China's Export Search and the Debate

by Dr. Sheo Nandan Pandey

Introduction

In June 2010, China's exports rose by 43.9 % to US$137.4 billion from a year earlier. In the same vein, China's imports were up 34.1 % to US$117.37 billion from a year earlier.[1] This is the second consecutive surge. China's exports had increased by 48.5 % to US$ 131.8 billion in May 2010. Imports had then risen by 48.3 % to US112.2 billion. Overall, during the first half of 2010, China's exports thus, could spike by 35.2 % to US$705.09 billion while imports were up 52.7 % to US$649.79 billion.

On the face of it, the picture looks rosy. China's June exports increased 4.3 % from May 2010. Likewise, the imports were 4.6 % higher than the last month. However, the pace of growth in exports and imports were both slower than in May 2010. As it happened in May 2010, the feat of the Chinese exporters in finding foreign demand for their goods will create speculation for the China watchers around the world. There is possibility of some change in the tone and tenor of the debate.

Theoretically, at this point of time, any plausible surge in China's export has to be welcomed. Since Chinese exports suffered fall-off in foreign demand in the face of global financial crisis and economic down turn, it accounted for over 37 % of China's revenue and is thus an undisputed driver of China's economic growth. The fall-off has been particularly damning as domestic content in China's foreign trade continues to be lower despite concerted efforts. As is well known, to the chagrin of Chinese exporters, the total Chinese exports dropped 16 % in 2009, compared to 2008, and a loss of over US$ 200 billion in business. In some months last year, exports were down by as much as 26 %.

For the past couple of months, starting in December 2009, China has reported exports growing by an average of 26 %, year-on-year. That sounded impressive, but in fact, it has but barely put China's export totals back to the level they were at before the crisis. When you run the numbers, exports in the first four months of 2010 were only up 2.7 % compared to the same period two years before. May 2010 and June 2010 development makes the scenario slightly rosy. Not surprising then that the analysis has been divided to the extremes of being

End Notes and References:
[1] http://www.chinadaily.com.cn/china/2010-07/10/content_10090793.htm

buoyant and dismissive of China's stride to recovery. What could not yet be brushed aside was the rate of the surge in comparison and contrast respective trade surplus figures of April 2010 and trade deficit figures of March 2010.[2]

The paper is aimed at examining the flip and flop sides of the debate as to whether the momentum gathered in China's export surge 'heralded recovery' or it was 'a one time spike'. Some analysts have had even pitched a hypothesis that China's recovery as such could possibly upstage recovery of the global economy, in particular the countries of the eurozone. In the run up, the paper delves into China's absolute and relative potentials to lead the world economy to recovery. Schematically the paper thus focuses on: Conceptual Wherewithal and Policy Foreground of China's Export Surge; Phenomenon and the Studied Opinions; Quirk of China's May-June, 2010 Export Surge; and, China's Lift and Salvaging Capabilities to Global Down Turn.

The assumptions of the study included: exports constitute a significant part of the Chinese economy, and hence, drop in the volume, whatsoever has to have inextricable and wide ranging impacts; the composition and direction of the Chinese exports remain largely inelastic both to products and destinations, and hence, it suffers perennially the vulnerability of shifts and swings in market environments in the short run beyond its control; the surge in the Chinese exports in the face of adverse market environment as it happened in May 2010 is a phenomenon borne of several imponderable scenario; and, recovery and/ or sustainable growth of China's exports as much as its 'lift up' potentials of trading partners was squarely dependent on the two way elasticity of demand of export and import goods.

Conceptual Wherewithal and Policy Foregrounds of China's Export Surge

In broad theoretical perspectives, the May 2010 Chinese feat can be a handiwork of surge in China's export demands. What is inconceivable is that it has taken place at a juncture when China's export industry must not have counted much upon either Eurozone or the US or Japanese economies that traditionally accounted for largest chunk of China's exports?[3] In theory, the plausibility of the feat can then be attributed to some sorts of innovations in products, processes and destinations of China's foreign trade. It was otherwise possible only if the eurozone or the US or Japanese economy had reached a recovery path. It held future of rosy tomorrow again only when all signs of 'hard landing' turn opposite to studied observations.

When we look at the policy line, in May 2010, as much as during the formative years of Deng Xiaoping epoch, the policy line, where it concerned 'push factor', it was but 'decentralization', enabling each of the Chinese political entities, namely, 22 provinces, 5 autonomous regions and 4 municipalities to compete, and even feud with each other for export markets. While unique, if not exclusive, the so created and put in place, led both, the central as much as the local Chinese governments and their institutions to call the shots, quite often, crossing lines. This is pertinent in particular where the Chinese export industries get sops of different kinds in various stages of export business. One has often to see to believe the 'turf battles', where the mercantilist and potentially the predatory behaviour of the local governments discernibly

[2] In April 2010, China posted a trade surplus of US$ 1.68 billion while there was trade deficit of US$7.24 billion in March 2010.
[3] EU-China trade has expanded rapidly where China has come to rival the US with exports of industrial good worth 247 billion euro (2009 fig.). It followed EU-China High Level Economic and Trade Dialogue in April 2008.

tend to contradict the central injunctions.[4] There is a saving grace that the decisions of the two have to fall in line with the policy line taken by the Standing Committee of the Politburo of the Communist Party of China (CPC) Central Committee as well as the State Council.

The net result included over-subsidization of Chinese goods. This is notwithstanding the institutional changes, brought to bear upon in the light of China's commitments to World Trade Organization (WTO) first, in 2001 and then in 2003. In its perspective, the undervalued Chinese currency Renminbi (RMB) thus, played complementary role in giving Chinese goods an edge in export markets.

Phenomenon and the Studied Observations

China's May 2010 export surge was certainly not a bolt from the blue. It was expected. There could have been two words only about the extent of surge. In April 2010, China had posted 30.5 % surge in its exports. Notwithstanding, the analysts in the field debated various aftermaths and possible outcomes of the phenomenon, in particular about the signals that the phenomenon broadly carried along.

Patrick Chovanec, Associate Professor, Tsinghua University, Beijing, wrote:

> *On Thursday China announced that its exports in May surged 48.5 % compared to the same month last year. Imports into China rose by nearly the same percentage, 48.3 %, but overall, China's trade surplus for the month spiked to a historically strong US$20 billion.*
>
> *This could be a trend, but it could also be part of a seasonal production cycle where Chinese companies import raw materials and components in the spring, in order to gear up to export finished products later in the year. May's export surge, and the rapid flip back to a rather sizeable trade surplus, make it look like that may be exactly what's happening.*

Hao Daming, Galaxy Securities, Beijing quipped:

> *The report is a big surprise. The reason for such a huge increase is probably the low base last year. But the rapid pace is set to slow in the second half. As for the impact on possible Yuan revaluation, we think it will be a few months before a conclusion is reached.*

Peng Wengsheng, Barclays Capital, Hong Kong, told Reuters:

> *This is a much stronger number than the market expected, particularly on the exports and trade surplus side. This should help reduce the recent bearish sentiments towards economic growth in China.*

Peng added further:

> *Reform of the exchange rate regime to increase flexibility remains an important policy objective, but that reform is more about flexibility than appreciation. Any appreciation will be very moderate and gradual over time. Reform will be more about increasing two-way variations in the exchange rate.*

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[4] Ka Zeng and Andrew Mertha (eds), *China's Foreign trade Policies: The New Constituencies,* Routledge, Taylor and Francis Group, London and New York.

Geoff Dyer, Financial Time, wrote:

> *The figure suggested that the economic problems in Europe, which China's largest export market, have yet to have any pronounced effects on demand for Chinese goods. However, economists cautioned that it could take several weeks before any difficulties in Europe would feed through to the trade numbers.*

Qu Hongbin, HSBC, Hong Kong, opined:

> *China's May export numbers could give Beijing the domestic political cover it needs to begin changing currency policy.*

Tom Orlik, Stone & McCarthy Research Associates, Beijing, observed:

> *Data for June 2010 shows China's trade account continuing to defy gravity, with exports strong despite mounting evidence of a faltering global recovery, and imports strong despite expectations of slowing domestic investment growth.*

Zheng Yuesheng, Chief of statistics for the customs agency, told China Central Television:

> *Exports have rebounded at least temporarily to pre-crisis levels, hitting $137.3 billion in June, up from $117.3 billion in the same month two years ago. This is a symbol that China's foreign trade has returned to where it was before the financial crisis.*

Quirk of China's May - June, 2010 Export Surge

The development is per se mind bogging. As the Chinese media trumpeted the success story of China Inc., the stock markets in Shanghai and Shenzhen rallied 3 % after a disappointing past two weeks. Stocks on U.S. markets also recovered in response to the news. They took it as a sign of the Chinese economy staging a come back. When China ran a rare trade deficit in March 2010, some analysts had touted it as evidence of China having made structural adjustment to its flawed export-led growth paradigm.

Among Chinese exports, in May 2010, in comparison to April 2010, crude oil exports had suffered slid of 16 %. Copper shipments had then fallen by nine per cent. In the same vein, China's rubber exports dropped by 36 %. Nevertheless, China's imports of all these commodities had slumped significantly. It signified the hard truth that China's export did not muster strength and feed through into commodity demand. However, China's commodity exports did benefit from the jump in overall exports, with net exports of steel products rising by more than a quarter to almost five million tones, a reversal of China's unusual position as a net importer a year previously. Interestingly, exports of coke, used by steel makers, almost doubled to more than 20 times the volume shipped a year ago, despite a 40 % export tax. It broadly implied slides in domestic demand and hence puts China's growth story in question. The buoyancy of steel sector can not as well be taken for granted. It is in dire straits due to rising costs.

Zhu Jianfang, Chief macro analyst for Citic Securities in Beijing, is perhaps right in holding China's May 2010 export surge to be a 'one time spike'. It was due to Chinese manufacturers rushing to ship goods ahead of the expected rise of the parity of Yuan against a basket of foreign currencies in general and the US dollar in particular. From January to June 2010, the total value of China's foreign trade had risen by 44 % year on year to US$1.3 trillion. The decreasing Chinese export surge in June 2010 goes to testify the line of argument of Zhu Jianfang with a difference.

China's Lift and Salvaging Capabilities

With US$ 4.3 trillion as GDP, the PRC is the fourth largest economy of the world after the European Union, the US and Japan. But for the huge drop off of the first two economies, the soothsayers could have been right in trumpeting China's absolute and/ or relative capability to pull back the world economy from recession. Individually and/or jointly, Europe's $16.4 trillion and the US $14.2 trillion GDP surpass China over and over four and/or six time. It is quixotic to assume that China could turn proverbial lender of the last resort to their recovery. Japan is still ahead of China with a US$5.0 trillion GDP. The idea that China country can somehow grow so rapidly as to move the European and the US economies is like saying that one leg from the knee down could take some body's entire body for a walk.

There is then a fallacy in looking at the issue in terms of size of the Chinese GDP. China measures GDP in terms of production, not sales or revenue generated. So if they build a $1 billion skyscraper that no one rents, it counts as $1 billion in GDP growth. China went for US$586 billion stimulus package. It accounted for 13 % of its $4.3 trillion GDP. Provided it went straight to contribute to China's developmental activities, it should possibly alone account for 10 % GDP growth.

37 % of China's economy is based on exports. Exports to Europe were up 36 % in June 2010 from a year earlier while those to the United States rose by 28.3 %. China's politically sensitive trade surplus with the United States was $17.6 billion. Neither Europe nor the US is likely to stage a come back to sound economic health in the near future. There are instead reasons to suggest that the two are set for a distinct spell of what is now called "Yo Yo Depression". The June 2010 Chinese feat in export surge lay largely to 103.7 % surge in Chinese shipments to Brazil and 59.2 % to Russia. There is thus little to be enthusiastic about either China's absolute or relative capabilities to pull the global economy from the current state of recessionary spiral.

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Remarks: Opinions expressed in this contribution are those of the author.

Dr. Sheo Nandan Pandey, born Jan 14, 1947, served both institutions of higher learnings and the bureaucratic set up as member of Civil Services in India. He speaks several languages including Chinese mandarine. In area studies, China is his first love.