Seminar Series on Chinese Economy

Dr. Yun-kwong Kwok
Senior Lecturer
Email: yunkwongkwok@hkbu.edu.hk
Seminar Series on Chinese Economy

• China’s Foreign Trade
  • Dr. Kwok, Yun-kwong
  • Senior Lecturer, Department of Economics, HKBU
  • 2 May 2017 (Tuesday), 2:00-5:00

• China’s Financial Reforms and Future Challenges
  • Dr. Cheng, Yuk-shing
  • Head & Associate Professor, Department of Economics, HKBU
  • 12 May 2017 (Friday), 2:00-5:00

• Chinese Exchange Rate and Capital Account Liberalisation
  • Dr. Luk, Sheung-kan Paul
  • Assistant Professor, Department of Economics, HKBU
  • 25 May 2017 (Thursday), 2:00-5:00
Foreign Trade under Mao

- When the People’s Republic of China (PRC) was born in 1949, integrating its economy to the world was never on the agenda.
  - Having been semi-colonized for a century, China was vigilant of being too dependent on foreign powers.
  - The Chinese leadership was more eager to reassert the independence of China’s foreign trade policy.
Chairman Mao Zedong promoted the idea of *zili gengsheng* (self-reliance).

- China was not in pursuit of autarky, just not to become dependent on foreign countries.
- In fact, China was keen to import technologies and machinery.
• The hostile international environment constrained the foreign trade policy option of China.
  • During the Cold War, the Western powers adopted a containment policy on communism.
  • Korean War → Embargo imposed on China by the United Nations led to stoppage of China’s trade with Western countries
  • China decided to side with USSR because it had to rely on the technological aid as well as the experience in running a socialist economy.

• Only trade with other socialist countries
  • Union of Soviet Socialist Republics (USSR)
  • and Eastern European countries
  • 1\textsuperscript{st} five-year plan (1953-57): received aids from USSR → trade with USSR
出口商品总额 vs 进口商品总额 (亿美元)

Source: 中国国家统计局 [http://www.stats.gov.cn/]

Prepared by Yun-kwong Kwok, HKBU
• Internally, China adopted the Stalinist economic model.
  • A central planning system
  • Almost all enterprises were mandated to produce and to trade according to plans formulated by government authorities.
  • Prices of products were fixed and did not reflect their scarcity.
  • Profits were required to surrender to the government while loss-making firms enjoyed subsidies.

• When the diplomatic relationship between China and USSR deteriorated in the early 1960s,
  • China’s foreign trade volume shrank significantly.
  • Although China was able to revive trading activities with Japan and some European countries in that period, the trading volume was small.
• China’s subsequent worsening of the relationship with the USSR in the 1960s forced China to rebuild its relationship with the West.

• A turning point appeared in the early 1970s.
  • The PRC took over the membership of the Republic of China in the United Nations in October 1971,
  • signifying the former’s success in rebuilding diplomatic relationship with the West.

• This was followed by President Nixon’s visit to China in February 1972.
  • The normalization of diplomacy with the U.S. and other major countries in the west in the 1970s expanded the foreign trade of China.
Foreign Trade System under Mao

- Foreign trade sector under Mao was monopolized by a dozen state-owned trade corporations.
  - Procure domestic products for exports and import products for domestic uses according to government plans

- The concept of the function of foreign trade in the era of planned economy:
  - Foreign trade was implicitly conceived as performing the function of *tiaoji queyu* (import goods that were not sufficiently supplied domestically and export goods that were relatively in excess).
Foreign Trade System Reform

• China’s open door policy embarked in 1978.
• Change in the conception of the function of foreign trade:
  • noticed the benefits of participating in the international division of labor according to the theory of comparative advantage (not just *tiaoji queyu*).
Phasing out its planning controls on foreign trade

- China first gradually reduced its mandatory plans (指令性计划) on foreign trade and replaced them with instructive guidance (指导性计划),
  - which is less restrictive.
  - Both mandatory plans and instructive guidance were reduced as the reform proceeded.
Breaking up the monopoly of foreign trade enterprises

- Foreign trade had long been dominated by a dozen of trade corporations controlled by the Ministry of Foreign Trade.
- With the reform, other central ministries, individual divisions (各部门), and local governments (地方政府) were allowed to set up foreign trade companies.
In 2004, foreign trade rights (外贸权) were opened to all enterprises according to World Trade Organization (WTO) regulations.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>12</td>
</tr>
<tr>
<td>1986</td>
<td>800</td>
</tr>
<tr>
<td>1988</td>
<td>&gt;1,200</td>
</tr>
<tr>
<td>1996</td>
<td>&gt;5,000</td>
</tr>
<tr>
<td>1997</td>
<td>12,000</td>
</tr>
<tr>
<td>1998</td>
<td>15,000</td>
</tr>
<tr>
<td>1999</td>
<td>23,000</td>
</tr>
<tr>
<td>2000</td>
<td>39,258</td>
</tr>
<tr>
<td>2001</td>
<td>31,000</td>
</tr>
<tr>
<td>2004</td>
<td>35,000</td>
</tr>
</tbody>
</table>

Opening Economic Zones

• In April 1979, the Guangdong Committee of the Communist Party of China (CPC) (中共广东省委) suggested Deng Xiaoping
  • to decentralize and allowed Guangdong to develop “export processing zone” in Shenzhen, Zhuhai, and Shantou.
Deng Xiaoping said later (1991 in Shanghai) that the major considerations at that time were the geographical conditions.

- Shenzhen is adjacent to Hong Kong.
- Zhuhai is adjacent to Macao.
- Shantou is the hometown of many overseas Chaozhouese in Southeast Asia.
- Xiamen is the hometown of many overseas Fujianese businessman.

These cities are picked in order to attract foreign (at the beginning, overseas Chinese) investors.
• SEZs are “windows” (窗口) through which China
  • opened its economy to the world
  • exposed itself to outside technology (技术的窗口), management
    method (管理的窗口), and knowledge (知识的窗口)
  • SEZs were also the “experimental fields” (试验田) of China’s open
    door policy and external policies (对外政策的窗口).
• Later, China continued to further open more cities and
  areas.
  • Coastal port cities
  • Pearl and Yangtze River Deltas
  • southeast Fujian (Xiamen-Zhangzhou-Quanzhou) Triangle area
  • Hainan province
  • Bohai (环渤海, the Liaodong Peninsula and Shandong Peninsula)
    Open Economic Rim
  • Cities along the Yangtze River, along the northern border, as well
    as inland cities
Preferential policies to opened zones

1. Local governments of SEZs and open cities were given larger economic management authorities.
   • SEZs’ authority for approving investment projects was equivalent to a provincial level.
   • Adopting supportive policies and flexible measures to help the open cities to utilize foreign investment.
2. In accordance with the rules of a market economy, SEZ companies were given full operation autonomy.

- Under the premise of complying with the state laws and within the approved scope of business operation, companies can
  a. set their own production and operation plans. The government would not issue directive production plans to enterprises.
  b. make investment decisions according to the market demand.
  c. design their own the organizational structure, including recruitment and dismissal of staffs.
  d. make their own marketing arrangements.
  e. set their own prices.
   - SEZ enterprises enjoyed lower taxes or even an exemption of taxes
   - Specifically, exporting enterprises, foreign invested companies in SEZs that would operate in a long term (more than 10 years) and/or would have a huge investment (more than 500 million USD), foreign-invested enterprises engaged technology-intensive and knowledge-intensive projects and a lengthy return on investment

4. Imported materials that were used to produce exported products were exempted from customs duty and value added tax.
5. **Setting up Bonded Area (保税区)**

- Sometimes known as “within the border, but outside the customs” (国境以内，关境以外)
- Learning from the experience of foreign free trade zones and export processing zones,
- its main purpose is, under China’s context of tariff protection, to open a small area and give it preferential tariff reductions, to introduce foreign capital and advanced technology.
The Establishment of WTO

• After GATT’s lengthy Uruguay Round of trade negotiation in all areas, the World Trade Organization (WTO) was finally established in 1995.
  • WTO member states are required to comply with more extensive trade agreements covering broad range of products
  • and accept the newly established Dispute Settlement Mechanism and Trade Policy Review.
What WTO Promotes

1. Trading without Discrimination
   - Members should not have discriminatory treatments towards trade partners
   - Member states should give the most-favored nation (MFN) status to all other member countries:
     - when a member state gives trade preferences to any other country, countries with MFN status will also get the same benefits.
   - Member states should give foreign products, services, and enterprises “national treatment.”
     - That means they should not render discriminatory treatment toward foreign enterprises, goods, and services.
2. Freer Trade

- Countries should promote trade liberalization through negotiations.
  - This does not mean an immediate and complete implementation of free trade though.

3. Predictability

- Member states should not arbitrarily increase trade barriers,
  - so as to increase the predictability and stability of international trade.
  - E.g., set bounds on tariffs and to increase transparency of trade laws and policy.
4. **Fair Competition**

- Discouraging ‘unfair’ practices,
  - such as export subsidies and dumping products at below cost to gain market share.
  - The issues are complex, and the rules try to establish what is fair or unfair, and how governments can respond, in particular by charging additional import duties calculated to compensate for damage caused by unfair trade.

5. **Development and Economic Reform**

- WTO requires countries to gradually open trade,
  - though developing countries are allowed to commit a smaller degree of trade openness or to take a longer time to meet their opening promise.
6. Protect the Environment

• The WTO’s agreements permit members to take measures to protect not only the environment but also public health, animal health and plant health.
  • However, these measures must be applied in the same way to both national and foreign businesses.
  • In other words, members must not use environmental protection measures as a means of disguising protectionist policies.
The Process of WTO Accession

- Failed to become a founding member of WTO, China required to apply to join this new organization.
  - The application requires bilateral and multilateral negotiations with the existing members.
- Each WTO member can request a negotiation with the new applicant.
  - In the bilateral negotiations, member states can raise a variety of requirements.
  - They can even require more open up commitments from the applicants than the current members.
- Finally, the application must be approved by two-thirds of the current members.
• In China’s WTO application, the bilateral negotiation between China and the US is the most essential part.
  • In November 1999, China and the US finally reached an agreement about the conditions for China to enter WTO.
  • Subsequently, China also reached agreements with EU and other countries in the following year and finally signed the accession documents on November 10, 2001.

• Following WTO’s procedures, China officially obtained the membership of WTO 30 days (i.e. December 11, 2001) after signing the accession documents.

• China’s accession to WTO means China will enjoy the rights of member states, but also perform relevant obligations.
  • These are bound by both legal documents of WTO and China’s WTO accession protocol.
China’s Rights in WTO

1. Enjoy non-discriminatory treatments

- China can enjoy the multilateral unconditional most-favored nation (MFN) status (or Normal Trade Relations) and national treatments without restrictions.
  - Past discriminatory treatments against China in bilateral trade by other member states will gradually be eliminated.
- Before joining WTO, the MFN status the US granted to China must be renewed every year.
  - But after China’s WTO accession, the US Congress approved a bill of permanent normal trade relations with China.
  - Also in the past, EU, Argentina, Hungary, Mexico, and other countries implemented restrictions on China’s exports that were inconsistent with WTO’s rules. Now, all these need to be removed.
2. Full participation in the multilateral trading system

- China can fully participate in the Trade Policy Review system,
  - oversee and question policies of trading partners, and urge other WTO members to fulfill their obligations.
- When there are bilateral trade frictions between China and other countries, it can negotiate in accordance with rules of WTO.
  - It can also make use of the WTO dispute settlement mechanism to deal with the conflicts, so as to avoid the possibility of being treated unfairly.
China’s WTO Obligations

1. Commitment to open markets

• Average tariff rate needs to be lowered substantially.
• Quotas, licenses, and other non-tariff measures that were used to restrict imports need to be canceled.
• Trading rights (the right to import and export) should be opened to all domestic and foreign enterprises.
• Not to subsidize exports.
• Open the market of services (including telecommunications, banking) under certain conditions.
2. Comply with the rules of transparency and predictability

• Unify all trade policies
  • Ensure that all the documents related to China’s WTO accession apply to the whole customs territory of China.
  • The central and local government should implement the policies in a consistent, fair, impartial, and reasonable manner.

• Provide precise and reliable information about China’s trade policies to enterprises and individuals.
  • Following the principles of transparency, China has to promptly publish all laws, regulations, judicial decisions, and administrative rulings that affect trade.
  • The ministry responsible for trade issues should set up a “WTO Consultation Point.”
• Before introducing new laws, China should provide drafts and collect opinions.
  • If China formulates new or amend old WTO-related laws and regulations, it should notify WTO.
• Trade-related laws and departmental rules that have not been promulgated should not be implemented or executed.
• Establish a fair and independent judicial review body to review administrative acts related to implementation of trade policies.
• All these imply that China have to make a lot of legal reforms and increase the transparency of its administration.
Developments after Accession

- China’s WTO accession has advanced its economic reforms.
- China’s policy transparency has been improved after the accession.
  - WTO’s Trade Policy Review of China in 2006 passed China’s effort on this aspect, though it also pointed out that there were still rooms for China’s trade regime to improve.
• It should be noted that WTO only provides a set of rules of game, how member states play in this game will certainly affect the outcome of the game.
  • Some WTO members, including the US, knowingly violate the WTO’s rules.
  • For the Chinese government and enterprises, the question is how to appropriately use these rules to benefit from trade, to reform its market, and to develop its economy.
Size Matters: The Gravity Model

- The size of an economy is directly related to the volume of imports and exports.
  - Larger economies produce more goods and services, so they have more to sell in the export market.
  - Larger economies generate more income from the goods and services sold, so they are able to buy more imports.

\[ T_{ij} = A \times Y_i^a \times Y_j^b / D_{ij}^c \]

where
- \( T_{ij} \) is the value of trade between country \( i \) and country \( j \)
- \( A, a, b, \) and \( c \) are parameters
- \( Y_i \) is the GDP of country \( i \), \( Y_j \) is the GDP of country \( j \)
- \( D_{ij} \) is the distance between country \( i \) and country \( j \)
China's imports and exports (1979-2014)
(USD 100 million)

Source: China Trade and External Economic Statistical Yearbook (2009-2014) and China's Statistical Yearbook, various years

Prepared by Yun-kwong Kwok, HKBU
China's imports and exports as share of GDP

Source: China's Statistical Yearbook, various years, CSMAR and author’s computation
China’s Trade Balance

• Trade balance = exports minus imports
  • Trade surplus: export > import
  • Trade deficit: export < import

• Since the early 1990s, China registered a trade deficit only in 1993.
  • Even when the world was adversely affected by the Asian Financial crisis in late 1997 and the financial tsunami in late 2008, China was still maintaining a trade surplus.
商品净出口总额（亿美元）
<table>
<thead>
<tr>
<th>Country/Region</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td></td>
<td>23,423</td>
<td>20,735</td>
</tr>
<tr>
<td></td>
<td>19,592</td>
<td>17,370</td>
</tr>
<tr>
<td></td>
<td>8,831</td>
<td>7,895</td>
</tr>
<tr>
<td></td>
<td>3,853</td>
<td>3,350</td>
</tr>
<tr>
<td></td>
<td>1,033</td>
<td>922.00</td>
</tr>
<tr>
<td></td>
<td>5,323</td>
<td>4,666</td>
</tr>
<tr>
<td></td>
<td>3,422</td>
<td>3,065</td>
</tr>
<tr>
<td></td>
<td>2,785</td>
<td>2,387</td>
</tr>
<tr>
<td></td>
<td>5,374</td>
<td>4,685</td>
</tr>
<tr>
<td></td>
<td>4,666</td>
<td>4,089</td>
</tr>
<tr>
<td></td>
<td>3,325</td>
<td>2,846</td>
</tr>
<tr>
<td></td>
<td>2,515</td>
<td>2,138</td>
</tr>
<tr>
<td></td>
<td>1,873</td>
<td>1,553</td>
</tr>
<tr>
<td></td>
<td>1,530</td>
<td>1,322</td>
</tr>
<tr>
<td></td>
<td>1,263</td>
<td>1,053</td>
</tr>
<tr>
<td></td>
<td>1,098</td>
<td>928.00</td>
</tr>
<tr>
<td></td>
<td>970.00</td>
<td>845.00</td>
</tr>
<tr>
<td></td>
<td>828.00</td>
<td>710.00</td>
</tr>
<tr>
<td></td>
<td>718.00</td>
<td>622.00</td>
</tr>
<tr>
<td></td>
<td>616.00</td>
<td>530.00</td>
</tr>
<tr>
<td></td>
<td>544.00</td>
<td>478.00</td>
</tr>
<tr>
<td></td>
<td>485.00</td>
<td>421.00</td>
</tr>
<tr>
<td></td>
<td>441.00</td>
<td>385.00</td>
</tr>
<tr>
<td></td>
<td>408.00</td>
<td>356.00</td>
</tr>
<tr>
<td></td>
<td>406.00</td>
<td>354.00</td>
</tr>
<tr>
<td></td>
<td>385.00</td>
<td>334.00</td>
</tr>
<tr>
<td></td>
<td>364.00</td>
<td>319.00</td>
</tr>
<tr>
<td></td>
<td>344.00</td>
<td>299.00</td>
</tr>
<tr>
<td></td>
<td>324.00</td>
<td>284.00</td>
</tr>
<tr>
<td></td>
<td>304.00</td>
<td>265.00</td>
</tr>
<tr>
<td></td>
<td>284.00</td>
<td>244.00</td>
</tr>
<tr>
<td></td>
<td>264.00</td>
<td>221.00</td>
</tr>
<tr>
<td></td>
<td>244.00</td>
<td>202.00</td>
</tr>
<tr>
<td></td>
<td>224.00</td>
<td>182.00</td>
</tr>
<tr>
<td></td>
<td>204.00</td>
<td>161.00</td>
</tr>
<tr>
<td></td>
<td>184.00</td>
<td>141.00</td>
</tr>
<tr>
<td></td>
<td>166.00</td>
<td>123.00</td>
</tr>
<tr>
<td></td>
<td>149.00</td>
<td>106.00</td>
</tr>
<tr>
<td></td>
<td>132.00</td>
<td>91.00</td>
</tr>
<tr>
<td></td>
<td>115.00</td>
<td>76.00</td>
</tr>
<tr>
<td></td>
<td>99.00</td>
<td>60.00</td>
</tr>
<tr>
<td></td>
<td>83.00</td>
<td>43.00</td>
</tr>
<tr>
<td></td>
<td>67.00</td>
<td>33.00</td>
</tr>
<tr>
<td></td>
<td>51.00</td>
<td>22.00</td>
</tr>
<tr>
<td></td>
<td>35.00</td>
<td>15.00</td>
</tr>
<tr>
<td></td>
<td>28.00</td>
<td>11.00</td>
</tr>
<tr>
<td></td>
<td>21.00</td>
<td>7.00</td>
</tr>
<tr>
<td></td>
<td>14.00</td>
<td>4.00</td>
</tr>
<tr>
<td></td>
<td>7.00</td>
<td>2.00</td>
</tr>
<tr>
<td></td>
<td>4.00</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>2.00</td>
<td>0.50</td>
</tr>
<tr>
<td></td>
<td>1.00</td>
<td>0.25</td>
</tr>
<tr>
<td></td>
<td>0.50</td>
<td>0.10</td>
</tr>
<tr>
<td></td>
<td>0.25</td>
<td>0.05</td>
</tr>
<tr>
<td></td>
<td>0.10</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>0.05</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td>0.02</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>0.01</td>
<td>0.00</td>
</tr>
</tbody>
</table>

单位：亿美元

Prepared by Yun-kwong Kwok, HKBU
Mercantilism

- Came into existence in Europe during the period between 1500 and 1750.
- A country’s wealth is measured by its holdings of precious metals (specie).

- A country should maintain an excess of exports over imports.
  - Inflow of specie

- International trade is a zero-sum game.
  - One country’s gain was at the expense of another.
Reasons for Unbalanced Trade

• Based on balance of payments,
  • If a country runs a trade surplus (net exports), it buys foreign assets.
  • If a country runs a trade deficit (net imports), it sells domestic assets to foreigners.

• Therefore, unbalanced trade is actually an international borrowing and lending activity.
  • Whether a country is borrowing (running trade deficits) or lending (running trade surplus) can all be an economy’s optimal choices.
Mercantilism Today

• *Do people still hold the same view nowadays?*

• The Economist (May 13, 2004):
  • “Mercantilism has been defunct as an economic theory for at least 200 years, but many practical men in authority remain slaves to the notion that exports must be promoted and imports deterred.”
## China’s Trade Composition

### 2015 Trade of Commodities (USD billion)

<table>
<thead>
<tr>
<th>Export/Imports Categorization</th>
<th>Exports</th>
<th>Imports</th>
<th>Net Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>$2,273.47</td>
<td>$1,679.56</td>
<td>$593.90</td>
</tr>
<tr>
<td><strong>Primary Goods</strong></td>
<td>$103.93</td>
<td>$472.06</td>
<td>-$368.13</td>
</tr>
<tr>
<td>Food and Live Animals Used Mainly for Food</td>
<td>$58.15</td>
<td>$50.50</td>
<td>$7.65</td>
</tr>
<tr>
<td>Beverages and Tobacco</td>
<td>$3.31</td>
<td>$5.77</td>
<td>-$2.47</td>
</tr>
<tr>
<td>Non-edible Raw Materials</td>
<td>$13.92</td>
<td>$209.71</td>
<td>-$195.79</td>
</tr>
<tr>
<td>Mineral Fuels, Lubricants and Related Materials</td>
<td>$27.90</td>
<td>$198.59</td>
<td>-$170.69</td>
</tr>
<tr>
<td>Animal and Vegetable Oils, Fats and Wax</td>
<td>$0.64</td>
<td>$7.48</td>
<td>-$6.84</td>
</tr>
<tr>
<td><strong>Manufactured Goods</strong></td>
<td>$2,169.54</td>
<td>$1,207.51</td>
<td>$962.03</td>
</tr>
<tr>
<td>Chemicals and Related Products</td>
<td>$129.58</td>
<td>$171.27</td>
<td>-$41.69</td>
</tr>
<tr>
<td>Light Textile Industrial Products, Rubber Products, Minerals and Metallurgical Products</td>
<td>$391.02</td>
<td>$133.01</td>
<td>$258.01</td>
</tr>
<tr>
<td>Machinery and Transport Equipment</td>
<td>$1,059.12</td>
<td>$682.42</td>
<td>$376.70</td>
</tr>
<tr>
<td>Miscellaneous Products</td>
<td>$587.44</td>
<td>$134.69</td>
<td>$452.75</td>
</tr>
<tr>
<td>Products Not Otherwise Classified</td>
<td>$2.38</td>
<td>$86.12</td>
<td>-$83.74</td>
</tr>
</tbody>
</table>

Prepared by Yun-kwong Kwok, HKBU
2015 Trade of Commodities (USD billion)

- Total
- Primary Goods
- Food and Live Animals Used...
- Beverages and Tobacco
- Non-edible Raw Materials
- Mineral Fuels, Lubricants and...
- Animal and Vegetable Oils...
- Manufactured Goods
- Chemicals and Related...
- Light Textile Industrial...
- Machinery and Transport...
- Miscellaneous Products
- Products Not Otherwise...

Prepared by Yun-kwong Kwok, HKBU
• Export Composition
  • The proportion of primary products declined significantly whereas that of manufactured goods increased.
  • Within manufactured goods, exports of the labor-intensive textile industry grew rapidly in early years.
  • China’s exports of high-tech products has also increased substantially in recent years.

• Import Composition
  • The proportion of primary products had declined early and then increased recently.
  • The proportion of food and livestock has a downward trend. (The proportion decreases, but the volume increases!)
  • The proportion of minerals and raw materials imports rose.
## Composition of China's exports

Unit: USD 100 million

<table>
<thead>
<tr>
<th>Year</th>
<th>Total exports</th>
<th>Primary goods</th>
<th>share of total merchandised exports (%)</th>
<th>Manufactured goods</th>
<th>share of total merchandised exports (%)</th>
<th>Machinery, electronics and transport equipment</th>
<th>share of total merchandised exports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>181</td>
<td>91</td>
<td>50.3</td>
<td>90</td>
<td>49.7</td>
<td>8</td>
<td>4.7</td>
</tr>
<tr>
<td>1985</td>
<td>274</td>
<td>138</td>
<td>50.6</td>
<td>135</td>
<td>49.4</td>
<td>8</td>
<td>2.8</td>
</tr>
<tr>
<td>1990</td>
<td>621</td>
<td>159</td>
<td>25.6</td>
<td>462</td>
<td>74.4</td>
<td>56</td>
<td>9.0</td>
</tr>
<tr>
<td>1995</td>
<td>1488</td>
<td>215</td>
<td>14.4</td>
<td>1273</td>
<td>85.6</td>
<td>314</td>
<td>21.1</td>
</tr>
<tr>
<td>2000</td>
<td>2492</td>
<td>255</td>
<td>10.2</td>
<td>2237</td>
<td>89.8</td>
<td>826</td>
<td>33.1</td>
</tr>
<tr>
<td>2005</td>
<td>7620</td>
<td>490</td>
<td>6.4</td>
<td>7129</td>
<td>93.6</td>
<td>3522</td>
<td>46.2</td>
</tr>
<tr>
<td>2006</td>
<td>9690</td>
<td>529</td>
<td>5.5</td>
<td>9160</td>
<td>94.5</td>
<td>4563</td>
<td>47.1</td>
</tr>
<tr>
<td>2007</td>
<td>12205</td>
<td>615</td>
<td>5.0</td>
<td>11563</td>
<td>94.7</td>
<td>5770</td>
<td>47.3</td>
</tr>
<tr>
<td>2008</td>
<td>14307</td>
<td>780</td>
<td>5.4</td>
<td>13527</td>
<td>94.6</td>
<td>6733</td>
<td>47.1</td>
</tr>
<tr>
<td>2009</td>
<td>12016</td>
<td>631</td>
<td>5.3</td>
<td>11385</td>
<td>94.7</td>
<td>5903</td>
<td>49.1</td>
</tr>
<tr>
<td>2010</td>
<td>15778</td>
<td>817</td>
<td>5.2</td>
<td>14961</td>
<td>94.8</td>
<td>7803</td>
<td>49.5</td>
</tr>
<tr>
<td>2011</td>
<td>18984</td>
<td>1006</td>
<td>5.3</td>
<td>17978</td>
<td>94.7</td>
<td>9018</td>
<td>47.5</td>
</tr>
<tr>
<td>2012</td>
<td>20487</td>
<td>1006</td>
<td>4.9</td>
<td>19482</td>
<td>95.1</td>
<td>9644</td>
<td>47.1</td>
</tr>
<tr>
<td>2013</td>
<td>22090</td>
<td>1073</td>
<td>4.9</td>
<td>21017</td>
<td>95.1</td>
<td>10385</td>
<td>47.0</td>
</tr>
<tr>
<td>2014</td>
<td>23423</td>
<td>1127</td>
<td>4.8</td>
<td>22296</td>
<td>95.2</td>
<td>10705</td>
<td>45.7</td>
</tr>
<tr>
<td>2015</td>
<td>22735</td>
<td>1039</td>
<td>4.6</td>
<td>21695</td>
<td>95.4</td>
<td>10591</td>
<td>46.6</td>
</tr>
</tbody>
</table>

Source: China's Statistical Yearbook, various issues.
China's export of hi-tech products

Source: Customs Statistics, various issues (accessed through China Infobank), China Trade and External Economic Statistical Yearbook (2009-2014) and author’s computation
## Composition of China's imports

Unit: USD 100 million

<table>
<thead>
<tr>
<th>Year</th>
<th>Total imports</th>
<th>Primary goods</th>
<th>share of total merchandised imports (%)</th>
<th>Manufactured goods</th>
<th>share of total merchandised imports (%)</th>
<th>Machinery, electronics and transport equipment</th>
<th>share of total merchandised imports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>200</td>
<td>70</td>
<td>34.8</td>
<td>131</td>
<td>65.2</td>
<td>51</td>
<td>25.6</td>
</tr>
<tr>
<td>1985</td>
<td>423</td>
<td>53</td>
<td>12.5</td>
<td>370</td>
<td>87.5</td>
<td>162</td>
<td>38.4</td>
</tr>
<tr>
<td>1990</td>
<td>533</td>
<td>99</td>
<td>18.5</td>
<td>435</td>
<td>81.5</td>
<td>168</td>
<td>31.6</td>
</tr>
<tr>
<td>1995</td>
<td>1321</td>
<td>244</td>
<td>18.5</td>
<td>1077</td>
<td>81.5</td>
<td>526</td>
<td>39.9</td>
</tr>
<tr>
<td>2000</td>
<td>2251</td>
<td>467</td>
<td>20.8</td>
<td>1784</td>
<td>79.2</td>
<td>919</td>
<td>40.8</td>
</tr>
<tr>
<td>2005</td>
<td>6600</td>
<td>1477</td>
<td>22.4</td>
<td>5122</td>
<td>77.6</td>
<td>2905</td>
<td>44.0</td>
</tr>
<tr>
<td>2006</td>
<td>7915</td>
<td>1871</td>
<td>23.6</td>
<td>6043</td>
<td>76.4</td>
<td>3570</td>
<td>45.1</td>
</tr>
<tr>
<td>2007</td>
<td>9561</td>
<td>2431</td>
<td>25.4</td>
<td>7129</td>
<td>74.6</td>
<td>4125</td>
<td>43.1</td>
</tr>
<tr>
<td>2008</td>
<td>11326</td>
<td>3624</td>
<td>32.0</td>
<td>7702</td>
<td>68.0</td>
<td>4418</td>
<td>39.0</td>
</tr>
<tr>
<td>2009</td>
<td>10059</td>
<td>2898</td>
<td>28.8</td>
<td>7161</td>
<td>71.2</td>
<td>4078</td>
<td>40.5</td>
</tr>
<tr>
<td>2010</td>
<td>13962</td>
<td>4339</td>
<td>31.1</td>
<td>9624</td>
<td>68.9</td>
<td>5494</td>
<td>39.4</td>
</tr>
<tr>
<td>2011</td>
<td>17435</td>
<td>6043</td>
<td>34.7</td>
<td>11392</td>
<td>65.3</td>
<td>6306</td>
<td>36.2</td>
</tr>
<tr>
<td>2012</td>
<td>18184</td>
<td>6349</td>
<td>34.9</td>
<td>11835</td>
<td>65.1</td>
<td>6529</td>
<td>35.9</td>
</tr>
<tr>
<td>2013</td>
<td>19500</td>
<td>6581</td>
<td>33.7</td>
<td>12919</td>
<td>66.3</td>
<td>7101</td>
<td>36.4</td>
</tr>
<tr>
<td>2014</td>
<td>19592</td>
<td>6469</td>
<td>33.0</td>
<td>13123</td>
<td>67.0</td>
<td>7242</td>
<td>37.0</td>
</tr>
<tr>
<td>2015</td>
<td>16796</td>
<td>4721</td>
<td>28.1</td>
<td>12075</td>
<td>71.9</td>
<td>6824</td>
<td>40.6</td>
</tr>
</tbody>
</table>

Source: China's Statistical Yearbook, various issues.
The Ricardian model

- Two countries: China, the U.S.
- Two goods: clothes ($C$), cars ($R$)
- Factor of production: labor ($L$)
  - Assume there is only one production factor.
- Labor supply is constant.
  - to reflect the fact that resources are limited
- Labor productivity (technology) varies across countries.
  - Unit labor requirement ($a_L$): number of workers required to produce one unit of output.
  - A high unit labor requirement means low labor productivity.
A Numerical Example

<table>
<thead>
<tr>
<th></th>
<th>Clothes (C)</th>
<th>Cars (R)</th>
<th>Labor Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>$a_{LC} = 3$</td>
<td>$a_{LR} = 6$</td>
<td>$L = 12$</td>
</tr>
<tr>
<td>U.S.</td>
<td>$a^*_{LC} = 2$</td>
<td>$a^*_{LR} = 1$</td>
<td>$L^* = 4$</td>
</tr>
</tbody>
</table>

“*” notates the U.S.

- The U.S. has an absolute advantage in all production.
  - Should these two countries trade?
  - Does its absolute advantage means the U.S. should produce both goods?
  - Does its absolute disadvantage means China won’t be able to compete, and therefore, won’t be able to export?
• Let’s first consider autarky (means shutting down trade completely):
  • If these two countries do not trade, both China and the U.S. will produce some clothes and some cars to meet their consumers’ demand.

• Restructuring Global Production:
  • *What happens if China produces one extra unit of clothes and exports it to the U.S.?*
  • The U.S. can then produce one less unit of clothes and use its resources saved to produce cars.
  • China’s output of cars, however, decreases because resources in China are diverted to produce clothes.
Through this international production restructuring, the world as a whole gain!

But can both countries gain?

Yes, if the U.S. exports cars to China in an amount \( \epsilon (1/2, 2) \).
Share of processing trade in China's total trade

Source: China Trade and External Economic Statistical Yearbook (2009-2014) and China's Statistical Yearbook, various years

Prepared by Yun-kwong Kwok, HKBU
特朗普 (Donald Trump) 上台

- 特朗普
  - 生於美國紐約市皇后區
  - 特朗普集團董事長及總裁、特朗普娛樂公司創辦人
  - 在全世界經營房地產、賭場和酒店。
  - 於2015年6月16日正式宣布競選2016年美國總統選舉的共和黨初選，並最終當選美國第45屆總統。
整頓貿易政策：

- 從最初的競選宣言開始，特朗普就表示出對中國的強硬立場，稱中國為「美國的頭號對手」。
- 曾以「強姦」來形容美國對中國的貿易逆差問題
- 表示上任後會要求財政部將中國定義為「貨幣操縱國」
- 提出要對中國進口的產品徵45%的重稅作懲罰。
- 要求美國貿易代表起訴中國的關稅補貼行為
- 加強打擊中國侵犯知識產權的問題。
Source: 中国国家统计局 http://www.stats.gov.cn/
Source：中国人民银行 [http://www.pbc.gov.cn/]
特朗普在參選至今，一直修改其言論。
- 「狂人」最終亦會順從制度，刪減不少「大膽」建議。
- 但他始終得到六千一百萬選民的背書，所以也不可能完全違背競選時的承諾。
External Trade Environments

• TPP aims to achieve duty-free access for trade in industrial products and comprehensive liberalization in services, and entails deeper regulatory convergence among members in the areas of investment, government procurement, competition policies, technical barriers to trade, intellectual property rights enforcement, state-owned enterprises, e-commerce, labor and environment.
Regional Comprehensive Economic Partnership (RCEP)

- 16 members
- RCEP lacks TPP’s stricter regulations on labor, environmental, and intellectual property protection.
• Overcapacity
References


• https://www.wto.org/english/thewto_e/whatis_e/what_stand_for_e.htm

Prepared by Yun-kwong Kwok, HKBU
• 唐任伍(主編)，《中國經濟改革30年 -- 對外開放卷》，重慶：重慶大學出版社，2008年。
• 郭潤江、鄭凱銳，美中貿易逆差非匯率操控所致 - 香港經濟日報
• 特朗普上台 研即退北美自貿協定 - 經濟通 ET Net
• 【美國大選】受累保護主義 美元難再大升 - 經濟通 ET Net
• 特朗普當選對世界10大影響 – 都市日報
• 特朗普當選總統，將如何影響美國和國際局勢？- 端傳媒 Initium Media