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China's trade performance and its impacts on Asian economies

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Abstract

In 2001, China joined the World Trade Organization (WTO), and its economy has since opened up through domestic reform. The Chinese government has also since tried enthusiastically to lure a lot of investors—and succeeded. As a consequence, China's exports have boomed, and China has become a most enthusiastic importer. This development has brought great opportunities for the Asian economy, with interregional trade being the principal contributor to China's steady export growth. Chinese imports have been more accurately termed "imports from the integrated Asian regional economy".

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1. Introduction

China began to open up its economy to the outside world in the late 1970s. In 1979, China transitioned from a centrally planned economy rooted in self-sufficiency to a market-oriented economy focused on growth. To achieve this transformation, China opened up its economy through domestic reforms over the 1990s. According to Zhai and Li [2000], China made substantial progress in decentralized trade, reduced the coverage of nontariff barriers (NTBs), slashed tariffs, and unified the dual exchange rate in 1994. Adhikari and Yang [2002] also said that in 1996, China removed exchange control on current account transactions, which created trade distortions. Furthermore, Lardy [2002] estimates that the number of tariff lines subject to quotas and licenses fell from 1,247 in 1992 to 261 in 1999. The implications of these reforms have led to China's accession to the World Trade Organization (WTO) in 2001 after 15 years of arduous negotiations.

China has also improved its diplomatic relations through stable relations with South Korea, Hong Kong, and Taiwan. In 1992, China normalized diplomatic ties with South Korea. The Korean economy has been rapidly merging with the North

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China industrial complex around Beijing. And since 1996, Taiwanese governm relaxed the postrevolutionary ban on mainland investments, bringing Taiwan manufacturers and high-tech firms to Shanghai, Fujian, and other sites around Chi In the late 1990s, China received US$ 40-50 billion a year in direct investment factories, research stations, and sales offices [Gresser 2004].

Furthermore, China's government has actively lured more investments strengthen the economy; as a consequence, a wave of investments has come to mainland, mostly from Asia's five rich economies—Japan, Korea, Taiwan, Hc Kong, and Singapore—and a small fraction from the United States. According Gresser [2004], foreign firms opened 83,000 new projects in China in 2000-20 About three-quarters of these were manufacturing facilities. This shift in investme patterns brought down transaction costs and fueled increased foreign investme in Chinese industry, especially the expanding services sector. As trade liberaliz production costs and the price of capital goods decreased while rental rates increas resulting in a rising return on capital in China. This could draw investments aw from Asian countries previously seen as most profitable, and toward the new a larger Chinese market.

Obviously, China's transition toward a market economy has vast implicatio for its economic and social welfare. Opening the Chinese market has resulted in stronger economy, which has been growing at a rate of nearly 10 percent annuall its trade has been expanding by more than 20 percent a year. China is also a mo enthusiastic importer. Today it is a major economic power in Asia and the bigge merchandise-trading nation [Srivastava and Rajan 2004].

Moreover, China's shift to a market economy has also brought opportuniti for other Asian economies. China's Asian trading partners will experience increase competition for goods whose production shares a comparative advantage with Chin They will be able to exploit a large new market for capital-intensive, raw-materi and high-technology goods, as well as take advantage of a lucrative opportunity fc expansion of foreign-provided services. China's booming exports have also bee supported significantly by imports from the integrated Asian regional economy.

This paper aims to discuss the impact of China's accession to the WTO throug China's trade performance as well as how it has impacted other Asian economie The paper has five sections. Section 2 depicts the reforms associated with China' accession to the WTO. Section 3 describes China's trade performance. Section discusses the impact of China's trade performance on the Asian economies. Th final section provides a conclusion.

2. The reforms associated with China's accession to the WTO

The accession of China to the WTO on December 11, 2001, has a potential impac on the level of trade reforms. China has agreed to abolish all tariff barriers and tc reduce tariffs, substantially cutting overall tariffs from 40.3 percent in 1992 to 6.8 percent by the end of the implementation period in 2010. Tariffs on manufactured goods dropped from 24 percent in 1997 to 7 percent within five years of accession. Tariffs on information and communication technologies will be fully eliminated and auto tariffs will be cut down to 25 percent by 2006 [Straus 2003].

Obviously, the reduction of Chinese tariffs, the removal of NTBs, and the implementation of the duty exemption arrangement will entail large concessions from all parties. The stark reduction in tariffs will generate an influx of foreign goods to China. The removal of quotas on cheap Chinese goods such as textiles and clothing, on the other hand, will flood foreign markets with these goods. And allowing the duty exemption will result in most of China's imports entering duty free as input into the production of exports [Ianchovichina and Martin 2001].

There are many forms of export arrangements. The most common of these simply permits firms to import intermediate input at world prices. The producers are allowed to import their intermediate input at world prices in order to produce and export finished goods. This has created two activities: one specializes in production for export, while the other specializes in production for the domestic market. Moreover, the tax arrangements for export processing discourage export processors from selling at the local market. It also encourages ordinary exporters to use mainly domestic rather than imported or intermediate input. Local content requirement and foreign exchange balancing rules and tax arrangements have restricted the ability of companies selling locally to use imported intermediates [Ianchovichina and Martin 2001].

Besides that, China is also required to treat its rivals equally, which means that it should not discriminate between domestic and foreign producers. China was asked to eliminate the dual-pricing system that it has historically used to differentiate between domestic and foreign prices. These changes reflect China's shift from self-reliance to accepting the influx of foreign goods and services. In the past, Chinese authorities put large emphasis on supporting local industry—e.g., the Chinese auto industry—and granting preferential treatment to businesses or individuals that follow their "buy domestic" policy. Also, the disparity between domestic and border prices will lessen, and importers will gain access to a fair-goods market [Straus 2003].

The trade reforms initiated after accession to the WTO have resulted in an obvious net benefit to the Chinese economy. The empirical study by Adhikari and Yang [2002] predicted that the welfare gain from the liberalization merchandise alone has been about US$ 4-30 billion a year. China's rate of export growth has been higher than that of any other country, expanding by more than 20 percent a year. China is also one of the world's most enthusiastic importers, with an import growth outpacing the export growth.

3. China's trade performance

Accession to the WTO made China a much bigger player in world markets China's trade volume with the world has since grown dramatically. The trade figures in Table 1 show that in 2001, exports and imports increased by only 6.8 percent and 8.2 percent, respectively. But in 2002, China's exports and imports rose by more than 20 percent, leaving China with a US$ 30.4 billion trade surplus, more than a third over the surplus in 2001. Even in 2003 and 2004, annualized Chinese export growth seems to have been more than 30 percent. And China posted a US$ 25.5 billion trade surplus in 2003 and a US$ 20.8 trade surplus for 11 months in 2004. The volume of total foreign trade was also more than US$ 1 trillion in 2004. It can be predicted that China's export performance will remain strong in the coming year.

China is rapidly emerging as one of the world's most enthusiastic importers. Since 2003, although the absolute numbers are lower, the rate of import growth has actually been a little higher than that of export growth. The import rate grew by 39 percent, but the export rate grew only by 34.6 percent in 2003. Moreover, the import growth was 37.3 percent, while the export growth was 35.7 percent for 11 months of 2004. Some analysts have said that the import growth outpacing the export growth is a consequence of China's entry to the WTO.

China's trade with the United States has been booming. The United States remains the largest export market for China. China-US trade easily surpassed US$ 200 billion in 2004. In the same year, Chinese exports topped US$ 191.8 billion, expanding by 28.6 percent. This has been spurred by substantial increases in US imports, such as power generation equipment as well as electrical machinery and equipment. However, the Chinese export of iron, steel, copper, and iron metals registered the strongest growth.

Table 1. China's trade with the world

Year	*Exports ($ billion)*	*% Change*	*Imports ($ billion)*	*% Change*	*Total ($ billion)*	*Balance ($ billion)*
2001	266.1	6.8	243.6	8.2	509.7	22.5
2002	325.6	22.3	295.2	21.2	620.8	30.4
2003	438.4	34.6	412.8	39.0	851.2	25.5
2004	529.6*	35.7	508.8*	37.3	1,038.4	20.8

Source: China's Customs Statistics.

*January-November 2004

China's imports from the United States grew slightly slower than its exports. The value of China's import from the United States was only US$ 31 billion in 2004, growing at the rate of 25.5 percent. The strong growth in US exports to China represents the largest growth figure for any US export market. The significant increase in China's imports from the United States was boosted by cotton, followed by inorganic and organic chemicals.

Table 2. China's trade with the United States

Year	*Chinese exports (US$ billion)*	*% Change*	*Chinese imports (US$ billion)*	*% Change*	*Total (US$ billion)*	*Balance (US$ billion)*
2001	19.2	18.3	109.4	1.6	128.6	90.2
2002	22.1	14.6	133.5	22.0	155.6	111.4
2003	28.4	28.5	163.3	22.3	191.7	134.9
2004*	31.5	25.5	191.8	28.6	223.3	160.3

Source: US International Trade Commission.
*January-November 2004

Table 3. China's top exports to the United States, 2004*

No.	*Commodity description*	*Exports (US$ million)*	*% Change*
1	Power generation equipment	41,069.30	46.9
2	Electric machinery and equipment	37,834.00	39.2
3	Toys and games	17,227.60	5.7
4	Furniture	15,226.40	23.1
5	Footwear and parts thereof	11,121.30	7.3
6	Apparel	10,506.40	24.4
7	Leather and travel goods	5,770.20	13.8
8	Iron and steel	5,646.40	60.2
9	Plastic and articles thereof	5,271.60	20.5
10	Medical instruments	3,615.60	16.6

Source: US International Trade Commission.
*January-November 2004

US direct imports from other Asian countries have plummeted. Table 5 shows how US imports from other Asian economies almost precisely offset new purchases from China. China's exports to the United States grew at a rate of 52 percent from 2000 to 2003. However, most of Asian exports to the United States fell. In 2000-2003, the exports of Taiwan, Singapore, and Hong Kong to the United States decreased sharply by more than 20 percent. The exports of Japan, Korea, and other ASEAN countries also dropped by 19.5 percent, 7.5 percent, and 2.9 percent, respectively. This reflects a drop in information technology imports as well as shifts of production to the mainland.

Table 4. China's top imports from the United States, 2004*

No.	*Commodity description*	*Exports (US$ million)*	*% Change*
1	Power generation equipment	5,573.20	34.0
2	Electric machinery and equipment	5,567.30	29.7
3	Oil seeds and oleaginous fruits	1,971.90	-17.5
4	Medical instruments	1,881.80	31.9
5	Air and spacecraft	1,853.30	-15.4
6	Inorganic and organic chemicals	1,724.40	50.0
7	Plastic and articles thereof	1,647.30	46.4
8	Cotton	1,354.60	171.6
9	Iron and steel	1,218.10	8.0
10	Pulp and paper	681,2.00	28.5

Source: US International Trade Commission.
*January-November 2004

Table 5. Asia's exports to the United States

Countries	*2000 (US$ billion)*	*2003 (US$ billion)*	*Growth (%)*
China	100.0	152	52.0
Japan	146.5	118	-19.5
Korea	40.0	37	-7.5
Taiwan	41.0	32	-22.0
Singapore	19.0	15	-21.1
Hong Kong	11.5	9	-21.7
Other ASEAN	69.0	67	-2.9

Source: US International Trade Commission.

Although Asian exports to the United States dropped significantly, Chinese imports might be more accurately termed imports from Asian regional economies. This indicates that however successful Chinese exporters might have been, the businesses of most other Asian countries have still fared better. The top Asian countries exporting to China are Japan, Taiwan, South Korea, Malaysia, and Singapore. Their exports to China grew by more than 100 percent, with Japan as the top source of China's imports. Japan's exports to China increased from US$ 42,774.3 billion in 2001 to US$ 85,619.4 billion in 2004. On the other hand, China's imports from Malaysia grew much faster than any other Asian country's at around 167 percent from 2001 to 2004.

China continues to run a surplus with the United States as trading partner and tends to deficit with most of its trading partners in Asia. In 2004, the United States was China's top trading partner. China's exports to the United States have been booming, resulting in a surplus of US$ 160.3 billion in the Chinese trade balance with the United States (see Table 2). However, China's trade with most of its Asian trading partners, except Hong Kong, tends to lean toward a deficit (see Table 7). Taiwan maintains a huge trade surplus with the mainland, prompting some Chinese leaders to be concerned about Taiwan's leverage in this area. China's trade balance with Taiwan has a deficit of US$ 46.8 billion. South Korea has a surplus of around US$ 31.8 billion, and Japan about US$ 19.7 billion. In its trade with China, Malaysia racked up a US$ 9.3 billion surplus, mostly through the sale of power generators, mineral fuels, and animal fats. With Singapore, China has deficit of about US$ 1.3 million. But with Hong Kong, China has a big surplus of US$ 78.9 billion.

Table 6. China's top imports from Asia

Countries	*2001 (US$ million)*	*2004* (US$ million)*	*(%) Change*
1. Japan	42,774.30	85,619.40	100.2
2. Taiwan	27,344.20	58,856.60	115.2
3. South Korea	23,383.10	56,596.90	142.0
4. Malaysia	6,205.60	16,571.20	167.0
5. Singapore	5,129.00	12,624.80	146.1
6. Hong Kong	9,422.20	10,395.50	10.3

Source: China's Customs Statistics.
*January-November 2004

Table 7. China's trade balance with Asia, 2004*

Countries	Export (US$ million)	Import (US$ million)	Balance (US$ million)
1. Japan	65,876.20	85,619.40	-19,743.20
2. Taiwan	12,016.60	58,856.60	-46,840.00
3. South Korea	24,756.30	56,596.90	-31,840.60
4. Malaysia	7,235.20	16,571.20	-9,336.00
5. Singapore	11,281.40	12,624.80	-1,343.40
6. Hong Kong	89,294.20	10,395.50	78,898.70

Source: China's Customs Statistics.
*January-November 2004

4. The impact of China's trade performance on Asian economies

In general, China's trade with the world, especially with the United States, rose dramatically. The United States has overthrown Japan as China's top trading partner. China's exports to the United States have been booming—the volume of China's exports to the United States has largely exceeded its imports. Therefore, the Chinese trade balance with the United States has produced a surplus.

On the other hand, the Chinese trade balance with most Asian countries has reflected a deficit. Trade between most Asian nations and the United States has been sluggish, resulting in a deficit in their trade balances with the United States. However, their trade has moved from the United States to China so that their trade with China has increased sharply, resulting in a trade surplus for them. Therefore, the Chinese trade balance has registered a deficit, indicating that a new and larger market produced by China's accession to the WTO has brought greater opportunity for most Asian countries.

The interregional trade is the principal contributor to China's steady export growth. The revitalized Asia-Pacific region will lead to more unified Asian interests, and therefore to more unified positions in global trade negotiations, as blurring economic borders bring Japanese, Chinese, Korean, and Southeast Asian interests more in line with one another.

China's accession to the WTO has resulted in an increased access to China's domestic market. According to Straus [2003], with more than 60 percent of China's imports coming from other Asian nations, increased access to China's large domestic market creates a large potential for growth for other Asian regions exporting to China. The Chinese government's commitment to extend national support to foreign firms creates greater opportunities for exporters of services ranging from telecommunications to banking. In manufacturing, agreements to abolish nontariff barriers and reduce tariffs from 13.3 percent in 2001 to 6.8 percent by the end of implementation leave room for more imports from more efficient suppliers of capital-intensive goods to flow into the Chinese domestic market. In agriculture, an increase in China's imports of nonlabor-intensive goods will also serve as an exogenous shock to the economies of the region. These shifts, which would open up a large economy in the Asian region and which would incur low transportation costs for regional exporters, create an increased demand among China's major trading partners. Importers will be able to offer a higher quantity of goods representative of their domestic comparative advantages at lower prices to Chinese consumers. The result will be an inflow of capital-intensive goods from East Asian producers and an improvement in the welfare of Chinese consumers who will enjoy lower-priced foreign substitutes.

Reduction in the protection enjoyed by Chinese industries will fuel increased imports from China. The reduction in protection will allow only efficient firms to compete and thus drive down export prices from China, thus increasing China's appeal as an efficient supplier. The Asian region will benefit through the improvement of consumer welfare brought about by the influx of cheaper imported goods, as well as the increased production output through the use of cheaper intermediate inputs from China in their own manufacturing. While both China and its trading partners stand to benefit from the increase in Chinese exports, in order to enjoy all the benefits, the partners will have to resist political pressures for protection from their own industries as cheaper Chinese goods may displace their own domestic goods.

As the Chinese market is progressively opened, competition with Chinese goods will increase in third markets as a result of the drop in prices of Chinese goods. Countries that have a similar comparative advantage in labor-intensive goods as China will be challenged to compete with an exporting giant. As a result of the removal of quotas and tariff reductions, China will increase market share in nonquota-constrained Asian countries both by exploiting economies of scale as well as using cheap foreign imports as inputs to Chinese-manufactured goods. Asian countries will generally lose market share for their exports of labor-intensive goods and be forced to shift production toward sectors that either complement Chinese exports or are driven by the efficient use of other unrelated resources.

5. Conclusion

The largest effect of the opening of the Chinese market is not only the creation of a stronger Chinese economy but the increased opportunity for other Asian nations as well. China's accession to the WTO in 2004 had potential impacts on China trade reforms. China has agreed to abolish all tariff barriers and to reduce tariffs in general. Moreover, China's government has also tried to attract a lot of foreign investors. As a result, new and larger markets for China itself and other Asian nations have been generated. China's trade performance has changed; now, China is one of the top exporters to the United States, accruing a big trade surplus. However, most Asian exports have moved from the United States to China; therefore, US direct imp from other Asian countries have plummeted, and most of the Asian nations l trade surpluses with China. Thus, China's steady export growth has been suppo by the integrated Asian regional economy.

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