

**Rebalancing Growth:
Financial Crisis, China’s Economic Adjustment and Intra-regional Trade**

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Since the reform and opening-up in 1979, China has pursued an export-oriented economic growth pattern and its trade dependence level has been high. In 2004, long before the financial crisis, the weaknesses in such a growth pattern was noticed and indicated in that year’s Central Economic Work Conference, where it was pointed out that China’s economy could maintain the momentum of growth if it should depend more on domestic consumption and less on foreign trade. The 2008 financial crisis further convinced Chinese policy-makers of such belief, and measures were taken to boost domestic demand and expand import, as a means to adjust the growth pattern and to rebalance growth and trade. China’s economic adjustment is still going on. At the same time, it favors the intra-regional trade in East Asia, especially its import from the region, which will have a positive impact upon the global trade and contribute to moderation of China’s large trade imbalance.

I. Financial Crisis and Its Impact upon China’s Foreign Trade

The financial crisis had a drastic impact upon China’s foreign trade, especially, its export to the major markets in the US and the EU. In 2009, its export value saw the first heavy decline after 30 years of successive growth. The trade plummet revealed the sensitivity of Chinese economy to the global market and the urgency for China to adjust its economic growth pattern.

1. China’s international trade before the financial crisis

During the last three decades, China has been depending heavily upon foreign trade for its economic growth. China’s trade-to-GDP ratio has been maintained at a stably high level. Table 1 shows that it averages over 60% among 2005, 2006 and 2007, and hit an record high of 77.1% in 2007, which is almost twice as much as those of the US and Japan (around 25% in 2005), and at nearly the same level as that of Germany (71.3% in 2005). The indicator reflects that China’s dependence upon foreign trade is relatively high and its economy could be sensitive to the changes in the global market.

Table 1: China Trade- to-GDP Ratio (2005-2007)

Unit: billion USD

Years	Foreign Trade Value	GDP	Ratio %
2005	1422.12	2224.811	63.9
2006	1760.69	2529.563	69.6
2007	2173.83	2819.249	77.1

Source: Foreign Trade Value data from China Customs Statistics
GDP data from IMF World Economic Outlook Database

China's economy has been highly export-oriented. As shown in Table 2, China export surged at a year-on-year growth rate over 25% before the crisis, and reached an unprecedentedly high of 1.2 trillion USD in 2007.

Table 2: China Export Value (2005-2007)

Unit: billion USD

Years	Export Value	Increase $\pm\%$
2005	762.00	28.4
2006	969.08	27.2
2007	1218.02	25.7

Source: China Customs Statistics.

Before the financial crisis, the US and the EU were the major destinations of China export. Countries in the region were also important markets for China-made products, but less significant than the major western markets. China export to the EU had grown at a faster rate (around 30%) than China export to the US, and totaled 245.2billion USD in 2007. It surpassed the US to become China's largest export destination. The US slid to be China's second largest export destination that year, although its import from China also gained a two digit increase. However, the US continued to be a most significant market for China-made products, due to its large market size. ASEAN had been the fastest growing export market among China's top five export destinations, though its total market size is less significant in value than that of the US and the EU.

Table 3: China Top Export Destinations (2005-2007)

Unit: billion USD

Export Destination	2005		2006		2007	
	Export Value	Increase $\pm\%$	Export Volume	Increase $\pm\%$	Export Volume	Increase $\pm\%$
US	162.90	30.4	203.47	24.9	232.70	14.4
EU	143.71	34.1	181.98	26.6	245.19	29.2
Hong Kong	124.48	23.4	155.39	24.8	184.43	18.8
Japan	83.99	14.3	91.64	9.1	102.07	11.4
ASEAN	55.37	29.1	71.31	28.8	94.18	32.1
ROK	35.11	26.2	44.53	26.8	56.14	26.1

Source: China Customs Statistics.

2. The financial crisis and its impact on China's international trade

The financial crisis makes 2009 the hardest year for China export since 1979. In 2008, China export reached 1.43 trillion USD in value, up 17.2%, but its year-on-year export growth rate slowed down compared with the years earlier. In 2009, China export value slid to 1.20 trillion USD, down 16% compared with 2008. Despite of the decline from the previous year, China is still the country with the best export performance in 2009, and surpassed Germany to become the world's largest exporter that year.

Table 4: China Export Value (2005-2009)

Unit: billion USD

Years	Export Value	Increase ±%
2005	762.00	28.4
2006	969.08	27.2
2007	1218.02	25.7
2008	1428.55	17.2
2009	1201.66	-16.0

Source: China Customs Statistics.

To break down the figure of China export value by countries and regions, it is found that the financial crisis reduced remarkably China export to the western markets from China. In 2009, China export to the US, the EU, and Germany plummeted by 12.5%, 15.7% and 19.4% respectively (Table 5).

Table 5: China Export to the US, the EU, and Germany (2005-2009)

Unit: billion USD

Export Destination	2005	2006	2007	2008	2009	Increase 2009
US	162.90	2034.7	232.70	2523.0	220.82	-12.5%
EU	143.71	1819.8	245.19	2928.8	236.28	-15.7%
Germany	32.53	403.2	48.72	591.7	49.92	-19.4%

Source: China Customs Statistics.

3. China's adjustment in economic development strategy

Since the global financial crisis, important measures have been taken to stimulate domestic demand and adjust China's economic growth pattern.

Firstly, a stimulus package was approved to invest in infrastructure and social welfare by the end of 2010. A large proportion of the funds go to public infrastructure development including railway, road, irrigation, and airport construction, reconstruction of the regions hit by natural disasters, and priority is given to agriculture, energy conservation, emission reduction and environmental engineering

projects. Another big proportion of the funds go to education, health care and many other social welfare programs. Promoting domestic demand as a source of economic expansion requires steady growth of household consumption. In the long term, the government hopes, more budgetary expenditure on education, health care, and other social programs will boost Chinese families' confidence in the social security system, reducing their precautionary savings, and stimulating household expenditures.

Secondly, China's import was expanded vigorously to cut its trade surplus and optimize the balance of import and export. In this connection, the import structure has been gradually adjusted for optimization. Specific measures include encouraging import of needed resources, advanced technologies and key equipments, expanding import from the main surplus countries, promoting trade facilitation by clearing non-tariff barriers, and simplifying import procedures and formalities.

The various policies China has adopted to boost domestic demand have shown notable results. In 2009, while China's total exports in goods dropped by 16%, its retail sales were up by nearly 17% in real terms, fixed asset investment increased by about 30%, and current account surplus relative to GDP fell to 6.1%. In the first half of 2010, China's trade surplus continued to drop by big margin. The trend towards current account balance has picked up speed, aiming at a more balanced economic development.

II. China's Adjustment and Intra-regional trade

Since the outbreak of the global financial crisis in 2008, China has made significant efforts to maintain economic and financial stability in East Asia. China signed bilateral swap agreements with countries in the region, established a US\$10 billion China-ASEAN Investment Fund, provided US\$15 billion of credit support to ASEAN countries, and actively engaged in and pushed forward East Asian financial cooperation focusing mainly on Chiang Mai Initiative Multilateralization and the Asian Bond Market Initiative. China also intensified its efforts to promote intra-regional trade. On January 1, 2010, China-ASEAN FTA agreement came into effect, which will have profound impact on intra-regional trade in East Asia.

1. Increased Intra-regional Trade

Statistics shows that intra-regional trade takes up more than 50 percent of total trade in East Asia. Japan, ASEAN, and ROK have always been important trade partners of China. China-Japan trade rose from 184.4 billion USD in 2005 to 266.8 billion USD in 2008, up by around 13% year on year. China-ASEAN trade soared up and presented a net increase of over 100 billion USD within three years from 2005 to 2008. China-ROK trade registered a rapid growth from 111.9 billion USD in 2005 to 186.1 billion USD in 2008, with an average year-on-year growth rate as high as 20%.

The financial crisis has a dramatic impact upon China's intra-regional trade. Its trade with Japan, ASEAN, and ROK started to slow down in 2008 and dropped sharply by 14.2%, 16.1% and 7.8%, respectively, in 2009 (See Table 6). Even then, China's trade with the countries in the region still outperformed its trade in the western market. ASEAN is a good example. In 2009, China-ASEAN trade declined by 7.8% in value, while its trade with the US and the EU slid sharply by 10.6% and 14.5% respectively. Also, China-ASEAN trade recovers faster than China's trade in the western market. During the first 8 months of 2010, the total value of China-ASEAN stood at 213.01 billion USD, up by 47.2%, faster than the growth of China trade with the US and the EU (32% and 36.2%, respectively). (Table 7)

Table 6: China's Trade with Japan, ROK and ASEAN (2005-2009)

Unit: billion USD

	Japan		ROK		ASEAN	
Year	Value	Variation	Value	Variation	Value	Variation
2005	184.444	9.9	111.931	24.3	130.370	23.1
2006	207.356	12.4	134.305	19.9	160.840	23.3
2007	236.022	13.8	159.898	19.1	202.508	25.9
2008	266.785	13.0	186.112	16.2	231.111	13.9
2009	228.848	-14.2	156.232	-16.1	213.011	-7.8

Source: China Customs Statistics.

Table 7: China's Trade with US, EU and ASEAN (2009-Aug. 2010)

Unit: billion USD

	US		EU		ASEAN	
Period	Value	Variation	Value	Variation	Value	Variation
2009	298.25	-10.6	364.08	-14.5	213.01	-7.8
Jan-Aug 2010	242.61	32.0	305.81	36.2	185.37	47.2

Source: China Customs Statistics.

2. Expanded Domestic Market and Increased Imports from East Asia

It is said that East Asia has a production chain, where China is the region's export platform, taking the position as a destination for intra-regional export and a source of import from East Asia in the western market. As its domestic market and export to the western market were expanded, China's import from East Asia witnessed a substantial increase in the past years. China's import from Japan increased from 100.4 billion USD in 2005 to 150.6 billion USD in 2008, with steady annual growth rates around 14%. China's import from ASEAN surged from 74.9 billion USD in 2005 to 116.9 billion USD in 2008, up by over 50%. China's import from ROK rose from 76.8 billion USD in 2005 to 112.1 billion USD in 2008. (Table 7)

In 2009, China's import from Japan, ASEAN and ROK declined heavily down to US\$130 billion, US\$106 billion and US\$102 billion respectively, as a result of global

economic recession. Table 8 shows that China's import from ASEAN dropped by 8.8% in 2009, faster than its import decline from the US and the EU (4.5% and 3.6%, respectively). This is mainly because a major proportion of China's import from ASEAN was not final products to be consumed in the Chinese market, but materials used to process products for the western market. When the western market slid sharply, China's import from ASEAN also suffer from a heavy decline. In the first 8 months of 2010, when China's import and export situation got better, its import from ASEAN jumped back onto the track of fast growth, registering an increase of 54.4% in value, much faster than its import growth from the US and the EU (34.4% and 36.1%, respectively). (Table 9)

Table 8: China Import from Japan, ROK and ASEAN (2005-2009)

Unit: billion USD

Source	Japan		ROK		ASEAN	
Years	Value	Variation	Value	Variation	Value	Variation
2005	100.452	6.4	76.822	23.4	74.999	19.1
2006	115.717	15.2	89.779	16.87	89.526	19.4
2007	133.951	15.8	103.757	15.6	108.369	21.0
2008	150.650	12.7	112.162	8.1	116.974	7.9
2009	130.938	-13.0	102.552	-8.6	106.714	-8.8

Source: China Customs Statistics.

Table 9: China Import from US, EU and ASEAN (2009-Aug. 2010)

Unit: billion USD

	US		EU		ASEAN	
Period	Value	Variation	Value	Variation	Value	Variation
2009	77.44	-4.5	127.80	-3.6	106.71	-8.8
Jan-Aug 2010	64.04	34.4	108.53	36.1	97.30	54.4

Source: China Customs Statistics.

3. China-ASEAN FTA

China-ASEAN FTA came into effect on January 1, 2010. It is the world's largest FTA so far, covering a population of 1.9 billion and involving a trade volume of about 2 trillion USD annually. According to the agreement, at current stage, China cuts the average tariff on goods from ASEAN countries down to 0.1 percent from 9.8 percent; while Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand, the six old ASEAN countries, cut the average tariff on Chinese goods down to 0.8 percent from 12.8 percent. Besides, China and ASEAN have made efforts to establish effective trade and investment facilitation measures under CAFTA, including simplification of customs procedures, development of mutual recognition arrangements, removal of technical barriers to trade/non-tariff measures removal, standards and conformity assessment, etc.

But even before these, China and ASEAN had seen a fast growth in bilateral trade. China-ASEAN trade grew from 130.3 billion USD in 2003 to 231.1 billion USD in 2008, and China's import from ASEAN soared from 74.99 billion USD in 2005 to 116.97 billion USD in 2008. In 2010, with the opening of the FTA, China-ASEAN trade and China's import from ASEAN recovered from the 2009's shrink; both rose at a significantly fast rate; setting monthly growth records of 80% and 117.3%, respectively, in January of this year (Table 11). It owes partially to the recovery of China export to the western market, partially to the boost of China's domestic demand through its economic stimulus package.

Table 10: China-ASEAN Trade and China Import from ASEAN (2005-2009)

Unit: billion USD

Years	Trade Value	Increase $\pm\%$	Import Value	Increase $\pm\%$
2005	130.370	23.1	74.999	19.1
2006	160.840	23.4	89.526	19.37
2007	202.508	25.9	108.369	21.0
2008	231.116	13.9	116.974	7.9
2009	213.011	-7.8	106.714	-8.8

Source: China Customs Statistics.

Table 11: China-ASEAN Trade and China Import from ASEAN (Jan-Aug, 2010)

Unit: billion USD

Months	Trade Value	Increase $\pm\%$	Import Value	Increase $\pm\%$
Jan	21.482	80.0	10.931	117.3
Feb	17.634	66.0	9.496	80.2
Mar	23.786	61.3	13.244	76.6
Apr	24.194	58.5	12.582	69.1
May	24.671	57.5	12.587	69.1
June	24.683	54.7	12.778	64.0
July	24.507	49.6	12.365	56.1
Aug	24.388	47.2	13.027	54.4

Source: China Customs Statistics.

III. Conclusion

The financial crisis and the post-crisis developments have shown several interesting things about the economic situation in the region, which will help shape further economic cooperation in East Asia.

First, there is a very high degree of economic interdependence in the region, involving increasingly deeply China and China's economy. Three dimensions related to China are particularly noteworthy. The first is the interdependence of China's economy with that of the rest of the world; the second is the interdependence of China's economy with the rest of the region, and the third is the interdependence of the region and the

world, sometimes through China. From all the statistics cited above, it is clear that in the past three decades, all the three kinds of interdependence have got deeper. The 2008 financial crisis in fact shows that economies in the region are closely linked as well as economies in and outside the region. The recovery and rebounding further show that the economic structure established so far in the region is likely to stay with us for the years to come.

Second, China's economic development has played an important role for the regional economy as a whole. China has three potential developments that could further push the regional economy forward: China's quick recovery from the financial crisis, China's commitment to continued reform and opening up, and China's restructuring and adjustment aiming at a big increase in domestic demands. China's recovery means renewed momentum for the existing production chain, which depends very much on the East Asian economies. China's commitment to continued reform and opening up will promise an even larger open market for primary, consumer, and other products. China's adjustment will increase the domestic demands, which will be satisfied by both domestic and foreign products. In addition, sustainable development needs more technologies in clean energy and other areas. It will open a new huge market in China to foreign technologies and investment.

Third, it takes time for China to complete the adjustment and restructuring. The past three decades have already nurtured an export-oriented economy in China and most of the rich provinces in China are in the costal areas and port cities. Economic ties between these regions and the outside world are very close. The overall pattern, that is, a high level of dependence of China's economy on the western and East Asian markets, will continue in the foreseeable future. On the other hand, if China's economic growth should continue to be at a higher rate than that of the US and the EU, it would take more goods and services from East Asia. The faster growth rate in East Asia than in the West in the first few months of 2010 may be an indicator.

Fourth, efforts to promote regional economic cooperation and integration since the 1990s have pushed forward regional trade and made it a spectacular achievement in world economic development. Especially since the 1997 Asian financial crisis, regional cooperation has become a necessity and even a consensus. An East Asian community was exactly put forward as an important concept and an ideal. Such a regional community, with an economic community as one of its pillars, therefore, is and will be a significant and worthy cause for the welfare as well as for peace and stability in the region, though the road must be tough and tortuous.