

China's Trade Acceleration and the Deepening of an East Asian Regional Production Network

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Abstract

China's recent surge in trade has been associated with its deepening but contrasting trade relations with its two groups of key trading partners. On the one hand, China's trade surpluses with the USA and the EU have risen rapidly, reaching US\$144bn and US\$91bn in 2006, respectively. On the other hand, China is importing heavily from its Asian neighbors. This diverging pattern of trade relations between China and its main trading partners reflects the continuous expansion and intensification of a complex cross-border production network in Asia, particularly for consumer electronics. In the process of deepening manufacturing sharing, China serves as an essential export platform for firms headquartered in the more advanced economies. These firms export intermediate goods from the relatively more advanced Asian economies to their affiliates in China where these inputs are assembled and then shipped to key export markets, including primarily the USA and the EU. One apparent outcome of the growing processing and assembly trade is the increased interdependency among Asian economies, which are now more dependent on each other than ever. It has also led to substantial structural changes and technological upgrading in China's traded goods.

Keywords: trade, trade relations, trade imbalances

JEL codes: G11, G15, G18

I. China's Recent Surge in Trade

China's rapid emergence as a global trading power in recent years has attracted increasing

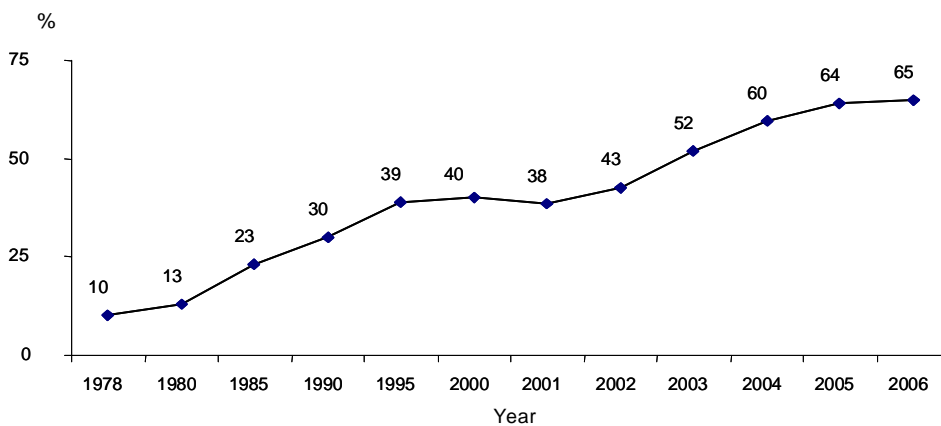
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attention from the international community. China's total trade has grown at an average annual rate of 28.3 percent during the 5 years following its accession into the WTO in 2001 (Author's calculation based on *China's Customs Statistics*). From 2001 to 2006, China nearly doubled its share in world trade from 4.1 to 7.3 percent. China overtook Japan in 2004 to become the world's third largest trading nation, following the USA and Germany.

To a large extent, the recent surge in trade is the combined outcome of China's continuous efforts in trade liberalization and active trade promoting policies. China's formal entry into the WTO in 2001 facilitated another round of trade liberalization, which has led to a new wave of trade expansion. Between 2001 and 2006, China's exports and imports grew at an average annual rate of 29.6 and 26.9 percent, respectively (Author's calculation based on *China's Customs Statistics*). As a result, China's trade to GDP ratio increased rapidly and substantially, from 40 percent in 2000, already a high level for a large economy, to 65 percent in 2006 (Figure 1).

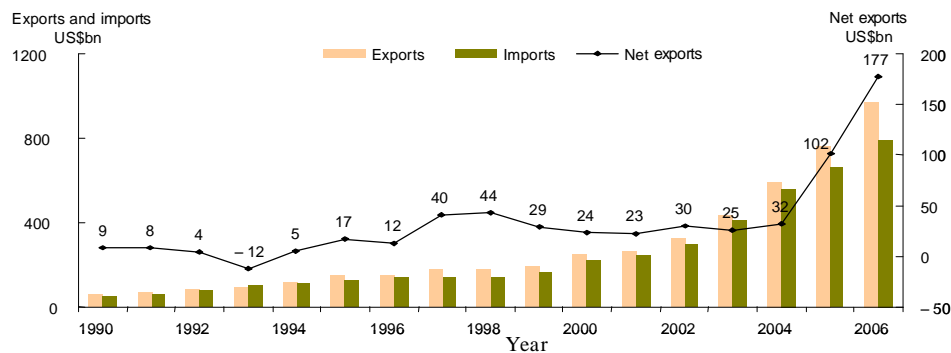
As will be discussed later, China's surging trade since its WTO accession has been associated with its deepening but diverging trade relations with its key trading partners in the developed nations and in Asia. China's overall trade with the USA and the EU has more than trebled since 2002, but trade surpluses with the two have increased even faster. In contrast, while China's trade with its Asian neighbors has also accelerated, China is becoming increasingly more important as an export market for these economies. Between 2000 and 2004, the share of exports to China of total Asian exports increased from 7 to 12 percent. The increase seems more significant for China's nearby neighbors. For Japan, the

Figure 1. China's Trade to GDP Ratio, 1978–2006



Source: NBS (1978–2006).

Figure 2. China's Trade Performance



Source: NBS (1978–2006).

share of exports to China of its total exports increased from 9 to 17 percent. For the four East Asian traders,¹ the share went up from 13 to 22 percent.

China's rapid trade expansion has exerted significant effects on world trade and has been reflected, in particular, through its large and growing trade surplus in recent years. According to *China's Customs Statistics* (China Customs, 1994–2006), China has sustained an overall trade surplus since 1990, except in 1993. Although the relative size of China's trade surplus to total trade has been mostly modest, there have been signs of acceleration in the past 2 years. Between 1990 and 2004, China's trade surplus to total trade was, on average, less than 6.0 percent. In 2005 and 2006, however, its trade surplus exceeded 8.5 percent of total trade. Indeed, China's trade performance has often been in the spotlight lately: China had a three-fold annual increase in its trade surplus in 2005 and another more than 70 percent annual increase in 2006, when the surplus reached US\$177.4bn (Figure 2). More significantly, China has sustained seemingly unsustainably large and rapidly increasing trade surpluses with the world's two most important economies, the USA and the EU. In 2006, China's trade surplus with the two reached US\$144.2bn and US\$91.6bn, respectively, representing annual growth rates of 25 and 31 percent.

Naturally, China's rise to becoming a large trading nation has led to both welcome applause as well as some degree of unease. Over the years, China has been exposed to continuous and increasing pressure from the USA to address its huge trade surplus and to revalue its currency. At the same time, China's accession into the WTO initially also generated some degree of anxiety in some countries within East and Southeast Asia,

¹ The four East Asian traders include Hong Kong, Singapore, South Korea and Taiwan.

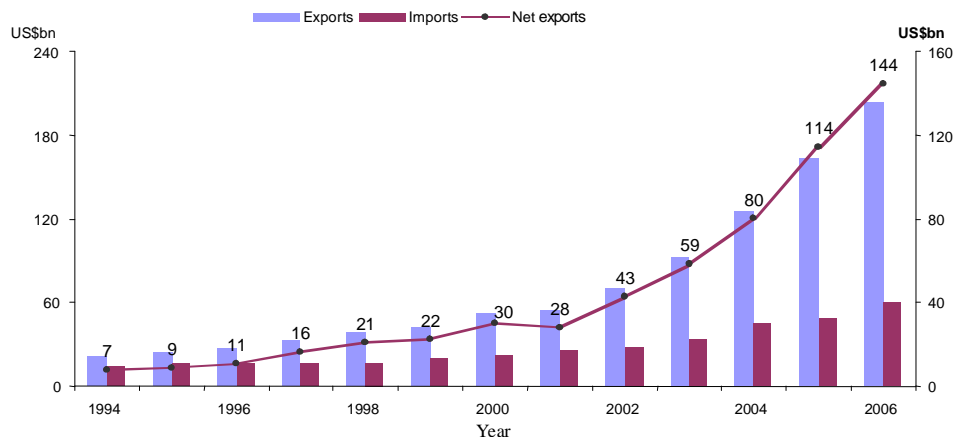
which were already experiencing a “hollowing out” of their labor-intensive industries, such as consumer electronics and hard disk drives. Over time, however, the hollowing out effect appears to have bottomed out and its adverse effects on these economies have been largely offset by the enormous and growing demand from China for imports of raw materials and intermediate goods. There have been growing efforts in East and Southeast Asian countries to facilitate further regional economic integration, in which China is viewed as an important driving force.

II. Geographic Structure of China’s Trade

As a newly emerged player in international trade, China has already generated a significant impact on the world and regional markets. Indeed, China serves as a platform for last stage processing and assembly for an increasing volume of final goods exports to the EU and the USA, mostly originating from its Asian neighbors. *China’s Customs Statistics* data show that more than half of China’s total exports are from processing trade. This is reflected clearly by China’s shifting bilateral trade imbalances with its main trading partners, those in the developed nations and those in Asia. While trade surpluses with the USA and the EU have increased substantially in recent years, China has accumulated growing trade deficits with many of its Asian neighbors.

As shown in Figure 3, bilateral trade between China and the USA has expanded more

Figure 3 China’s Trade with the USA 1994–2006



Source: China Customs (1994–2006).

than seven-fold over the past 10 years, from US\$35bn in 1994 to US\$262bn in 2006. The USA is China's number one export market and the second largest trading partner. In contrast, China became the second largest source of US merchandise imports in 2005, accounting for over 14 percent of US merchandise imports. More significantly, as China's bilateral trade has expanded, China's trade surplus has increased at a much faster pace. According to *China's Customs Statistics*, China's annual trade surplus with the USA grew from US\$7.5bn in 1994 to US\$28.1bn in 2001, equivalent to an annual growth rate of over 20 percent. Following China's WTO accession, the Sino-US trade surplus soared up further to US\$144bn in 2006,² representing an average annual growth of nearly 40 percent. Similar to the case of Sino-US trade, China's trade imbalance with the EU has experienced an increasing trend since the late 1990s, albeit at a lower magnitude. The Sino-EU trade surplus increased by an average annual rate of 40 percent between 1997 and 2006, when it reached US\$91bn.

Although China's trade surplus with the USA and the EU is spiraling, China has been purchasing heavily from its neighboring trading partners. As a result, China has accumulated increasing trade deficits with these neighboring economies over the years. For example, the Chinese Mainland is now the largest trading partner for Taiwan and the second largest for Japan. China is also the largest export market for Korea. In 2006, China's trade deficits with Japan, members of ASEAN, Korea and Taiwan reached US\$24bn, US\$18bn, US\$45bn, and US\$66bn, respectively.

Unlike its trade with other Asian economies, the Chinese Mainland has consistently maintained a large trade surplus with Hong Kong, which reached US\$112bn in 2006. The Trade surplus with Hong Kong is mostly a result of the much larger amount of outward than inward transit trade through Hong Kong. In fact, most Chinese exports to Hong Kong are ultimately directed to third markets, mainly to the USA and the EU. According to Françoise (2004), almost 85 percent of China's exports to Hong Kong are re-exported, of which one-third is directed to the USA and one-quarter to the EU. This has also been the key reason for the discrepancies in bilateral trade figures reported by China and those by the USA and the EU. In general, China's trade figures underestimate the trade imbalances with the two trade partners, whereas those from the USA and the EU tend to overestimate the imbalances.

² The trade deficit figure according to US sources is significantly higher, amounting to US\$232bn in 2006. This is due to a number of reasons, including different calculation methods and the treatment of transit trade through Hong Kong.

III. China's Trade Imbalances and Production Sharing in Asia

The varying trade circumstances between China and its main trading partners are the result of growing production sharing and the intensification of an Asian production network. In 2006, the largest source of the Sino-US trade imbalance came from goods under the category of electrical machinery, machinery, and mechanical appliances. The figure amounted to US\$ 71bn, which is larger than the combined trade surplus of goods in the following four categories (Table 1). In contrast, trade of electrical machinery, machinery, and mechanical appliances is also the largest source of China's trade deficit with Japan, Korea, Taiwan and Malaysia (Table 1). This is the outcome of increasing integration of trade and production in Asia, which is in sharp contrast with the situation a decade ago. In 1994, the most important sources of Sino-US trade surplus were: first, footwear, feather articles, artificial flowers etc.; second, toy and sports equipment, and furniture; and, third, textile and textile articles (Table 2). Trade in these products involved much lower degrees of production sharing between China and its Asian neighbors than the sharing that occurs today with other products e.g. electronic goods and machinery (Table 1).

China's trade imbalances with its key trading partners have evolved considerable

Table 1. Top 5 Sources of China's Trade Deficit with Its Asian Neighbors, 1994 and 2006

A: Top 5 sources of China's trade deficit with Japan		
2006	US\$bn	% in total
Total	24.1	
1 Electrical machinery, machinery/mechanical appliance	28.4	118
2 Optical, photographic, cinematographic etc.	5.8	24
3 Products of the chemical or allied industries	5.6	23
4 Plastics and articles	4.8	20
5 Vehicles other than railway or tramway rolling-stock	3.3	14
1994		
Total	4.7	
1 Electrical machinery, machinery/mechanical appliance	9.9	209
2 Matural or cultured peals, etc.	2.9	62
3 Vehicles	2.9	61
4 Products of the chemical or allied industries	1.2	25
5 Optical, photograph, etc.	0.7	14

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B: Top 5 sources of China's trade deficit with Korea

	2006	US\$bn	% in total
Total ^a		45.3	
1 Electrical machinery, machinery/mechanical appliance		25.8	57
2 Optical, photographic, cinematographic etc.		11.1	25
3 Plastics and articles		6.5	14
4 Products of the chemical or allied industries		6.4	14
5 Mineral fuels, mineral oils etc.		3.5	8
1994			
Total			
1 Electrical machinery, machinery/mechanical appliance		1.2	
2 Plastics and articles		0.9	
3 Base metal and thereof articles		0.7	
4 Textiles and thereof articles		0.4	
5 Raw hides and skins		0.4	

^a: China had overall trade surplus with Korea in 1994.

C: Top 5 sources of Chinese mainland's trade deficit with Taiwan

	2006	US\$bn	% in total
Total		66.4	
1 Electrical machinery, machinery/mechanical appliance		33.3	50
2 Optical, photographic, cinematographic etc.		14.7	22
3 Plastics and articles		6.8	10
4 Products of the chemical or allied industries		4.5	7
5 Base metal and articles		3.9	6
1994			
Total		118.4	
1 Electrical machinery, machinery/mechanical appliance		4.6	4
2 Textiles and thereof articles		2.7	2
3 Plastics and articles		1.9	2
4 Base metal and thereof articles		0.8	1
5 Raw hides and skins		0.6	0

D: Top 5 sources of China's trade deficit with Malaysia

	2006	US\$bn	% in total
Total		10.0	
1 Electrical machinery, machinery/mechanical appliance		9.6	95
2 Plastics and articles		2.0	20
3 Animal or vegetable fat and oil etc.		1.6	16
4 Mineral products		0.6	6
5 Wood and thereof articles		0.4	4
1994			
Total		0.5	
1 Animal or vegetable fats and oil		0.6	115
2 Wood and thereof articles		0.5	97
3 Plastics and articles		0.1	21
4 Mineral products		0.0	5

Source: China customs (1994 and 2006)

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Table 2. Top 5 Sources of China's Surplus with US, 1994 and 2006

2006	US\$bn	% in total
Total	144.3	
1 Electrical machinery, machinery/mechanical appliance	71.2	49
2 Toy and sports equipment; furniture	21.1	15
3 Textile and textile articles	16.9	12
4 Base mentals and articles of base mental	12.8	9
5 Footwear, feather articles, articles, artificial flowers etc.	9.0	6
1994		
Total	7.5	
1 Footwear, feather articles, artificial flowers etc.	3.5	47
2 Toy and sports equipment; furniture	3.0	40
3 Textile and textile articles	2.3	31
4 Raw hides and skins	1.1	15
5 Base metal and thereof articles	0.3	4

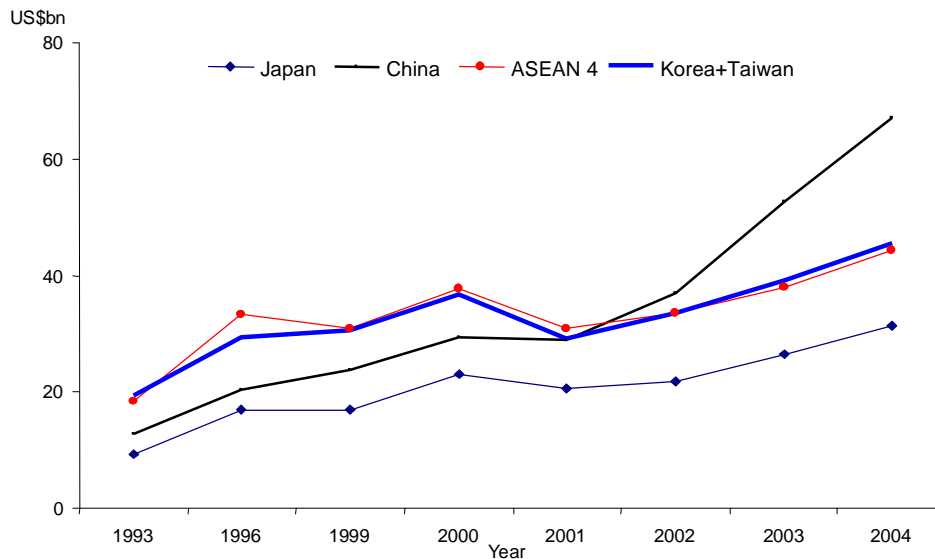
Source: China customs (1994 and 2006).

since the mid-1990s (Tables 1 and 2). For trade in electrical machinery and machinery appliances, China's expanding trade surplus with the USA is associated with growing trade deficits with China's Asian neighbors, including Japan, Korea, Taiwan and Malaysia. In 2006, China had a large trade surplus in electrical machinery and machinery appliances with the USA, amounting to US\$71bn. In 2006, China's trade deficits for these products with its four Asian neighbors were US\$28bn, US\$26bn, US\$33bn and US\$10bn, respectively. This strongly suggests that it is essential to evaluate the role of China in international trade with a broader regional perspective.

In fact, China's recent expansion in foreign trade is associated with rapidly growing intra-regional trade. During the last decade, while Asia's share in world trade in manufactured products remained relatively stable, intra-Asia trade has grown at an accelerated pace. Between 2000 and 2004, the share of intra-regional trade in Asia's total exports went up from 48.8 to 50.3 percent. More significantly, the share of Asia's exports to China increased from 6.2 to 9.6 percent. China enlarged its share in intra-Asian trade from 13 percent in 1993 to 22 percent in 2004 (Gaulier, 2006).

Growing specialization and production sharing are important for the expansion of intra-regional trade. As production processes are fragmented across countries along the value chain, a "triangular" trade pattern has emerged where China is positioned at the center between producers of intermediate goods and final consumers. Increasingly, China serves as an export platform for firms located in the relatively more advanced Asian economies, which export intermediate goods to their affiliates in China where these intermediate inputs are assembled and then shipped to key export markets, such as the

Figure 4. Imports of Intermediate Goods from East Asia, by selected economies in the region, 1993–2006



Source: CEPII-CHELEM Database (1990–2004).

USA and the EU. According to Francoise (2004), back in 1999, Asia was already the major source of inputs for China's processing industries, with Japan and Asian newly industrialized economies (NIE) providing more than two-thirds of these imports.

The importance of trade with Asia and of the processing trade in particular in China's trade expansion can be demonstrated more clearly by examining the trade in intermediate goods among Asian economies. Figure 4 shows the imports of intermediate goods from East and Southeast Asian economies by selected economies, including Japan, Korea, the Chinese Mainland, Taiwan, and ASEAN members. From the graph, it is evident that, since 2001, China's imports from the region have increased significantly more rapidly than in the other economies included in the figure.

Table 3 further demonstrates the importance of processing trade for China, especially that involving Asian economies. In 2005, 42 percent of China's total imports were for processing, up from 35 percent in 1993. Key East and Southeast Asian economies provided 70 percent of total process imports in 2005, compared to the USA and the EU combined of less than 10 percent. In contrast, process exports made up 55 percent of China's total exports in 2005, up from 48 percent in 1993. The USA and the EU remain the most important market for process exports, as well as for overall exports. In 2005, the USA accounted for 21 percent of total exports and 25 percent of process exports from China. The figures for the

Table 3. China's Processing Trade

	World	Korean and Taiwan	Japan	ASEAN5	HKSAR	USA	Europe	Rest of world
Imports (%)								
1993								
Total	100	18	22	6	10	10	15	19
Ordinary import	37	2	8	3	1	5	8	9
Imports for processing	35	11	8	2	7	2	2	3
Others	28	5	7	1	2	3	6	5
2005								
Total	100	23	15	11	2	7	11	31
Ordinary import	42	6	5	3	1	4	6	17
Imports for processing	42	14	7	6	1	2	2	10
Others	16	3	3	2	0	2	2	4
Exports (%)								
1993								
Total	100	5	17	5	24	18	13	18
Original exports	47	2	10	4	10	6	7	9
Processed exports	48	2	7	1	14	13	7	4
Others	5	0	0	0	0	0	0	5
2005								
Total	100	7	11	6	16	21	17	21
Original exports	41	3	4	3	3	7	7	13
Processed exports	55	3	7	3	12	14	10	6
Others	4	0	0	0	1	1	0	2

Source: Thorbecke and Yoshitomi (2006b).

EU are 17 and 18 percent, respectively.

It is clear that China has been increasingly integrated in a growing regional production network. Over the years, China has increased its processing trade with economies in Asia: more rapidly on the import side in particular with South Korea, Taiwan, and members of ASEAN.³ However, processing trade with the USA and the EU has also expanded considerably, primarily for China's processing exports. This triangle trade pattern constitutes a key factor contributing to China's large and growing trade surpluses with the two developed markets and trade deficits with its developing Asian neighbors.

³ China has maintained a modest amount of surplus in processing trade with Japan since the late 1990s. In 2005, China's trade surplus with Japan in processed trade was US\$4.5bn, less than 5 percent of the total Sino-Japanese processed trade (China's processed imports and exports with Japan amounted to US\$45.2 and US\$49.7bn, respectively).

IV. China's Technological Upgrading in Trade

China's rapid trade expansion has been accompanied by substantial structural changes and, in recent years, technological upgrading. Both have been facilitated by increasing international production sharing and specification between China and more industrialized Asian economies. The process started in the trade of textiles and clothing in the mid-1980s and was already well-entrenched in this sector by the early 1990s. At that time, half of China's clothing exports came from processing activities. This has allowed China to transform its trade from focusing heavily on primary goods to depending more on labor-intensive manufactured goods. At the same time, this enabled China to become the world's largest exporter of apparel in the early 1990s.

Structural changes in China's trade continued in the 1990s alongside the economic reshuffling in the Asian NIE. Investment in China by firms in neighboring countries accelerated, as a result partly of rising costs in their source countries and of attractive policy measures provided by the Chinese Government. More significantly, investment from advanced economies, including the USA, Europe and Japan, also began to increase considerably. These new investments have helped to expand China's trade in products that are more capital and technology intensive, most noticeably in electrical machinery. Such investment strategies have helped firms in Asian NIE as well as those in advanced economies to maintain their global competitiveness by shifting to China the segments of production in which they were losing their comparative advantage.

The rapid expansion of China's processing trade was thus associated with extensive changes in its commodity composition. On one hand, exports of traditional labor-intensive goods have continued to be important. For example, exports of apparel, leather and shoes accounted for 20 percent of total exports in the early 1990s and have since remained relatively stable at a level between 15 and 22 percent. On the other hand, exports of more capital intensive goods with more technological sophistication have increased rapidly. For example, machinery and transport equipment exports made up less than 10 percent of total exports in the early 1990s, but this share went up to 45 percent in 2006. As a result, China has expanded its range of exports into more sophisticated and technologically advanced products.

China has pursued a two-pronged trade strategy. First, China encourages the trade of labor-intensive manufactures to capitalize its comparative advantage due to an abundance of low-skilled labor. Second, much effort has been devoted to upgrading China's production and exports toward the higher-end of the value chain. Indeed,

trade of goods with higher sophistication and more technology content has increased rapidly in recent years. In 2003, imports and exports of high-technology products accounted for 14.9 and 12.4 percent of total exports, up from 10.8 and 6.5 percent in 1997 (Gaulier, 2006).

Production specification and sharing with Asian countries has been a key factor in facilitating the transfer of technology to China and as well as the upgrading of China's export capacity. Indeed, a large majority of China's high-technology imports are from Asia. In 2004, among China's key Asian trading partners, Japan was the largest supplier of high-technology products to China, providing 19 percent of China's total high-technology imports, followed by Taiwan (15 percent) and South Korea (11 percent) (Athukorala, 2006). In contrast, more than half of China's exports of high-technology products are designated for economies outside Asia, 24 percent going to the USA and 23 percent to the EU.

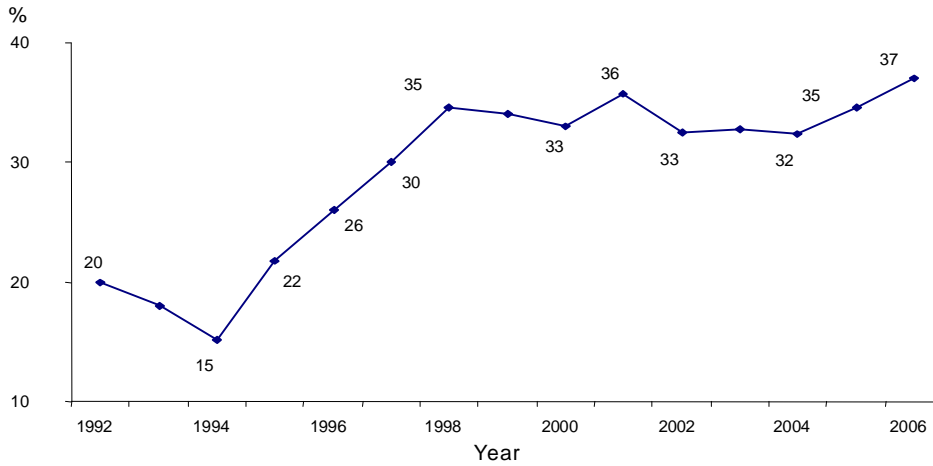
However, using the share of high-technology products in China's exports to evaluate the importance of high-technology goods could be misleading. This is because the figure for total exports of high-technology products does not exclude the high-technology portion of the goods embodied in the parts and components imported. This will most likely result in technological capability being overstated. For example, according to *China's Customs Statistics*, 70 percent of China's exports to the USA contain foreign components, particularly from Taiwan, South Korea and Singapore. In fact, it is believed that more than half of the trade in high-technology products is for parts and components used for further processing (Gaulier, 2006). As a result, China's high-technology exports involve only a modest level of added value. Figure 5 provides a crude estimate of China's rate of value-added in processed trade. Figure 5 suggests that, although the portion of value-added in China's processed exports increased modestly in the 1990s (from 20 percent in 1992 to 35 percent in 1998), there has been no significant increase in recent years.

China's export expansion in high-technology products has been facilitated by foreign investment and the activity of foreign affiliates. Between 1995 and 2006, the share of foreign-invested enterprises (FIE)⁴ in China's total exports rose from 32 to 58 percent. Over the same period, the share of processing exports by foreign affiliates in China's total exports also increased considerably, from 28 to 45 percent.

Indeed, FIE are the main players in China's processing trade. In 2006, FIE accounted

⁴ Foreign invested enterprises (FIE) include contractual joint ventures, equity joint ventures, and whole foreign-owned enterprises.

Figure 5. China Value Added in Processed Trade, 1992–2006



Source: China Customs (2006).

for approximately 56.5 percent of total processing trade, up from 35 percent in 1995. Therefore, a large portion of China's trade corresponds to intra-firm trade between parent firms in neighboring Asian economies or in advanced countries and their affiliates in Mainland China. In machinery and electrical machinery, foreign affiliates account for more than three-quarters of processed exports, and for more than four-fifths of processed imports. This provides further evidence that cross-border production networks are crucial in explaining China's trade expansion, including that in high-technology products. The importance of FIE is particularly prominent in China's trade with East Asian economies. It is estimated that, in 2003, approximately two-thirds of China's trade with Japan and NIE was carried out by FIE (Gaulier, 2006).

V. Future Prospects for China's Foreign Trade

A number of conclusions may be drawn from the analysis presented above. It is increasingly clear that China has risen to become an important trading power in the world. China's trade expansion has largely reflected an overall trend of production specification and production sharing among Asian economies. In this process, China has played an increasingly important role and has become a driving force for regional and global economic integration. Moreover, through increasing specialization and cross-border production sharing, China has achieved higher technological sophistication of

products in its trade. For example, the largest item among processed exports has shifted from textile products to electrical machinery and appliances. Finally, FIE have played a key role in China's trade expansion and in the technological upgrading of its products. By producing final goods using imported parts and components from other economies in Asia, most importantly Taiwan, Korea, Japan and ASEAN members, China's FIE form a crucial link in the regional production network in Asia. Often, these final goods are subsequently exported to the USA and the EU. Accordingly, trade by FIE has been the most significant source of China's increasing trade imbalance with its major trade partners in recent years.

Indeed, the formation of an intensive regional production network facilitated by increasing production specialization has been largely mutually beneficial among Asian economies. One might ask why China has emerged as a central player in this recent trade expansion and production sharing. There are two elements important in answering this question. First, the recent trade expansion features strong growth in the trade of electronics. Enabled by standardization, the production of electronics has become an increasing fragmented process conducted in different locations and involving numerous parts and components. This is different from the production of items traditionally important for developing countries' trade, such as toys and clothing. As a result, countries participate at different stages of producing the same products within a regional arrangement, depending on their comparative advantage.

Second, due to its size, China has become a central player in the regional production network. With its large and rapidly growing domestic market, China is able to take advantage of economies of scale. At the same time, increasing industrial clustering also enables China to benefit from external economies. By locating closely with other firms in the same industry and in related industries, firms reduce their costs, attract new investment, facilitate innovation, and improve productivity.

Consequently, we would expect that in the short run, supported by sustained large inflows of foreign investment, China's exports will continue to expand. It seems that, in the foreseeable future, China will remain competitive in the production of labor-intensive goods, as well as in the relatively labor-intensive assembly activities in the production of more sophisticated goods. China's trade imbalance, with its major trading partners will remain in the coming years.

Indeed, this pattern of triangular trade is not unique to China. The cross-border production networks started in Asia long before China opened its doors to trade but have since developed rapidly. The evolution of East Asian economies has become a telling example of the model proposed by Akamatsu (1961), who observed that: "the underdeveloped nations are aligned successively behind the advanced industrial nations

in the order of their different stages of growth in a wild-flying geese pattern". China can be seen as the latest goose within the context of the "flying geese theory". Although China is engaged largely in low-value-added manufacturing activities, its sheer size has made it the "end-station" for the production process of the whole region.

In the long run, China's foreign trade development and its structural changes will depend on how fast and to what extent China can achieve technological upgrading of its domestic industries and move up in the product value chain. There is some evidence that the increasing presence of FIE has facilitated the productivity improvement of domestic firms. In addition, the composition of exports by mode of trade has also undergone changes in recent years. The importance of simple processing and assembling in exports has declined consistently since the late 1990s, from its peak of 18 percent in 1999 to 10 percent in 2006. The share of processing with imported materials increased continuously after the early 1990s, from 36 percent in 1995 to 43 percent in 2006. In contrast, there is evidence that ordinary trade has increased its share in total exports to 43 percent in 2006. However, the spillover effect from FIE to domestic manufacturing industries remains limited and the linkages between the outward-oriented sectors and the domestic market based companies is still weak. Therefore, it is rather premature to assess the impact of the export-oriented, foreign investment related sector on the technological upgrading of the domestic industry.

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(Edited by Xinyu Fan)

Conference News

30 Years of Economic Reforms in China: Retrospect and Outlook

The Association for Chinese Economic Studies Australia (ACESA) in conjunction with *China and World Economy* and some other research institutions will jointly organize the ACESA’s 20th Annual Conference in Townsville, Australia, 10-11 July 2008.

Selected distinguished scholars and government officials, from China, Australia and elsewhere, will be invited to deliver keynote speeches to the conference.

The organizers invite papers that review and evaluate China’s economic growth and development in the past three decades and forecast the Chinese economy in the future. For more details, please visit the conference website at: www.jcu.edu.au/cabs/acesa.