China Trade Brief

Trade Policy

According to the WTO, China has continued to maintain its dedication to a policy of trade liberalization as a tool to increase economic growth.[1] This is evident in the fact that China's latest MFN Tariff Trade Restrictiveness Index (TTRI)[2] for overall trade has decreased significantly over the past decade to 5.3 percent. There remains a significant disparity between non-agricultural goods and agricultural goods, however, with TTRIs of 5.3 and 11.4 percent, respectively. China's barriers to imports are slightly higher than those of the East Asia and Pacific (EAP) region (which has an average TTRI of 4.8 percent) but below the average lower-middle-income country (with a TTRI of 8.6 percent). China ranked 63rd among 125 countries (where 1st indicates the least restrictive regime), its rank slipping slightly from 58th as other countries liberalized. The average MFN applied tariff rate, at 9.7 percent in 2008, is slightly under half of its 1995 level. China's maximum tariff on all goods (excluding alcohol and tobacco) is 90.7 percent. The trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), is minimal at 0.3 percent. Over the 1995–2008 period, China was the eighth-largest initiator of anti-dumping investigations (with a total of 151). With respect to services, its score on the latest GATS commitment index is better than its comparator averages, reflecting its WTO accession commitments, which are significantly more extensive than for other developing countries. China ranked 50th out of 148 countries according to the GATS Commitment Index.

As food prices rose in late 2007 and early 2008, China's trade response included introducing lower interim import tariff rates on some food items, and then restricting exports. VAT export rebates were removed on items such as rice and wheat in December 2007, export duties were imposed on grains in January 2008, and fertilizer export duties were doubled to increase domestic availability in April 2008. As the global recession set in and food prices dropped, the government reduced or eliminated export levies on grains in November 2008, and this policy was repeated in July 2009, as food stocks have swollen and a record global harvest is anticipated.

The policy focus in the latter half of 2008 shifted to supporting the traditional export sector. The strategy was to stimulate exports by raising VAT rebates for goods exporters, and increasing export restrictions on raw materials. In December 2008, the government announced measures to reduce tariffs on imports of both agricultural and non-agricultural goods by 20 to 30 percent, although no timetable was given. The government eased customs duty deposit requirements for some exports and imports.[3] In June 2009, the government raised VAT export rebates for the seventh time since August 2008, (this time for a number of products including textiles, plastics, and machinery[4,5]), and placed quotas and tariffs on exports of raw materials, including copper and bauxite. After not initiating any anti-dumping (AD) investigations in 2007, China initiated 14 in 2008, mostly at the end of the year as global GDP growth slowed. In just the first two months of 2009, China has initiated 14 additional AD investigations.

External Environment

China's Market Access TTRI[6] (including preferences) for 2007 is 3.9 percent for all goods, with a large difference found between agricultural (18.3 percent) and non-agricultural goods (3.4 percent). This is higher than the average for both the EAP region and lower-middle-income countries, which were 3.8 and 2.3 percent, respectively. The simple average of the rest of the world tariff faced by Chinese exports is 9.9 percent. The trade-weighted tariff faced is 4 percent, again with a higher rate for agricultural at 20.7 percent, compared to 3.7 percent for nonagricultural goods. Over the course of 2008, the real effective exchange

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Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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rate of the Chinese yuan appreciated by 8.5 percent, making exports less competitive abroad.

Over the period 1995–2008, China has been the most frequently targeted country for AD investigations. As global growth slowed in 2008, China had 74 AD investigations initiated against it by 13 different countries, compared to 60 investigations in 2007, which was already five times the highest value for any other country. As of the first half of 2009, there have been 32 additional initiations. Further in 2008, the country faced 10 countervailing duty investigations (compared to 8 in 2007 and 4 for the rest of the world), as well as 2 China-specific safeguard investigations. In the first half of 2009, China has had 6 countervailing duty and 6 China-specific safeguard investigations launched against it.

China is actively pursuing free trade agreements (FTAs), and has signed agreements beyond trade in goods with Peru (April 2009), Singapore (September 2008), and New Zealand (effective October 2008).[7] FTAs with Chile and Pakistan were extended to cover services in 2008. The deepest integration arrangements are with Hong Kong, and Macao. The FTA with the Association of Southeast Asian Nations (ASEAN) covering goods, services, and investment is planned to take effect fully in 2010 (when farm trade is included), and would govern trade flows smaller only than those of the EU and NAFTA.[8]

Behind the Border Constraints

In terms of the conduciveness of its institutional environment to business, China ranked 89th out of 183 countries in the 2010 Ease of Doing Business index. The Logistics Performance Index, a measure of the ease of trade facilitation, scores China at 3.32 (on a scale of 1 to 5, with 5 being highest), ranking it 30th in the world and second only to Malaysia in the EAP region, which averaged 2.58. Since late 2008, China has implemented several programs aimed at increasing the availability of trade finance to exporters. Government programs included increasing the limit on advances in foreign currency payments for exporters, expanding the availability of export credit insurance, and reforming the Export-Import Bank of China to make it more accessible to traders. The government adopted currency swaps to facilitate trade with many countries, and on July 1, 2009, allowed firms to conduct international trade settlements in renminbi on a voluntary basis.[9]

Trade Outcomes

Weakened external and internal demand brought on by the global economic downturn led to a slowdown in both exports and imports in late 2008. China's high 18.4 percent growth rate of total trade in goods and services during 2005–07, decelerated in 2008 to 6.1 percent in real (constant 2000 U.S. dollars) terms. Real export growth was 7.8 percent, which reflected less than a third of its value over the 2005–07 period, and real import growth 3.6 percent. Expectations are that real exports and imports will fall in 2009 by 10.1 percent, and imports will drop by a lower 4.7 percent, since the Chinese economy is growing significantly higher than abroad.[10]

In nominal U.S. dollar terms, total trade grew by 18.4 percent in 2008, which was slightly lower than in 2007. Total exports increased by 17.8 percent, driven by a 20.4 percent increase in services exports. China was the world's second largest exporter of goods in 2008, but external demand has declined for China's most important export products, which are electrical machinery and equipment, garments, yarn, and textiles. Its main export markets (the EU, the United States, Hong Kong, China, and Japan) have been adversely affected by the global recession. As a result, quarterly year-on-year growth rates of exports, which had exceeded 20 percent for the past six years, grew only by 4.4 percent in the fourth quarter of 2008. In the first half of 2009, exports *dropped* 21.4 percent compared to the same period in 2008, but the decline is slowing and June 2009 exports were higher than those of May.[11] A positive annual growth of 9.7 percent is expected for 2009.

China's top imports are goods used as inputs into production by its dominant manufacturing sector, which has evolved from producing low-technology goods to producing higher-technology electronic goods. Total imports grew by 19.1 percent in 2008, due to rising demand and commodity prices. However, they actually dropped in the last quarter, registering a negative 9 percent growth rate, compared to an average 21 percent quarterly growth for the previous two years. By midway through 2009, imports had dropped 25.5 percent on a year-on-year basis, but the pace of declining imports slowed to 13.2 percent in June as the stimulus package fuelled demand. In 2009, imports are expected to fall by 9.3 percent. Foreign direct investment (FDI) inflows fell sharply (20 percent year-on-year) in the first quarter of 2009 for the first time since 1997. In 2008, FDI accounted for 3.8 percent of China's GDP.

Notes

1. WTO, 2008.
2. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
3. ESCAP, , Feb. 2008, p. 4; May 2008, p. 4; July 2008, p. 4; Dec. 2008, pp. 4.
4. World Bank PREM Trade Group, April 2009, p. 3.
5. WTO, 2009, p. 60.
6. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
7. ESCAP, May 2008, p. 1; October 2008, p. 1
8. Bilaterals.org: "China, Peru Sign Trade Agreement," 2009; "New Zealand-China," 2009; "China-ASEAN," 2009.
9. World Bank PREM Trade Group, January 2009, p. 7.
10. World Bank (2009b), p. 9.
11. National Bureau of Statistics of China, 2009.

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