

Firstly, we should make full use of domestic market through the increasing of input in social security system such as education, health care, old-age support, etc. To expand domestic demand and sell some "exports" in domestic market will help to reduce trade surplus. Secondly, trade policy of "rewarding exports and limiting imports" should be adjusted to reduce the huge trade surplus and optimize foreign trade composition. We should impose export tariffs on products of low added-value, high pollution, high energy consumption and resource-dependent products. The structure of exports should be adjusted according to industrial policy. Of course, this adjustment should not affect enterprises' enthusiasm of using foreign capital and developing foreign trade.

4.3 Encouraging Investment in Foreign Countries and Carrying Out "Going Out Strategy"

Supporting enterprises' decisions of investment abroad will help to extend the value chains, promote technological progress, upgrade industrial structure and gain more benefits from global division system. It is necessary to

encourage enterprises to transfer some processing parts with competitive advantage into other countries which will change the impacts of the country-of-origin label of goods on expansion of China exports. We should also support qualified enterprises to launch overseas business through the form of buying foreign companies, patents and brands and establish marketing systems of foreign brands to open up foreign markets.

4.4 Optimizing Export Market Structure and Opening up New Markets

Developed countries are the main sales markets of China's products. Since China and developed countries are complementary to each other in industrial structure, we should improve the quality of export commodities, increase their variety, enhance their levels and raise their added value in order to consolidate and deepen markets in developed countries. What's more, optimizing export market structure and opening up new markets are also important. We have to enhance exchanges with other countries or regions with abundant resources and important strategic position such as Asia, Europe, Africa, America, Russia, India, South Africa, etc. Importing energy and resource products we need from these markets will help us to avoid export issue from debt crises in Europe and the US in short term. In the long run, it will also be a breakthrough of reducing trade surplus and realizing the transformation of China from a trade great nation to a trade powerful nation.

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