Caution tempers trade optimism

（By Xu Hongcai, 2-22-2014, China Daily, page5）

Despite the challenges and uncertainties that lie ahead, this year is expected to be better than 2013 for imports and exports

General Administration of Customs figures show that in January, China's foreign trade increased 10.3 percent year-on-year to $382.4 billion. Exports increased 10.6 percent year-on-year to $207.13 billion, while imports increased 10 percent to $175.27 billion. This means China's foreign trade has maintained a relatively high growth over the past few months.

Trade between China and its main trading partners continued to rise in January. The increase in trade between China and the European Union was 11.3 percent. Also, Sino-US and Sino-Japan trade increased 8.8 percent and 7.8 percent. Such a healthy growth in China's foreign trade can be attributed to the improved economic situation in advanced economies.

China's exports to developed countries are likely to grow in the months ahead. But the continued appreciation of the yuan and slowing down of emerging economies' growth rates could have a negative impact on China's exports. So, we should not be too optimistic about growth in foreign trade this year. At best, this year's growth rate is expected to be between 8 and 9 percent.

The developments in four economic regions, the EU, ASEAN, Brazil and India, have to be understood to gauge the growth prospects of China's foreign trade in 2014. First, although the US economy is performing better than the EU's, trade between China and the EU is growing more rapidly.

Second, because of the currency appreciation and rising operation costs in China, the country's manufacturing industry is finding it difficult to attract foreign capital. In contrast, ASEAN member states, with which China's trade grew 11.3 percent in January, are drawing more foreign investments because of their lower production costs. As a result, many processing and manufacturing companies in China are shifting their production units to ASEAN member states.

And third, China's cooperation with Brazil and India hold greater potential because, apart from the traditional trade in commodities, some Chinese engineering and machinery enterprises are making large investments in the two emerging markets.

The January data is no doubt bullish, but such strong increase is difficult to sustain. Trade surplus in one month is not representative of China's foreign trade for a whole year, because there can be large fluctuations owing to factors such as trade policies and conflicts, change in orders and holidays. For instance, January 2014 had 22 working days, five days more than in last year when the weeklong Spring Festival holiday fell in the first month, prompting many experts to say that a lower comparative base last year - because of fewer working days - helped increase the growth rate this year.

Compared with the still sluggish domestic and international markets, China's performance on the foreign trade front in January was quite an achievement, more so because domestic manufacturing, power generation, crude steel output and related industrial sectors showed a decline in growth vis-a-vis last year.

More importantly, the pressure created by the appreciating yuan is still high internationally and the global economy still faces uncertainties. In particular, the tapering off of the US quantitative easing policy will cause capital to flee back to the US and result in currency devaluation in some emerging economies.

That, in turn, will influence China's trade with other emerging economies. For example, China's exports to other BRCIS countries accounted for 4.5 percent of the total in 2006 but increased to 6.9 percent in 2013, while for ASEAN, it rose from 7.4 percent to 11.1 percent. But the impact of the tapering off of QE on emerging economies will make such a growth uncertain.

The Ministry of Commerce has vowed to continue its policies to maintain "a stable increase" in foreign trade this year, and readjust the import-export structure and grant export rebates to some industries.

The government is likely to expand the scope of importing advanced technologies and critical equipment, as well as fuel and raw materials. But, at the same time, it should ensure that traditional service exports - transportation and tourism, for instance - and newly developed service exports in insurance, telecommunications, and research and development sectors continue to grow. It should also help develop new growth points such as cross-border e-commerce and other service sectors.

Since the deficit in China's service industry, mainly in transportation and tourism, is relatively large, the government should open more zones like the China (Shanghai) Pilot Free Trade Zone that offer favorable policies to attract large investments and facilitate the rapid growth of the service sector.

The 2013 Central Economic Work Conference listed "stabilizing foreign trade" as one of the major economic missions of the country and proposed building a modern "Maritime Silk Road" to strengthen ocean trade with neighboring countries. If successful, the modern "Maritime Silk Road" could be a new growth point in 2014.

Therefore, despite the challenges, this year should be better for China's foreign trade than 2013.

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