



China's Industrial Capabilities and Trade

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Key Facts: China, 2003

- Population: 1.3 billion (1st)
- GNP: \$US 1.4 trillion (3rd)
- Foreign Trade: \$US 850.1 (3rd)
- GNP Growth: 1980-2003
 - Official: 8.3%
 - Unofficial: 6.3-6.8
- Per capita GNP: \$1100 (non-PPP adj)



Key Question:

How did China get to be the 3rd largest trading country?



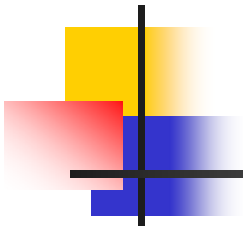
Basic Message

1. The rapid growth of China's foreign trade sector is the consequence of rising mfg capabilities, productivity growth and low labor costs
2. First two are direct pdt of domestic and foreign sector reforms that have increased competition and facilitated the transfer of foreign technology and managerial/org. know-how
3. Process has integrated the Chinese economy to an unprecedented degree into the int economy for a country of its size
 1. China has become an integral part of int supply chains
 2. Major importer of intermediate and capital goods
 3. Major importer of raw materials
4. Process has similarities with that we have seen in other Asian economies
5. Regional trade balances tied to FDI flows
5. Ongoing Investments in mfg capabilities portend continued export expansion and movement up the value-added ladder in mfg

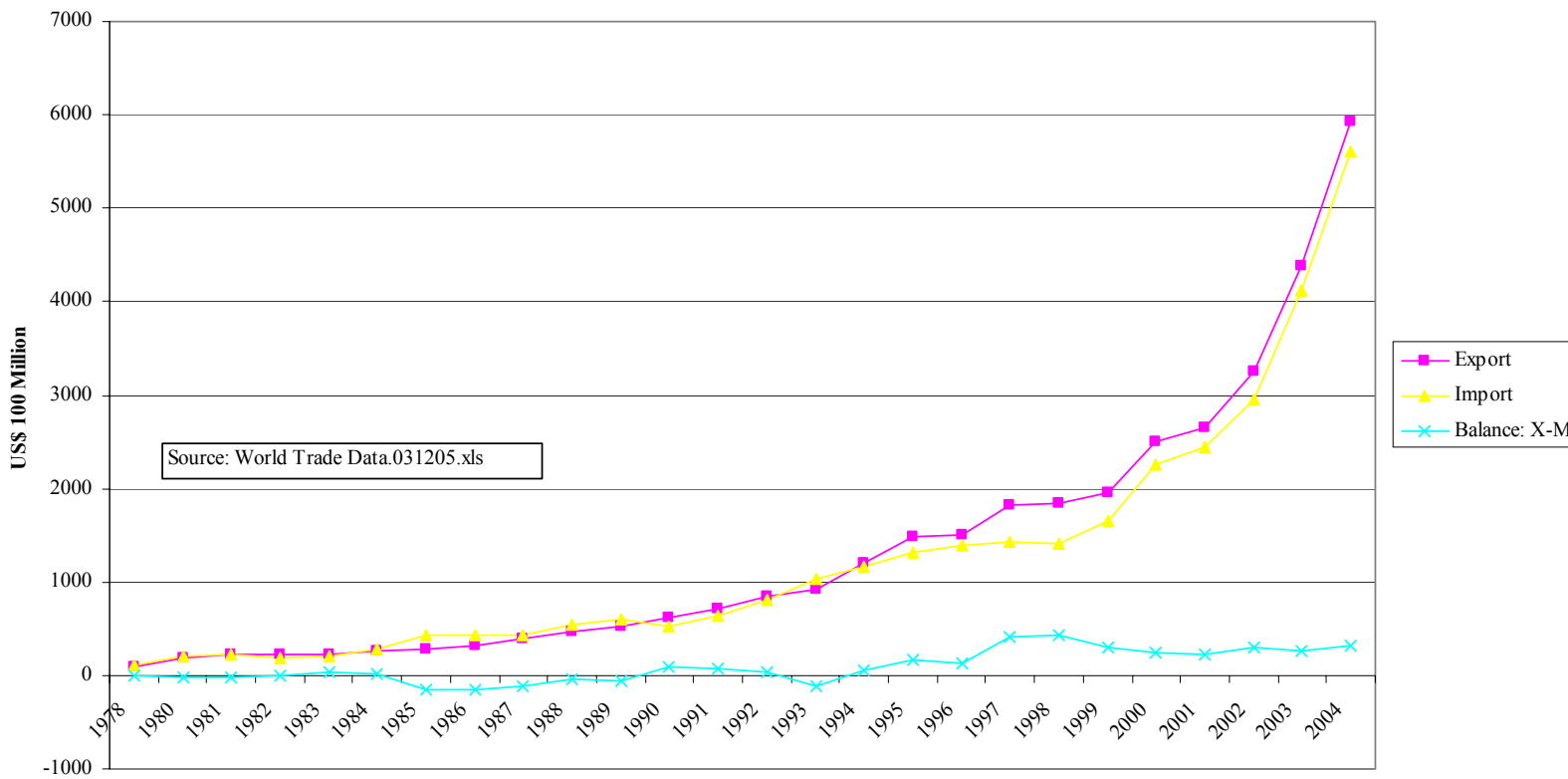


Foreign Trade reforms

- Setting up of SEZs and EDTZ that encouraged FDI (beg. 1980s)
- Sharp reductions in tariffs and NTBs
 - Tariff rev as % of imports fell from 16% to 2.5% (Branstetter and Lardy, 2005)
- Expansion of # of firms with direct trading rights
- Complementary domestic reforms
- Acceleration of both with accession to WTO



CHINA'S EXTERNAL TRADE: Exports, Imports & Balance, 1978-2004
100 Million U.S. Dollars





Share of World Trade (%)

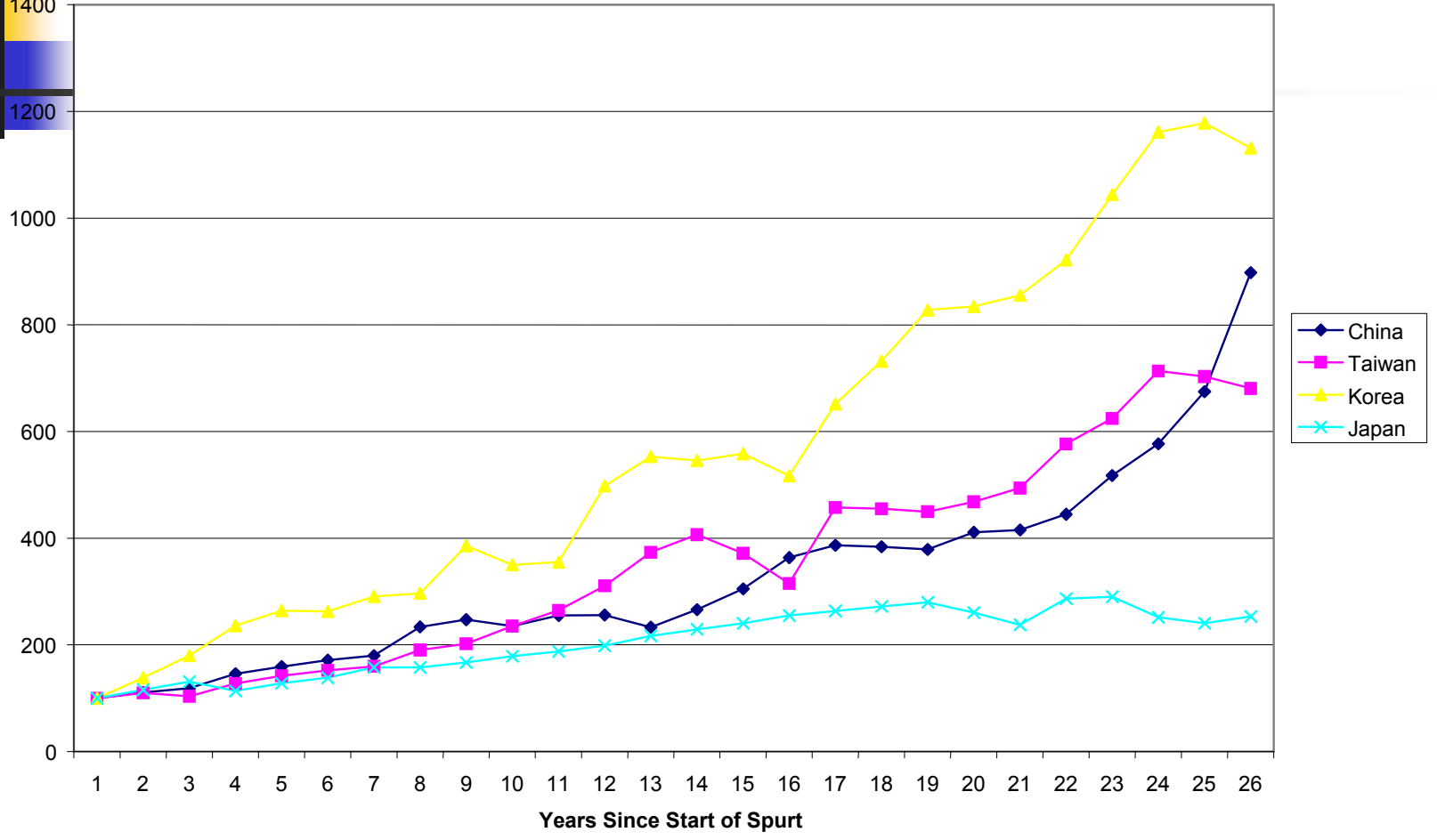
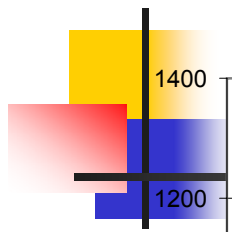
	1980	1985	1990	1995	2000	2003
China	0.9	1.8	1.6	2.7	3.6	5.6
Japan	6.6	7.5	7.5	7.5	6.5	4.4
Korea	1.0	1.5	1.9	2.5	2.5	2.4
Taiwan	1.0	1.3	1.7	2.1	2.4	1.8



Trends in China's Trade Ratio

Year	Total Trade (bn RMB)	GDP (bn RMB)	Trade Ratio
1952	6.5	67.9	12.1
1980	57.0	451.8	12.6
1990	556.0	1854.8	30.0
2000	3927.3	8825.4	44.5
2003	7048.4	11660.3	60.4
2004	9564.6	13650.0	70.1

Asian Trade Spurts: Evolution of World Trade Over 25 Years





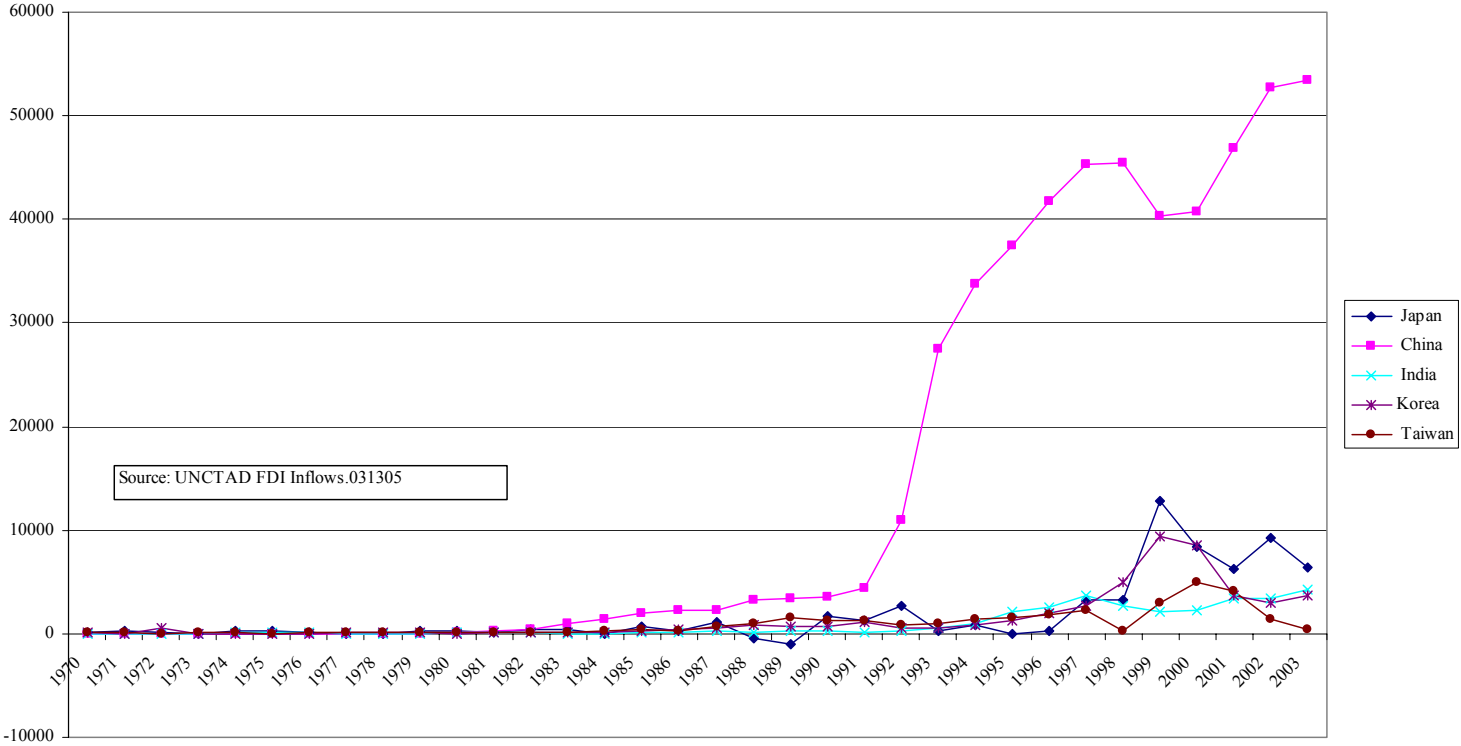
Linking FDI and Trade Flows

- Marked regional component to pattern of China's trade surplus/deficit
 - Deficit with much of East Asia
 - Surplus with US
- FDI flows predominantly from Asia

China's Trade by Region (\$US billion)

	1990			1998			2003		
	Exports	Imports	X-M	Exports	Imports	X-M	Exports	Imports	X-M
Totals	62.1	53.3	8.8	183.8	140.2	43.6	438.3	412.8	25.5
Asia (exc. HK)	17.4	14.6	2.8	60.0	78.00	-18.0	146.5	236.7	-90.2
HK	26.6	14.2	12.4	38.7	6.7	32.0	76.3	11.1	65.2
Europe	7.1	10.6	-3.5	33.0	25.8	7.2	88.0	69.7	18.4
North America	5.6	8.0	-2.4	40.1	19.1	21.0	98.3	38.3	60.0

Annual FDI Inflows to Asian Economies, 1970-2003 (Million U.S. Dollars)





Origins of FDI to China

Year	1990	1994	1998	2003
Totals:	3.48	33.94	45.46	53.5
Source:				
Asia:			31.33	34.1
Hong Kong	1.91	19.82	18.5	17.7
Japan	0.5	2.09	3.4	5.05
Korea		0.23	1.8	4.49
Singapore	0.05	0.73	3.4	2.06
Taiwan		0.34	2.91	3.38
Europe:			4.31	4.27
Germany	0.02	0.26	0.74	0.86
UK	0.01	0.69	1.17	0.72
Netherlands	0.02	0.11	0.72	0.73
North America			4.33	5.16
US	0.46	2.49	3.89	4.2
Canada	0.41	0.22	0.32	0.56



Exports and Imports of Foreign Invested Enterprises

Year	Total Exports	FIE Exports	Percent of Total	Total Imports	FIE Imports	Percent of Total
1985	27.4	0.3	1.09	42.3	2.1	4.96
1990	62.1	7.8	12.56	53.4	12.3	23.03
1995	148.8	46.9	31.52	132.1	62.9	47.62
1996	151.1	61.5	40.7	138.8	75.6	54.47
1997	182.8	74.9	40.97	142.4	77.7	54.56
1998	183.8	81	44.07	140.2	76.7	54.71
1999	194.9	88.6	45.46	165.7	85.9	51.84
2000	249.2	119.4	47.91	225.1	117.3	52.11
2001	266.1	133.2	50.06	243.6	125.8	51.64
2002	325.6	170	52.21	295.2	160.2	54.27
2003	438.2	240.3	54.84	403.4	231.9	57.49



Leading Sectors Receiving FDI

Manufacturing Sector

Percent of Total
Industry FDI

Plastics	2.18
Metal products	2.73
Smelting-Pressing of Ferrous Metals	3.15
Food products	3.24
Electric equipment and machinery	3.35
Paper products	3.37
Textiles	3.52
Beverages	4.30
Garments	5.07
Ordinary machinery	5.56
Non-metal mineral products	6.14
Transportation equipment	6.50
Medical and pharmaceutical	7.03
Electronics and Telecommunications	7.88
Instruments and meters	10.64
Average	4.98

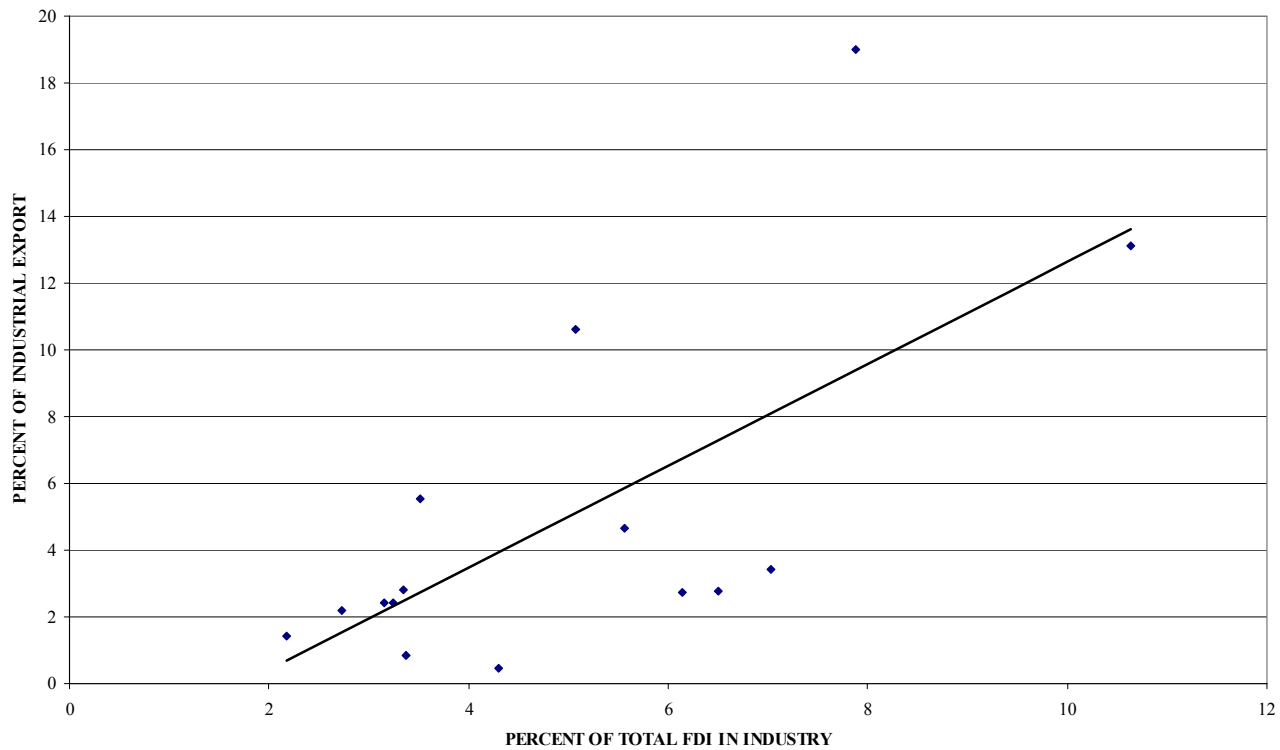


Percentage of Exports by Foreign Invested Enterprises

	Percent of Total Industry Exports	Export Share of FIE	Of which: Overseas Chinese Firms
Metal Products	2.18	84.80	23.11
Smelting-Pressing Non-ferrous Metals	2.41	49.13	16.02
Food Manufacturing	2.42	60.42	38.50
Cultural, Educational and Sporting products	2.51	74.92	94.27
Non-metal mineral products	2.74	76.48	19.29
Transportation Equipment	2.78	64.03	10.23
Electronic Equipment and Machinery	2.79	81.84	19.86
Medical and Pharmaceutical	3.42	56.34	16.17
Other manufacturing	4.46	71.03	90.40
Ordinary Machinery	4.66	58.13	32.38
Leather products	5.00	75.57	84.95
Textiles Industry	5.54	50.41	53.88
Garments	10.63	61.40	74.80
Instruments and Meters	13.11	93.83	32.45
Electronics and Telecommunications	19.01	91.12	35.29

FDI and Exports

15 Sectors of Chinese Manufacturing: Shares of FDI and Exports in 2002





Major changes in commodity composition of trade

- Shift of exports from primary pdts to mfgs
- Within mfg, move away from extreme dependence on labor-intensive pdts (Schott (2005), Brandt, Rawski and Sutton (2005)) and increase in higher value-added products
- Huge imports of capital goods, technology, and increasingly, intermediate goods
- Growing demand for import of rcs
 - 1/3 of crude oil
 - 1/2 of iron ore



Composition of China's Exports

	1985		1995		2003	
	\$US bn	%	\$US bn	%	\$US bn	%
Exports						
Food	2.63	12.46	9.92	6.67	17.52	4.00
Beverages and tobacco	0.04	0.19	1.37	0.92	1.02	0.23
Raw materials, excluding fuels	2.00	9.47	4.35	2.92	4.97	1.13
Mineral Fuels	6.60	31.26	5.34	3.59	11.13	2.54
Animal and vegetable oils	0.12	0.57	0.45	0.30	0.12	0.03
Chemicals products	0.83	3.93	9.06	6.09	19.36	4.42
Manufactured goods	2.93	13.88	32.89	22.11	69.83	15.93
Machinery and transport equip.	0.46	2.18	31.35	21.07	187.74	42.84
Miscellaneous mfg articles	2.33	11.04	53.66	36.07	125.56	28.65
Other	3.17	15.02	0.39	0.26	0.98	0.22
Total	21.11	100.00	148.78	100.00	438.23	100.00



Composition of China's Imports

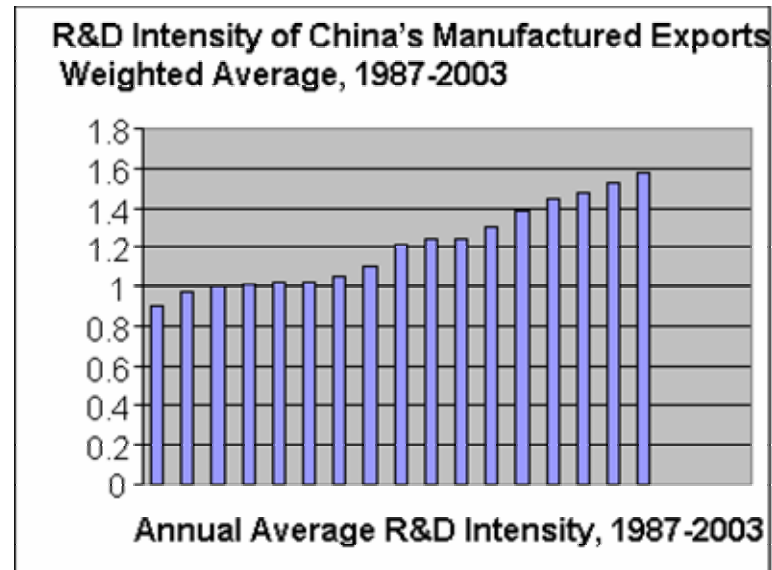
Imports	1985		1995		2003	
	\$US bn	%	\$US bn	%	\$US	%
Beverages and tobacco	0.19	0.66	0.39	0.30	0.49	0.12
Raw materials, excluding fuels	2.63	9.15	9.87	7.47	33.96	8.23
Mineral Fuels	0.16	0.56	5.17	3.91	29.45	7.13
Animal and vegetable oils	0.12	0.42	2.59	1.96	3.00	0.73
Chemicals products	2.04	7.10	17.17	13.00	48.25	11.69
Manufactured goods	8.06	28.05	29.06	22.00	64.03	15.51
Machinery and transport equip.	11.07	38.53	52.89	40.04	193.01	46.76
Misc mfg articles	0.86	2.99	7.95	6.02	33.33	8.07
Other	2.28	7.94	0.87	0.66	1.30	0.31
Total	28.73	100.00	132.08	100.00	412.76	100.00



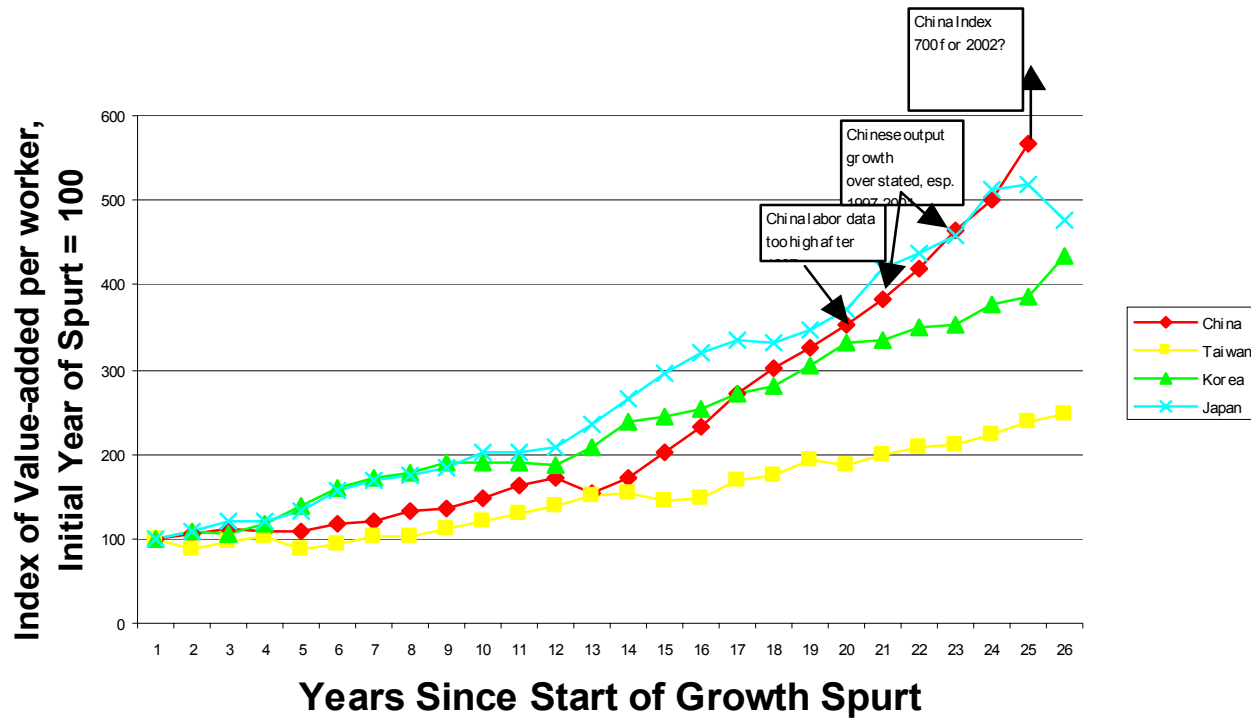
Key factors underlying these trends

- Productivity increase
- Increasing capabilities

Changing composition of China's exports



Asian Growth Spurts: Growth of Secondary-sector Value-added Per Worker Over 25 Years





Composition of US Trade Deficit

	1990	1995	2000	2003
US Total Imports	516.95	770.82	1217.93	1305.09
Total, Asia	190.93	305.54	424.19	443.68
Asia, % of Total	36.93	39.64	34.83	34.00
US Total Exports	374.54	546.44	781.83	723.61
Total, Asia	100.15	164.18	194.49	179.45
Asia, % of Total	26.74	30.05	24.88	24.80
Deficit w/ China (% of total)	8.10	16.40	19.20	23.20
Deficit w/ Asia (% of total)	63.80	63.00	52.70	45.40