

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

Foreign Trade of China

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

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Thesis title

Foreign Trade of China

Objectives of thesis

The basic objectives of this thesis is to analyse the foreign trade of China based on the impacts of imports and exports. It can be studied via domestic products and free trade agreement made between China and its trading partners. These factors are believed to have explanatory power for China's foreign trade.

Methodology

- Panel methodology: It is different from cross-sectional analysis in that it takes into account differences between countries, firms, households and individuals which are not homogeneous and provides a modelling tool to assess these differences by horizontal or vertical cross-sectional analysis feature. Panel data method has two main strengths as it combines cross-sectional and

time-series observations

- Data analysis: The data will be collected and after that analyzed from the source information mainly from the Internet via search engine such as scholarly articles, journals, books, trade documents, reports, and several other online

academic sources. When collecting information from various sources, a practical approach has been taken as to its authority and authenticity

The proposed extent of the thesis

40 – 60 pages

Keywords

China, Asia, foreign trade, economy growth, international trade

Recommended information sources

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Declaration

I declare that I have worked on my bachelor thesis titled "Foreign Trade of China" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 11.3.2016

Acknowledgement

After few months of doing research I have finally finished my Bachelor Thesis. I would like to express my deepest and greatest gratitude to my supervisor Ing. Tomáš Maier, Ph.D. for his advice and support and feedback during my work on this thesis.

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Zahraniční obchod Číny

Souhrn

Tento výzkum je rozdělen do dvou částí: Teoretické a praktické části. Teoretická část je založena na literatuře o mezinárodním obchodu. Tato část také představuje nejdůležitější teorie a stručně obsahuje historii zahraničního a mezinárodního obchodu ve světových souvislostech. Především autor vysvětlí Absolutní výhodu od Adama Smitha, otce klasické teorie obchodu, Komparativní výhodu od Ricarda a Heckscher-Ohlin teorii.

Tento výzkum používá kvalitativní a kvantitativní metody k vypracování praktické části s úmyslem zjistit jak moc působí zahraniční obchod na ekonomii Číny.

Klíčová slova: Čína, Asie, zahraniční obchod, ekonomický růst, mezinárodní obchod

Foreign Trade of China

Summary

This research divided into two parts: Literature Review and Practical Part.

The Literature Review is written based on literature on International Trade. This part introduces the main theories and a brief history of Foreign Trade and a brief history of International Trade in the world context.

To begin with, the author explained the Absolute Advantage theory from Adam Smith; the father of the Classical Trade Theory, Comparative Advantage by Ricardo and Heckscher – Ohlin theory.

This research also used qualitative and quantitative method approach the practical part with the purpose to find out how important the Foreign Trade affect is to China's economy.

Keywords: China, Asia, foreign trade, economy growth, international trade

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LIST OF ABBREVIATIONS

US	The United States
UK	The United Kingdom
H-O Theory	Heckscher-Ohlin Theory
GNP	Gross National Product
GDP	Gross Domestic Product
BOP	Balance of Payment
OECD	Organization for Economic Co-operation and Development
ASEAN	Association of Southeast Asian Nations
WTO	World Trade Organization
C	Consumption
I	Investment
G	Government Expenditures
X	Exports
M	Imports

1. Introduction

In the last years of the twentieth century, China's strong economy resurgence, was the most prominent phenomenon, attracting the most attention in the Asia - Pacific and worldwide. After more than 20 years (1979-2003) of implementing reform and opening up, the economic and social face of China changed profoundly. In many aspects, China was occupying significant positions in the world economy, at the forefront of growth rate with a significant economic strength. Especially in the field of foreign trade, experiencing nearly a quarter of a century, China's foreign trade achieved many brilliant achievements: from 32nd rank in the world for import and export (1978) until now China became the 5th largest foreign trade superpower in the world with total import export turnover amounting to 620.8 billion in 2002 (an increase of 30 times compared to 1978).

Moreover, the position and influence of China in international trade has been increasingly enhanced, China's foreign trade is facing new opportunities to develop better, especially after the event China became a 143rd member of the world trade Organization in the first year of the XXI century.

Objectives and Methodology

1.1 Objectives

The basic objective of this thesis is to analyse the foreign trade of China based on the impacts of imports and exports and other indicators. It can be studied via domestic products and free trade agreement made between China and its trading partners. These factors are believed to have explanatory power for China's foreign trade.

1.2 Methodology

For this thesis methodology, there will be data collected and after that analysed from the source information mainly from the Internet via search engine such as scholarly articles, journals, books from Vietnamese authors and others, trade documents, reports, and several other online academic sources.

This research was also based on quantitative method approach by collecting data from Bureau Statistics of China from 1978 to 2013, there are 27 observations, the unit is 100 million yuan. The main reason to analyse the China growth rate based on the relationship between GDP and Exports-Imports. The GDP and Linear Regression models were created as follow:

$$Y = a + b*x \quad (1)$$

Where:

Y: Dependent variable as GDP

X: Independent variable as growth rate (X-M)

a: constant

b: parameter of received growth rate

The model was verified by compared the p-value with significant level $\alpha = 0.05$ to identify the relationship between GDP and China growth rate (X-M).

2. Literature Review

The chapter is written based on literature on International Trade. This part also introduces the main theories and a brief history of Foreign Trade and a brief history of International Trade in the world context. To begin with, the author explained the Absolute Advantage theory from Adam Smith; the father of the Classical Trade Theory, Comparative Advantage by Ricardo and Heckscher – Ohlin theory.

2.1 Overview of International Trade

2.1.1 International Trade Definition

The Vietnamese population wears clothes fabricated in China, uses iPhones assembled in the United States and have a large import of Swedish constructed machineries and equipment. Swedish people consume hamburgers from Mc Donald's, use mobile phones made in Korea and wear clothes fabricated in Vietnam. Americans use German cars for transportation and wear Chinese fabricated clothing. The global economy has never been as integrated into our daily culture as at present. Global trade impacts everyone's daily lives and the world we exist in. Almost every time we complete a sale or purchase, we are taking part in the global economy. Our shelves in stores are packed with products from all over the globe.

Import is defined as: Goods and services that a country purchases from another country.

Export is defined as: Goods and Services that are sold to other countries.

Trading mostly takes place between corporations. But you cannot underestimate the trade happening between governments and individuals on an international level.

The biggest part of global trade is made up of the sale and purchase of industrial machinery, oil, agricultural and consumer goods. Insurance, transportation, banking, engineering, tourism and telecom services only account for a fifth of the global export market.

International shipping and communication costs have fallen exceedingly, resulting in an improved collaboration among the world's economic markets. Due to this interrelationship, prices can be strongly affected by the conditions and economic trend in one country. Current examples are the events happening in countries happening in Syria, Greece and Turkey and North Korea which have a global impact on the economic markets.

Global / International trade exists because businesses, individuals and governments in one country proceed in buying goods and services produced in other countries. Trade caters individuals with a bigger selection of goods and services to select from and regularly these are obtainable at a lower cost than in the domestic trade.

Global trade is an arrangement between countries exchanging goods and services. Societies trade amongst each other to procure goods that are of superior quality, cheaper or diverse from what is manufactured in their home country.

Figure 1 The Silkroad Project



Source: The Silkroad project, The Silkroad and related trade routes, 2014, viewed 21 May 2014, <http://www.silkroadproject.org/tabid/177/default.aspx>

The map above portrays classical illustrations of the International trade that occurred a thousand years ago. It consist of an array of sea and land trade routes from the Mediterranean to Japan from the first Millennium before the Common Era up to the second Millennium of the Common Era¹.

Global Trade has become part of our daily lives without us even noticing it. You participate in global economy almost every time you purchase or sell goods. Import indicates to goods a country has bought from another country, and export is a product sold from one country to another. Meaning that goods involved in global trade can be referred to as import and export at the same time, all depending looking at it from the buying or selling point of view. Import and export are 2 phrases primarily used in International trade between two businesses, individuals and governments. The description International Trade indicated to a structure where two countries exchange goods and services across borders. Societies trade amongst each other to procure goods that are of superior quality, cheaper or diverse from what is manufactured in their home country².

What are the Gains of international trade?

To be able to expand the prosperity of a country and to be more lucrative, different countries contend with each other by maximizing the use of their natural resources, i.e. land, capital, entrepreneurship and labour. Countries diverge in terms of the quota, quality and cost of these resources. In order to balance these distinctions, they trade with other countries to obtain different advantages from other countries. The advantages that a country has varies according to below factors:

- Rich in minerals
- Agronomics and climate change
- Experienced labour force
- Innovation
- Infrastructures: railways, airports, etc.

¹ The Silkroad project, The Silkroad and related trade routes, 2014, viewed 21 May 2014, <http://www.silkroadproject.org/tabid/177/default.aspx>

² Robert C. Feenstra, Alan M. Taylor, International Trade, 7th ed, Worth Publishers, New York, 2008, p.3.

By exchanging goods and services with other countries, both the two countries directly involved and the world at large will profit and benefit together³.

2.1.2 Classical Trade Theory (Absolute Advantage)

Adam Smith is considered the father of Classical Trade Theory and the creator of the Absolute Advantage theory in foreign trade activities. In his book:” The Wealth of Nation “published in 1776⁴, he argued that trade is not a zero-sum game.

Absolute advantage is the advantage gained in international trade as each country focus on manufacturing specialization and exchange of products with a lower production cost compared with other countries and lower than the average cost of an international, all countries are mutually beneficial.

Assumption 1: There are only 2 countries and 2 commodities.

Assumption 2: The two countries use the same production technology.

Assumption 3: The required resources are labour, land and capital in each country.

Assumption 4: Cost of production is labour.

Assumption 5: No trade barriers

Exchange process based on absolute advantage as the volume of total social product increased, making the resources are used in a more effective way.

International trade will create conditions for the development of industries with advantages and disadvantages to narrow the generation sector, the latter rationale for the transformation of economic structure between countries.

Assume that the United States (US) and the United Kingdom (UK) have the ability to produce wheat and cloth. The US has the ability to produce 6 bushels of wheat and 6 meters of cloth. The UK has the ability to produce 1 bushel of wheat and 5 meters of cloth. We have the table as below:

³Brown Consultancy Service, Theory of International Trade.

⁴A. Smith, The Wealth of Nation, London, 1776, cited in Charles W. L. Hill, International Business, New York, 2011, p. 163.

Table 1 Wheat and cloth production in US&UK - Absolute Advantage

Products	The United States	The United Kingdom
Wheat (bushel/person/hour)	6	1
Cloth (m/person/hour)	4	5

Source: own example

The US has the advantage to produce wheat and the UK has the advantage to produce cloth. Based on this example, the US will specialize to produce wheat and vice versa, the UK will specialize to produce cloth and after that they can trade between each other: the US exports wheat imports cloth and vice versa.

If trade occurs between countries, then each country will need to allocate half of its resources to the production of wheat and half to the production of cloth. If the US exchanges 6 bushels of wheat (6W) to the UK to take 6m of cloth (6C), the US would benefit or saving 2C 1/2 hours (for domestic the US can only get changed 6W 4C only). Similarly, if the UK gets from the US 6W, with that amount of time, the UK just needs to concentrate on producing 30C cloth (6 hours x 5m cloth) in which the UK will exchange 6C to the US and save 24C. Or it can be said that the UK has saved 5 hours.

In summary, the absolute advantage theory shows that each country should focus on producing the products of which they have absolute advantage and exchange with other countries. This cooperation will bring the benefits to all countries. Free trade will make the world use natural resources more efficiently. Adam Smith advocated also a free trade platform, without government intervention. However, this Absolute Advantage theory cannot explain why countries which do not have absolute advantage still benefit from international trade⁵.

⁵Ibid

2.1.3 Classical Trade Theory- the Ricardian Model (Comparative Advantage)

Comparative advantage is a theory that states that each country will be beneficial when it specializes in producing and exporting the goods which they can produce relatively low-cost (or relative more effective than other countries); on the contrary, each country will be beneficial if it imported the goods they can produce at relatively high cost (or relatively ineffective in other countries). The principle of comparative advantage that a country can gain from trade regardless of whether it is more effective absolute or absolute inefficiency by other countries in the production of all goods. The principle of comparative advantage is a key concept in the study of international trade. Economists 1970 Nobel Prize Paul Samuelson wrote: "Despite these limitations, the theory of comparative advantage is still one of the most profound truth of all economics. The country is not interested in comparative advantage, are paid a heavy price in the standard of living and economic growth on their own".

Assumption 1: There are only 2 countries and 2 commodities.

Assumption 2: Free Trade.

Assumption 3: Labour can freely shift within a country but does not have the ability to shift between countries.

Assumption 4: Fixed production costs.

Assumption 5: No shipping costs.

Assumption 6: Cost of production is labour.

According to this theory, even if a country has no absolute advantage for the production of both products, it still benefits when trading with another country and it is considered to have absolute advantage to produce both products. The author assumed the same as in the Absolute Advantage, The US has the ability to produce 6 bushels of wheat and 6 meters of cloth. The UK has the ability to produce 1 bushel of wheat and 5 meters of cloth. We have the table according to Comparative Advantage as below:

Table 2 Wheat and cloth production in US&UK - Comparative Advantage

Products	The United States	The United Kingdom
Wheat (bushel /hour)	6	1
Cloth (m/hour)	4	5

Source: own example

In this case, the UK does not have the absolute advantage in comparison with the US to produce both products. However, if compared between wheat and cloth, the UK has a better advantage of cloth production. Because the labour productivity of British cloth production is only half of the American cloth production, while wheat production yield from the UK is 6 times smaller compared with the US.

In contrast, the cost of producing both products in the US are lower than in the UK, but that does not mean the US will produce both goods with a comparative advantage. In this case the US has a comparative advantage in wheat.

As the theory of comparative advantage of David Ricardo, by doing this, the supply of commodities in both countries will increase, which in turn will reduce the prices and drive up the sale of goods in both countries.

The UK has a comparative advantage in cloth and the US has a comparative advantage in wheat, but in order to be able to maximize the nations' wealth, both sides should focus on producing what they are good at.

The theory about comparative advantage highlights that the production output of the world should be higher if anti-trade policies are not implemented (compared to the conditions of trade restrictions). Ricardo's theory advocates that all international consumers can afford more goods without trade barriers between countries. Even though a country does not have any absolute advantage in any commodity production, they can still win.

Both absolute advantage and comparative advantage theory advocate that trade is a positive sum game in which all countries participating can benefit economically. Ricardo's theory has been used more than Smith's theory by those who favour free trade⁶.

⁶Charles W. L. Hill, International Business, New York, 2011, p. 166

2.1.4 Heckscher-Ohlin Model (Factor Proportion Theory)

Eli Heckscher⁷ and Bertil Ohlin⁸ gave other explanations of comparative advantage by demonstrating that comparative advantage is a result of the differences in the endowment of production factors. According to the H-O theory, all countries should export those products with many abundant factors and import the products with less abundant factors.

An item is considered to be using more (relative) labour if the ratio between labour and other factors, such as capital, land, use to produce one unit of the item the larger proportion application of those factors to produce a unit of the second row. Similarly, if the ratio between the capital and other elements is greater than the goods are deemed to be capital-intensive. For example, item X is considered to have a high labour content if: L_x / L_y is larger K_x / K_y (L_x and L_y : the amount of labour required to produce one unit of X and Y, and K_x and K_y : the amount of capital required to produce one unit of X and Y, correspondingly).

The H-O theory can be proven by the assumptions as below:

Assumption 1: There are two countries in the world, each of which produces two goods, X and Y, using two factors of production, labour and capital

Assumption 2: Technology is the same in both countries and consumer's tastes are also the same across borders.

Assumption 3: X is labour-abundant while Y is capital-abundant.

Assumption 4: The final goods which are X and Y can be traded freely between two markets but labour and capital are not able to be exchanged freely⁹.

International trade will lead to the equilibrium relative and absolute yields of the factors of production between countries.

⁷Swedish economist who wrote his view about International Trade in 191

⁸Heckscher's student, who continued to develop these ideas in 1924

⁹Robert C. Feenstra, Alan M. Taylor, International Trade, 7th ed, Worth Publishers, New York, 2008, p.89, modified by authors.

2.2 Impact of Foreign Trade of China

2.2.1 About China

2.2.1.1 Geographical location, natural conditions

China is a country with vast area located in the northern half of the eastern hemisphere, the southeast of Eurasia continent, the eastern of Asia and the western of Pacific Ocean, has a long land border line of about 22.000 km adjacent to 15 countries, large marine area with long coastline and numerous islands, sea border line length of around 18.000 km.

Its area is 960.000 km² which ranks it as Asia's the largest country, the 3rd largest country in the world in territory area¹⁰.

Table 3 China Land Characteristics

Item	Area (10 000 sq.km)	Percentage to total area (%)
Total Land Area	960	100
Cultivated Land	121.716	12.80
Garden Land	11.791	1.24
Forest Land	236.092	24.83
Area of Grassland	261.835	27.54
Other Land for Agriculture Use	25.443	2.68
Land for Inhabitation, Mining and Manufacturing	26.916	2.83
Land for Transport Facilities	2.496	0.26
Land for Water Conservancy Facilities	3.645	0.38

Note: Figures in this table were obtained from the Ministry of Land and Resources at year-end of 2008.

Source: National Bureau Statistics of China - www.stats.gov.cn

¹⁰<http://www.stats.gov.cn/tjsj/>

It's extremely convenient geographical location and large land area have created conditions for China for easy development of economic relations, especially trade relations with major countries and regions in Europe, America and Southeast Asia, Australia and Central Asia.

China's terrain is very diverse, including plains, hills, plateaus, basins, mountains, wilderness, deserts, accounting for 70% of the land area in which nearly one third is at an elevation over 300 meters, cultivation land area is only about 100 million hectares with relatively high fertility.

Climate conditions are very preeminent but relatively different between regions, from the South to the North are different climates: Ex-tropical, tropical, subtropical, temperate, tropical frigid. The rainfall is abundant with an annual average in China of 629mm. Temperature conditions and reasonable water distribution have created conditions for the development of agriculture, such as rice farming, cotton growing, fruits and fishery.

China is a country with relatively abundant natural resources, in which the water resource has ranked first in the world. Energy resource is also very large, the explored coal reserve is 700 billion tons, ranking first in the world. Crude oil output stands fifth in the world.

Mineral resources of China are comprehensive and synchronous, 150 types of minerals used in the world are found in China, with reserves of more than 20 types such as: coal, tungsten, silicon, copper, lead, zinc, vanadium, titanium ... which are at the forefront of the world.

China's forestry also stands first in the world in types of wood with over 2500 types including 500 types of rare plants and 50 types of special plants and many kinds of rare animals.

2.2.1.2 Population

China is the country with the world's largest population, China's population by the end of 2014 consisted of 1,367,820,000 people¹¹. China is one of the countries with the highest population density and uneven population distribution; average density is 125 people / km²; ranging from 1.5 people in Tibet autonomous region to 400-500 people / km² in the eastern plains, many places up to 1000-1500 people / km² as in the north and northeast¹².

The Human resource potential of China is very large and permanent.

¹¹National Bureau Statistics of China <http://data.stats.gov.cn/english/easyquery.htm?cn=C01>

¹²Pham Thai Quoc, Chinese process of industrialization in the last 20 years of the twentieth century, Social Science Publishing House, 2001

The number of people of working age accounts for around 61% of the total population, of which 60% is agricultural labour. In 1990, China's labour force was 756.6 million (From 15 to 64 years old). As calculated, annually China has more than 21 million people entering the working age in average¹³. This abundant human resource, along with the traditional hard, innovative labour and highly valued education make up the quality of increasing labour. It is an invaluable asset and an important factor in the economic development of this country.

2.2.1.3 Political - social characteristics

The State of the People's Republic of China was established on 01/10/1949. After the establishment of the People's Republic of China, the Communist Party of China led the Chinese Revolution to come into the period of restoration and economic development of the country. In the first phase of the construction of the country's economy, due to many subjective and objective causes, China faced many difficulties and failures.

The 3rd Plenary Session of the 11th Central Committee of the Communist Party of China (1978) proposed open reform direction "One centre, two basic points" (economic construction is the centre, two basic points are persevering reform and opening and persevering 04 principles: the road of socialism, people's democratic dictatorship, the leadership of the Party, Mao Zedong thought). Deng Xiaoping gave an argument "Chinese coloured construction of socialism" with the basic contents as "jiefang sixiang, shi shi qiu shi" meaning following Marxism but coming from China's reality.

Since then, China has always persevered in reforming and opening, building socialism with Chinese colour, leading the country to move into a new era.

In general, China's political - social situation in recent years has been stable, although domestic and international situations have been highly volatile, the Communist Party of China has maintained its leadership. Internal leadership has grasped the viewpoints evolving from the past, concentrating all resources for economic development. Besides, the political – social situation, China has kept two major issues,

Namely:

- 1- Endemic corruption, smuggling, employment issues, wealth disparity;
- 2- China is entering a crucial period of reform, a key period of development, with profound and alternate changes of economic sectors, economic interests, lifestyles and forms of social organization, etc. especially changes in classes, the core rate (working and peasant classes) in the Communist Party of China has changed, requiring innovative ideological and political work and the Party building work.

2.2.2 Reform of China Foreign Trade through the Stages

Before the implementation of reform and opening up the economy in late 1978, China had established economic relations with many countries in the world, but on a small scale and narrow range. The relations just stopped in less developed foreign trade and there was less aid for political purposes. The normal activities such as borrowing, receiving foreign investment, organizing tourism, etc. were negligible. Inherent seclusion policy in the history was still the basic trend in the external economic relations of China. This made China not taking advantage of advanced scientific and technical achievements in the world. It also made all intrinsic potential factors of the country not awakened. Stunted economy made economic gaps of China with the world's developed countries increasingly distant. The economic situation in the country in the 70s required the Chinese leaders to implement changes in this policy. Deng Xiaoping when summarizing lessons learned in the history of China said: "An important factor causing China immersed in backwardness and stagnation was closure and self-enclosure of itself. Experience has shown closure and self-enclosure, closure to self-build cannot be successful; the development of China cannot be separated from the world"¹³.

Chinese people also appreciated the hefty price of the extreme and one-sided policy of "self-reliance, independence and sovereignty", saw clearly the inevitability of integration trends and new labour division in the economy of the world and region that China was not able to stand outside.

¹³ Tieu Thi My, Deng Xiaoping counsel, National Political Publishing House 1996

Not only the poor economic situation of the country required reform and opening up but also the world situation in the late 70s created conditions for comprehensive and profound changes taking place in China. Especially in the late 70s, the trend multilateralization and specialization, the nationalization of the world economy became incredibly vibrant, making the relationship between exchanges and sharing and international trade increasingly expanded and flourished. Standing in front of this situation, foreign trade activities which were based primarily on the power of China's traditional economic institution focused, self-reliant, closed and self-defensive became outdated and ineffective, unable to match the trend of expanding external relations, economic integration, enhanced trade and cooperation on the vibrant impetus in countries around the world.

The challenges of the rapid scientific and technical advances and the revolution of new industries on a global scale, of the development of exchanges and extreme economic internationalization also forced China to self-review, self-renew and absorb modern scientific and technological achievements, creating strong growth. Characteristics of the scientific and technological revolution were that science and technology became direct productive forces. Intelligence played a central role creating economic efficiency many times before. Humans not only impact on producing objects but also have the ability to create the production of objects, new energies and new materials. New technologies, brainpower labour made labour productivity grow up to an enormous level, accelerating the process of internationalization of production. The national economy was beyond the scope of a country to participate in the international labour division. It was the development trend of the world.

The high-speed development of some countries in Asia-Pacific was also a pressure contributing to the opening up of China. All Newly Industrialized Countries and ASEAN countries by finding the trend of globalization of production, navigated their production from import substitution to export orientation, strong participation in world trade. Obviously they before and after escaped from the closure, rose sharply outward and overcame ideological fear of foreign dependence. This made these countries reaching surprising growth rates, especially South Korea's growth rate in exports in the years 60 and 70 was 35% and 27%, respectively, whereas world trade just increased 9% and 7%, respectively. In the 70s, the import-export ratio to GDP of South Korea and Taiwan was 34% and 50%, respectively¹⁴.

¹⁴ Nguyen The Tang, The process of opening the foreign affairs of Republic of China, Social Science Publishing House 1997

This situation forced China to review itself and forced it to make foreign trade reforms if it did not want to fall further behind compared to other countries in the region. Hence, urgent and prerequisite issue of China in foreign trade development strategy was strengthening to recover and boost the entire foreign trade for vibrant development, creating conditions for the production, export of goods, import of equipment and advanced techniques of the world, contributing to the rapidly national economy development.

China reformed foreign trade towards establishing a free trade system in line with open economy and integration into the general trend of the world economy. This reform process can be divided into the following main stages:

2.2.2.1 1979-1987 Period (period of exploration and trial)

As the first stage of open reform, ways to implement had many surprises, but we can focus on the following key policies:

- Expanding trade rights of local governments, ministries and businesses. Reform in this period included the implementation of fixed foreign trade by region and competence allocation of business registration approval of the businesses for provinces, cities and autonomous regions.
- Reforming planning regimes in export and import, including gradually significantly reducing the amount of goods ordered as planned, and significantly reducing the amount of imported and exported goods directly managed by the Government. In 1985, the Ministries directly under the central government begun to stop issuing orders for the purchase and distribution of exported goods.
- Adjusting financial regimes in foreign trade, the financial accounts of import and export businesses and import and export and production businesses directly under the Ministries were summarized in finance of the Central government. Large businesses with the right of import and export business were audited independently. Local governments in principle shall be responsible for any losses and profits in import and export activities which they are involved in.
- Reforming foreign trade regime, including the transfer from one-channel business regime to multi-channel business regime, transfer from single-function business regime to import export business and production regime, allowing businesses to engage in foreign trade, import and export business independently and apply agent regime for some kinds of goods.

- Implementing foreign exchange retaining regime. To encourage local governments, ministries and businesses to engage in import and export in a positive way, foreign exchange retaining regime was introduced in 1979. In other words, on the basis that the State unified foreign exchange management and ensured the critical needs of the important projects, businesses had the right to withhold a portion of the foreign currency that they earned and self-determinate for the use of this foreign currency. They could engage in the foreign exchange market and could sell the unused foreign exchange for the businesses in need to buy.

With the first step in the reform of foreign trade, after 1978, foreign trade of China has happened quite vibrantly. Foreign trade volume in 1979 just reached 29.33 billion US dollars, then in 1987 this figure reached 82.652 billion US dollars meaning an increase of 2.8 times compared to 1979. During this period, China's foreign trade developed with an average rate of 14.2% a year, leading China from the 28th place in the world in total trading volume to the 12th place, in export from the 32nd to the 14th, in import from the 27th to the 11th. The number of items with the export turnover of over 100 million US dollars from 20 categories increased to 48 categories. International foreign trade market also expanded all aspects from foreign trade relations with over 140 countries in 1979 to 180 countries and regions in 1987¹⁵.

2.2.2.2 1988-1990 Period (period of transition toward reform in depth)

The focus of this period was to enhance fixed foreign trade. The government begun to apply this regime in 1988. Within this regime, the local governments signed contracts with the Government on the amount of foreign exchange they will submit to the Government and the economic benefits that they seek to ensure. These contracts remained unchanged from the year 1988- 1990. After that, the local governments signed contracts with the local business enterprises and implemented their international trade objectives as prescribed by law.

- Within the scope of this regime, the import and export businesses were solely responsible for their own profit and loss account. This responsibility firstly was applicable in the import and export businesses in light industry, handicrafts and garments. Import-export businesses, production businesses and local governments retained a large share of foreign currency

¹⁵ Assoc. Dr., Nguyen Minh Hang, Chinese External Economic Relations in opening period, Social Science Publishing House 1997

revenues, while a small portion was submitted to the Government. However, in exchange for greater retention rate, they had to bear full responsibility for their own profit and loss accounts. With fixed foreign trade regime, foreign trade planning regime further improved a step.

Except for 21 kinds of export goods still under unified management regime and still under the regime of two-channel export, all kinds of goods moved from two-channel regime into single channel regime. This means that the local governments will contract directly with the Government. Once this regime was performed, financial regime in foreign trade also reformed. The import and export businesses directly contracted with the State of certain economic benefit targets, and in accordance with international practice, the State fully implemented the export tax incentives. The budget of the local branches of the import and export businesses was tied to the budgets of local governments and separated from the budget of the central government.

- Foreign trade management regime further reformed under this new system to redefine management rights of trade activities. From October/1988, the function of the Ministry of Foreign Trade was renewed: in addition to researching and identifying foreign trade development strategy, license management, import export quotas, also taking responsibility for accounting foreign exchange, strengthening supervision and management of statistical work, directing the business and financial accounting of the foreign trade businesses, regulating tax rates and balancing foreign trade across regions.

- The execution of the responsibility contract system in the direction of balancing responsibilities, rights and profits of the foreign trade companies acted addressing various issues of the localities, industries, foreign trade companies and production enterprises, and also played an important role in promoting internal mode of operation of the enterprises, which were the causes to create profits and expand foreign trade.

This period lasted only 3 years, but China's foreign trade made great strides. In 1990 foreign trade volume of China reached 115.4 billion compared with 102.784 billion US dollars in 1988 increased to 12%. A special feature is that after a long period of trade gap until 1990, China had a trade surplus with the surplus of 8.746 billion US dollars. Some items with annual export turnover of over 100 million US dollars from 48 categories were up to 83 categories in 1990. The share of exported industrial products in the export turnover accounted for 74.5%. For import operations, in 1989, the synchronous equipment and advanced technology were imported around 4.39 billion US dollars, 400 key enterprises were renewed

and produced more than 6000 categories of new products, of which sizable number reached advanced standards in the world with strong competition. By 1990, China established trade relations with 200 countries and regions¹⁶.

2.2.2.3 1991-2001 Period

The objective of this period was to establish a management regime and an operating mechanism with the characteristics of "unified policy, fair competition, autonomous management, responsibility of every business for profits and losses, combination between production and trade, application of agent regime and exclusive jurisdiction in resolving trade issues". The objective of the new regime was aimed at ending a long history of subsidized foreign trade and forcing import and export enterprises to compete on the international market. The reform measures include:

- Completely removing the subsidies for the import and export enterprises, while increasing the foreign exchange retention ratio for the implementation of fixed foreign trade regime for losses and profits. Specifically: Central Foreign Trade Corporation contracted direct export for localities, the localities took responsibility for organizing export, collecting foreign currency and handing over 70% and retaining 30%, contract targets were allocated for the enterprises and foreign trade establishments. If earnings exceed targets contracted, the locality will be retained 80% of this excess. The reform of foreign exchange management system helped the companies to get much more foreign currency for the needs to expand their reinvestment. Many enterprises and scientific research institutes allowed participating in foreign trade activities. Simultaneously with the narrowing, restricting the import and export goods in need to apply for a license, China reduced import tariffs to expand free trade.
- More freely foreign exchange market. Firstly, cancelling two-rate mode, unifying exchange rate of the Yuan against foreign currencies, mainly based on supply and demand market of foreign currency. This policy was designed to bring a full range of the important role the exchange rate, as a foreign trade adjustment measure. Foreign currency trading market between banks was established, to help the exchange rate building mechanism and recognize the impacts that could alter the Yuan for current accounts.

¹⁶ Assoc. Dr., Nguyen Minh Hang, Chinese External Economic Relations in opening period, Social Science Publishing House 1997

The reform of the exchange rate prompted reforms in the import management system. Some regulations that limited nontariff were cancelled or reduced, extended the "freedom" for import operations.

- The Government contracted with the provinces, autonomous regions and independent financial accounting cities, import export specialized companies, and production and export import enterprise of certain specialized goods as well as other export-import enterprises. Those contracts stipulated export quota, foreign exchange collection quota and foreign exchange quota payable to the Government. The quotas for each contract were evaluated and adjusted on an annual basis.

Overall, the reforms in this period further promoted the expansion of powers, active foreign trade business and production; evoked positivities, activeness and creativeness for production enterprises and import export companies; promoted the expansion of the channels of circulation and consumption of goods to the world market; enhanced the competitiveness of export products in international market. In 2001, China became an official member of WTO - an important milestone in the development of foreign trade in particular and the economy in general.

2.2.3 China's economy after reforming and opening up

Since 1978, at the beginning of reform, China has gone on the path of integration with the world and the region and has gained significant success.

Before the reform, from 1952 to 1958, annual average growth rate of China's economy was 4.4%, lower than the annual average of the world (4.52%)¹⁷. Since 1978 to date, annual average growth rate of China has been 7.6%, much higher than the world average level. In the period of 1992-1997, China's economy reached even more spectacular growth with average GDP growth rate of 11%/year. In which, China's GDP in 1996 was greater about 15% than ASEAN's, equal to 3% of world's GDP, 23% of Japan's economy, 12% of the US economy¹². Many observers found this growth miraculous, especially when compared to the former socialist countries during these countries underwent severe economic recession from the early to mid-period of the 90s.

¹⁷Nguyen The Tang, The process of opening the foreign affairs of Republic of China, Social Science Publishing House 1997

In the years of 1997-1999, due to the impact of the economic crisis in the region, China's economy was slowing down with the signs of impairment. However, shortly thereafter China regained growth trend.

2000 was the last year of the five-year plan of socio-economic development for the ninth time (1996-2000), and the year marking an important movement step in China's economy. With efforts to join the World Trade Organization (WTO), restructure the economy, focus to reform state-owned enterprises, promote the development of science and technology, fundamentally reform in agriculture and expand domestic demand, China has reversed decrease trend of economic growth rate which has lasted continuously for the last 3 years.

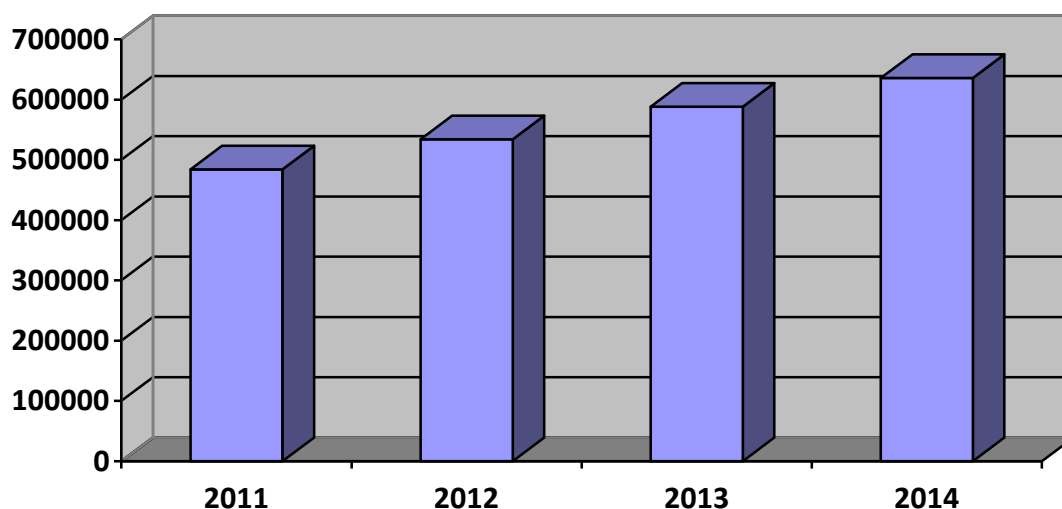
Entering the 21st century, 2001 was marked by the major event of Officially becoming the 143th member of the WTO of China (on November 11) after 15 years of effort and try there was a huge step forward of China's economy towards the integration of the global economy. This event also opened up new opportunities and challenges for China's economy. In the bleak picture of the world economy in 2001, although export growth slowed down due to the impact of economic slowdown of the US, Japan and the world, China still maintained the growth target.

Over the past 38 years of reform, the Chinese nation experienced many ups and downs, changes; China's economy not only faced difficulties and challenges but also achieved a lot of achievements. That miraculous development of China was due to great efforts of the Chinese people in the cause of building the country with the target of bringing China to gradually integrate with the world economy and gradually become a strong economic power. In the coming years, China will still continue to grow, the economy will be increasingly integrated, becoming an important part of the world economy.

China's economy over the last 20 years has developed very vibrantly, but especially in the field of foreign trade, the changes have even happened faster and stronger. It can be said foreign trade has been "motive force" in the economic development in China in the period of reform and opening up. In this field, China has made successful strides, achieved many achievements. But to do that, the Chinese foreign trade went through several stages of development, learning by drawing experiences to gradually put into the right development direction.

In overall, in recent years China had become a country with the highest economic growth of the world and in the next 10 years China could retain this growth rate.

Figure 2 China GDP (100 million yuan)



Source: Bureau Statistics of China - <http://data.stats.gov.cn/english/easyquery.htm?cn=C01>

The Gross Domestic Product (GDP) in China was reached 63,591,000,000,000 yuan in 2014¹⁸. The GDP value of China represents 16.70 percent of the world economy.

After joining the WTO, China has focused on the issue of reforming trade regimes in freer direction, more in line with the WTO principles. China has specifically focused on five issues:

- Building a convenient and fair foreign trade management mechanism. Forming a convenient and fair operational environment, reducing trade costs, raising the activeness of enterprises in the development towards international market.
- Step by step building mechanisms to promote new, positive and stable foreign trade, taking the Government as decisive role, secured by monetary finance, on the operational basis of market
- Developing mechanisms to monitor and respond quickly and effectively.
- Strengthening the legislative work in foreign trade management, improving management measures, reducing administrative procedures, enhancing transparency in management
- Further reforming the export association regime, encouraging the development of legal service and foreign trade consultancy agencies, promoting the role of intermediary organizations in the coordination to promote the foreign trade development

¹⁸ <http://data.stats.gov.cn/english/easyquery.htm?cn=C01>

From early 2002 onwards, China has had a number of specific steps:

- Reforming regime for the approval of import and export business rights, cancelling the discrimination with the enterprises of different economic sectors, complying with standards and procedures applicable to state-owned enterprises.
- Completing import and export management and tariff reduction measures and non-tariff measures as committed. In particular, China has begun to be interested in construction issues of technical barriers to restrict imports through the publication of "Charter on Safety Management of Agricultural Transgenic Organisms"
- Building new mechanism on export duty reduction, implementing new export duty rebate policy.

2.2.4 Import – Export Activities

The total value of imports - exports of China has a good growth. According to the above statistics, in 2014 the total import-export of China reached 4,301,527.35 million USD (increasing by 20.9% comparing to the index in 2007). In particular, the total value exports got 2,342,292.70 million USD; the total value of imports reached 1,959,234.65 million USD¹⁹. The balance of trade reached 383,058.05million USD.²⁰

Table 4 Total Value of Imports and Exports (million USD)

Indicators	2010	2011	2012	2013	2014
Total Value of Imports and Exports	2,973,998.32	3,641,860.00	3,867,119.00	4,158,993.47	4,301,527.35
Total Value of Exports	1,577,754.32	1,898,381.00	2,048,714.42	2,209,004.00	2,342,292.70
Total Value of Imports	1,396,244.01	1,743,483.59	1,818,405.00	1,949,989.47	1,959,234.65
Balance of Trade	181,510.31	154,897.87	230,309.00	259,014.53	383,058.05

Source: National Bureau Statistics of China -

<http://data.stats.gov.cn/english/easyquery.htm?cn=C01>

¹⁹ Bureau Statistics of China - <http://data.stats.gov.cn/english/easyquery.htm?cn=C01>

²⁰ Bureau Statistics of China - <http://data.stats.gov.cn/english/easyquery.htm?cn=C01>

Under the influence of the international financial crisis, China's foreign trade continued to fall drastically from 11/2008 and began to recover from 3/2009. In 8/2009, the recovery was basically determined, and from 11/2009 imports and exports began to grow comparing to the same period of the previous year. In 12/2009, both imports and exports increased vigorously comparing to the same period of the previous year and 11/2009. The value of monthly imports reached a recorded point, the value of export reached the 4th point of their history, which showed China's foreign trade was speeding up in recovery. Simultaneously, the drastic recovery of import has demonstrated the effectiveness of the economic stimulus policy and this is also conducive to promote the recovery of the world economics.

In 2010, China foreign trade recovered to the point before the international financial crisis. Foreign trade developed in balance and the trade surplus reduced a bit. As a consideration of an expert, with the loosening of currency policies of the US and Japan, etc. in the future shall increase the price of goods with large amounts, leading to the import of China continuing at a high rate, the exports and imports of private enterprises will grow rapidly. In terms of trading methods, being simultaneous with the stable growth of processing trade imports and exports, the normal import and export trade could keep on developing well, replacing the processing trade and occupying a significant position. In addition, in the structure of export commodities, exports of traditional goods with huge quantity in 2010 had good improvements. The increase of exports of high valued electro mechanics products got 30.9%, holding almost 60% of total exports value during the year.

Another feature of China's foreign trade in 2010 was the quick development of the relations with developing markets; and the diversification of the market became clearer. In particular, the bilateral trade volume with ASEAN countries reached 292.78 billion USD, up 37.5%, almost in equal with the bilateral trade volume of China and Japan at 297.77 billion USD.

According to statistics of the Ministry of Trade of China in December 2014, China's import and export totalled US\$ 405.41 billion, up 4% year on year. Export was US\$ 227.51 billion, up 9.7%, and import was US\$ 177.9 billion, down 2.4%, with trade surplus of US\$ 49.61 billion, up 96.7% year on year²¹.

²¹<http://english.mofcom.gov.cn/article/statistic/BriefStatistics/201501/20150100871755.shtml>

Figure 3 China's export and import in January - December 2014

Unit: US\$ 100million

	December		January-December	
	Absolute Value	Increase ± %	Absolute Value	Increase ± %
Total Import and Export Value	4054.1	4	43030.4	3.4
Export Value	2275.1	9.7	23427.5	6.1
Import Value	1779	-2.4	19602.9	0.4
Import and Export Balance	496.1	96.7	3824.6	47.7

Source: <http://english.mofcom.gov.cn/article/statistic/BriefStatistics/201501/20150100871755.shtml>

2.2.4.1 Export activities

For many past years, China's export goods focussed mainly on quantity, overlooking the foreign currency revenue, so even though export sizeable quantities, its foreign currency income per unit of goods was low. There were years by exporting the process capacity of international market that made commodity prices drag down. Such as rabbit hair products, 4567 tons exported in 1985, \$ 38,805 per ton price, while the exported quantity in 1988 increased 2 times by 8482 tons. The price per ton fell to \$ 17,220. Comparing between two years, export quantity increased by 86%, but decreased 56% of cost.

The foreign exchange earnings were reduced by \$ 1.16 million. Nylon-mixed fibres was also such a situation, comparing between 1987 and 1988, export quantity increased in 1988 compared to in 1987 it was 188%, but the cost per ton sold fell from \$518 to \$228 (fell about 56%)¹⁴.

The expansion of business powers for import and export for local businesses and larger firms made the import and export climax process to grow indiscriminately, lacking of organization and order that the State had no restrictions. Leading to the decline of economic efficiency, the economic benefits of State was seriously damaged. According to statistics, the export of Chinese silk per year makes the State more than \$100 million of loss. Especially items of

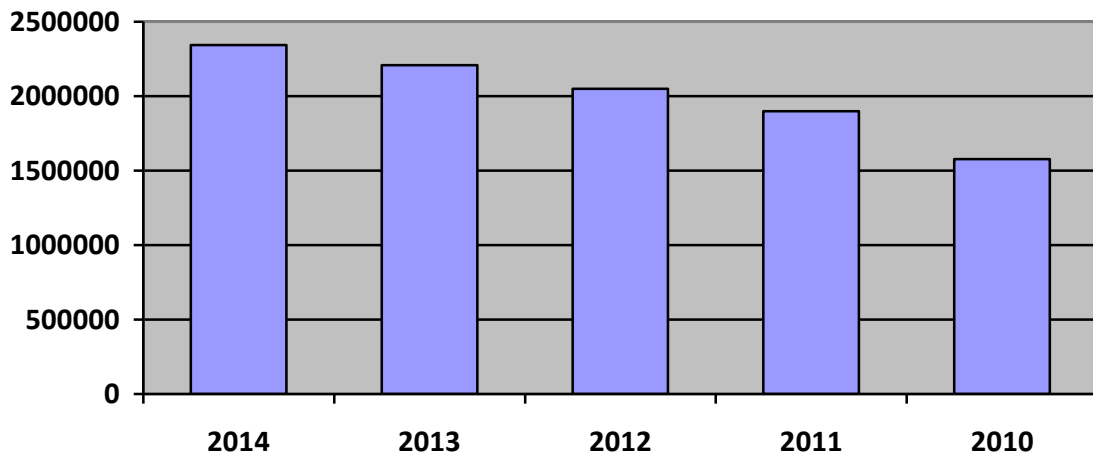
Wolfram ore and tungsten products were exclusive items exported by China, 62% of total world's export. However, China exports too much goods making the world's market fluctuate, making export turnover fall, while these items have lost the monopoly position in international trade. In 1990, the export turnover of Tungsten ore dropped 67.55% compared to 1980. From 1980 to 1990, the foreign exchange earnings from exported goods decreased \$878 million²².

In the past years, although China exported many products to foreign countries, there were many products without quality assurance under requirements and international standards, exporting effectively was significantly reduced. Foreign currency earnings from a number of countries and regions were many times lower. For example, clothing items exported in some years with the poor quality, model, and design, the number of Chinese foreign currency earnings were especially lower. For example, in 1989, clothing exported by China per ton collected only \$ 13,323, while Italy earned \$ 76,922, 5.77 times higher; France collected \$55,383, 4.16 times higher; Germany collected \$ 43,413, 3.26 times higher, and Korea collected \$24.52, 1.28 times higher to the same of China¹⁴.

After joining WTO, quality still was a shortcoming of Chinese foreign trade as "increase in volume but cost", exported goods' cost decreased. In 2002, exported goods' cost reduced popularly; many foreign trade enterprises with large-development scale but less effective, take methods to reduce the cost for competitiveness so the profit primarily was based on taxes. The quality of goods was not really high along the number of businesses actively reducing competitive prices. This was a subjective reason from China which made it face difficulties in coping with technical standards of other countries and become entangled in many cases of anti-dumping investigations being targeted first in top anti-dumping in the world.

²²Dr., Nguyen The Tang (director), Chinese reform and opening (1978-1998), Social Science Publishing House 2000

Figure 4 Value of exports in commodities (USD million) from 2010-2014



Source: National Bureau Statistics of China -

<http://data.stats.gov.cn/english/easyquery.htm?cn=C01>

Based on the figure 4 above, we can see the value of exports in commodities of China has been increased after years. The biggest partner in export of China in 2014 was the United States with 16.9% of the Chinese export volume. Following were the EU with 15.83%, Hong Kong with 15.5%, ASEAN with 11.61% and Japan with 6.38%²³.

2.2.4.2 Import activities

In the past years, China focused on importing raw materials, equipment and technology from foreign countries for domestic needs. In spite the given targets remain modest but import was still not concentrated, rampant, duplicated.

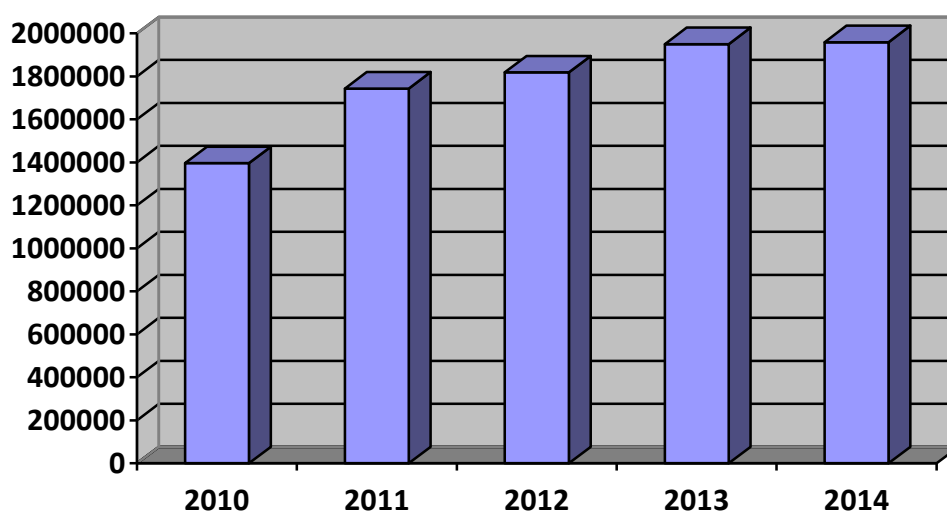
The main reason was that China had not determined the strategy of import focus and performance methods were also unclear. On the other hand, the easing policy for import-export business for local lacks adequate and specific organization. Import was ineffective. In 1995, 30-36% of total 20,000 imported items did not have an ensured production schedule and burdened the State with considerable financial damage. Particularly in 1995, China had \$ 1.26 billion of loss and became the bearer of "the burden" of the world because import was not calculated¹⁶. In the past, China imported the same goods but bought from various

²³ <http://www.statista.com/statistics/270326/main-export-partners-for-china/>

countries in the world so it was not entitled to the discount; in contrast it lost an amount of compensation due to price increase by shippers. It was estimated that this type of purchase makes China to be lose billions of dollars.

Thus, if the next time China does not solve the problem of improving quality and efficiency, it will have to continue to suffer economic losses in foreign trade activities.

Figure 5 Value of Import Commodities (USD million) from 2010-2014



Source: National Bureau Statistics of China -

<http://data.stats.gov.cn/english/easyquery.htm?cn=C01>

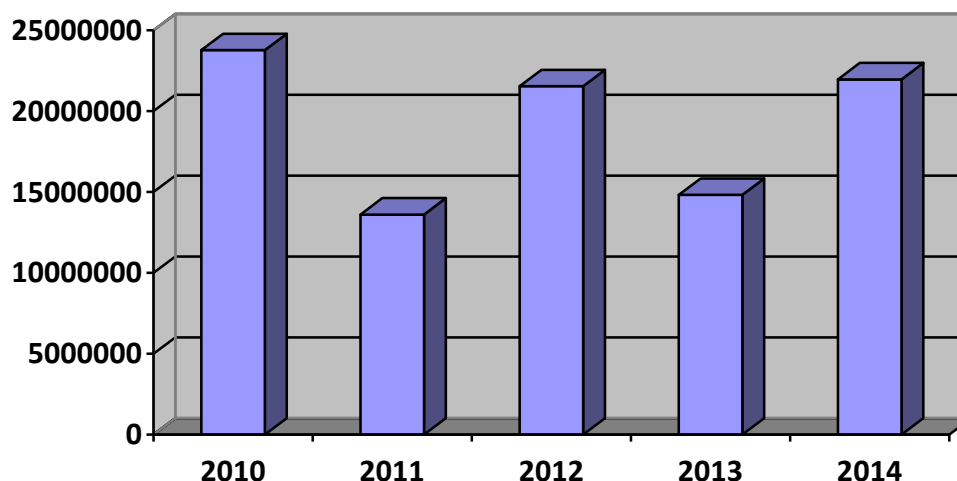
In 2014, the biggest import partner of China was Europe with 14.3%, following were The United States with 12.9% and ASEAN 11.2%. Specially, although China and Hong Kong were under the CEPA since 2003, in which China has provided preferential taxes for mainly goods from Hong Kong that imported into China, the imports from Hong Kong to China reached approximately 8.7% of the China import volume, while exports from China to Hong Kong reached 15.5% and Hong Kong was the fourth major import partner of China (following the Europe, the United States and ASEAN)²⁴

²⁴ <http://www.statista.com/statistics/257112/main-import-partners-for-china/>

2.2.5 Balance of Payment (BOP)

2.2.5.1 Liquidity index

Figure 6 China Current Balance (credit-debit) (USD 10000)



Source: National Bureau Statistics of China -

<http://data.stats.gov.cn/english/easyquery.htm?cn=C01>

This index shows the level of a national competition. Generally, in the countries with the high index, the economy depends on the export incomes, the high savings rates and the low domestic demand. In contrast, in the countries with the deficit in current accounts, the economy depends on imports, low savings rates and the high private consumption rate. In 2010, the current account balance was 23,781,038.96 but in 2014, it was 21,967,759.93, was decreased a little bit but overall the balance of payments of China has changed rapidly in recent years.

In theory, the surplus and the deficit of current accounts reflects the savings and investments in the economy: the countries with savings surplus, such as China will export the capital, and the countries with the deficit will receive on this. The surplus countries will receive more income from the savings while the deficit countries will spend more in the investment costs. However, this optimistic view is no longer trustworthy after the problems in the international financial markets over the past three decades and has culminated with the crisis in the high income countries in 2008. In particular, the US has proven to be powerless in effective using of the capital flows: this country has funded for budget deficit. Of course, the United States and other importing countries have been criticized for the consequences of this.

In addition to the common aforementioned, specific problems have appeared around the explosion of the current account surplus of China as well. It was partly the result of intervention in foreign exchange markets and the hoarding of foreign currency. All the economic policies of China belong to mercantilism - export oriented. Therefore, if the balance of payments surplus would fall down it would benefit both China and the rest of the world.

OECD has highlighted the case of China as follows: "The domestic demands almost reflect the public infrastructure investment and is funded by extra-budgetary sources."

Unfortunately, the process of removing an imbalance - current account surplus - was worsening the domestic imbalances and leading to unusual high investments. Assuming China would grow at a rate of 7% over the next decade; investment fell down 50% but still remained above 40% and the account balance surplus was 3% of GDP. To achieve 7% GDP growth as expected, the consumption should increase by 9%, while investment rise 4.6%. This is something not frequently, unless there is a major change in the distribution of income towards increasing the share for household sector, which requires comprehensive reforms in the financial system, in administration corporate and even in the power structure of the country.

3. Practical Part – Impacts of Foreign Trade to the National Economy

The purpose of this part is to find out how important the Foreign Trade affect is to China's economy.

3.1.1 Introduction of the Practical part

China has carried out reform and opened up trade for about 38 years. In the past 25-years, the industrialization of this vast country has obtained significant results. Contributing to these results, Chinese foreign trade played a very important role. Foreign trade was considered the main bridge of the Chinese economy with the world economy. Chinese foreign trade became a spearhead economic sector and played an extremely important role in the development of the country.

Through import and export activities, by exporting the consumer products of light industry, agricultural products and parts of available materials to be imported, mainly machines, raw materials for production; product structure has changed in favour of the development of the next development process.

Also through export, Chinese goods were forced to participate in competition on the world market in terms of quality and price. This forced China to raise its production capacity through import, China imported advanced and modern machines and equipment for the domestic production, self-learned to improve the management and workmanship. Since then the production helps the development of domestic economy to grow faster, sustainability, particularly the successful implementation of the socio-economic objectives and the immediately push of the modernization of the country.

The fact proves that foreign trade was a top industry in the economic development process of China.

3.1.2 The relationship between GDP and Growth Rate (X-M) (1978-2013)

In recent years, China achieved economic growth was admirable. In fact, China is a country with the world's highest economic growth. There are many indicators to measure the economic growth such as GNP, GDP and growth rate. In this thesis, I decided to use GDP as an explanation to measure the economic growth of China. Through foreign trade activities, Chinese economy develops in a very lively manner and makes the growth of Chinese GDP continue to increase at a high level, the combined strength of the country was constantly strengthening.

Based on that, the author considered exports and imports are the main factors to influence China's economy. The main reasons above are to analyse the relationship between GDP and exports-imports. The Linear Regression model can be written as follow:

Equation 1 Linear regression model

$$Y = a + b*x \quad (2)$$

Where:

Y: Dependent variable as GDP

X: Independent variable as growth rate (X-M)

a: constant

b: parameter of received growth rate

3.1.2.1 Computation

Table 5 Linear Regression Computation

Linear Regression Results

The REG Procedure
 Model: Linear_Regression_Model
 Dependent Variable: GDP

Number of Observations Read	27
Number of Observations Used	27

Analysis of Variance					
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	4.992637E11	4.992637E11	55.79	<.0001
Error	25	2.237433E11	8949732529		
Corrected Total	26	7.23007E11			

Root MSE	94603	R-Square	0.6905
Dependent Mean	165296	Adj R-Sq	0.6782
Coeff Var	57.23265		

Parameter Estimates					
Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	49845	23883	2.09	0.0472
X-M	1	20.31186	2.71950	7.47	<.0001

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Source: Own computation used SAS 7.1

From the output of Linear Regression, it was simplified as follow:

Equation 2 Linear regression - GDP model

$$Y = 49,845 + 20.3x \quad (3)$$

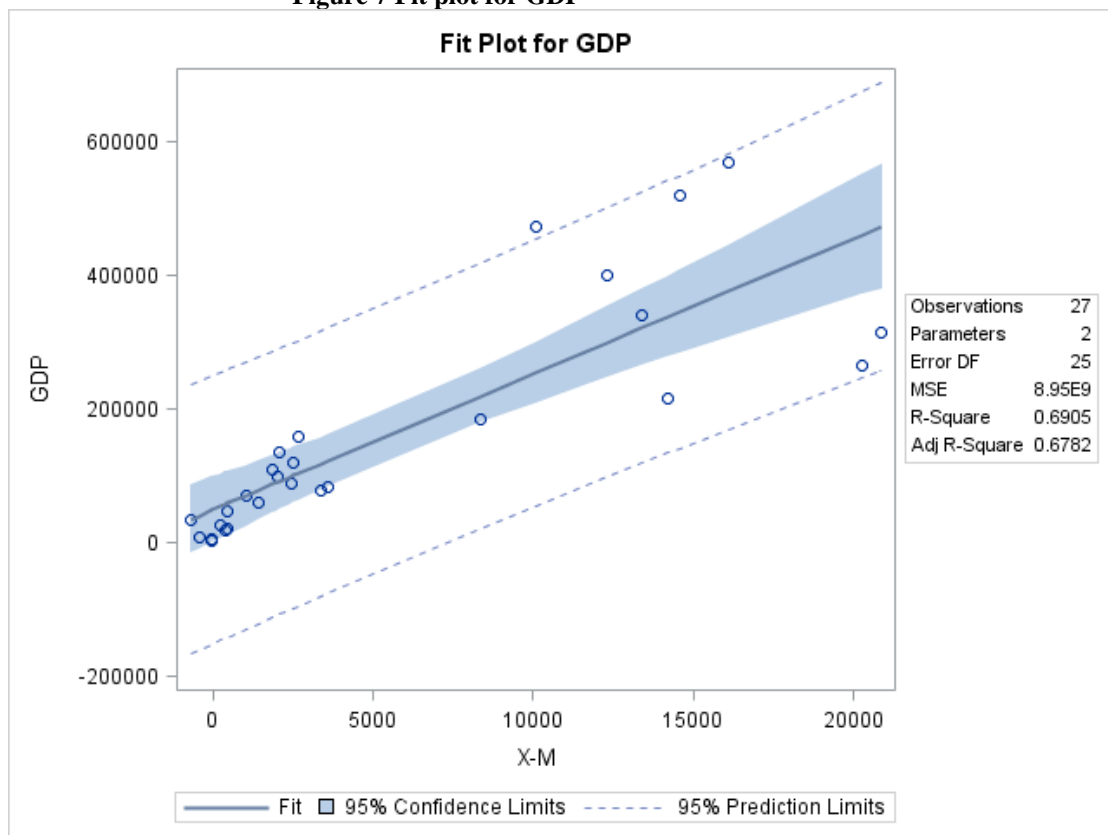
3.1.2.2 Verification

In the GDP model from equation (3), we can see that the GDP received the perception of the difference between China exports and imports (X-M). From the statistical view point, it can be said that if the GDP increase by 100,000,000 yuan, so that the (X-M) will increase by 2,030,000,000 yuan. For the statistical verification, we compare the p-value with significant level of 5% ($\alpha = 0.05$). In frequentist statistics, the p-value is a function the observed sample results relative to a statistical model²⁵. In this practical, the author chose 27 GDP and (X-M) samples out of its population. According to author's own computation, the p-value of (X-M) was 0.0001 lower than 0.05. From the result, the author rejected the hypothesis, and the GDP growth depends on (X-M). In another way it was "statistically significant".

²⁵ <https://en.wikipedia.org/wiki/P-value>

3.1.3 Prediction

Figure 7 Fit plot for GDP



Source: Own computation

From the prediction in the figure 7, the author saw the GDP trend since reform and opening up in year 1978 ongoing develops. Along with the strengthening of mutual trade exchange (exports and imports) with the countries in the world, China has stepped up foreign trade activities increasingly.

In general, in the near future, the prospects for Chinese foreign trade is very positive, especially China is now a WTO's member, its opportunity to develop is more enormous for foreign trade.

4. Conclusion

After 38 years of reform and opening up, it can be said that China has achieved great successes in economic development, especially foreign trade development. From a country with stagnant and undeveloped foreign trade, China now is a current foreign trade country

with powers ranked the 5th largest in the world and, more importantly, in the future, Chinese position in international trade will be enhanced increasingly.

In past years, thanks to China had proper policies and methods were suitable for the foreign trade development so that it achieved such successes such as high achievements as follows: Firstly, China opened door and attracted foreign investment to help the foreign trade development. Implemented these strategies, China did not only create an opening space for subjects of foreign trade activities but also added an important external resource with internal resource and boosted the import and export activities.

Secondly, China made strong progresses in the institutional reform of foreign trade, foreign trade management mechanism, set reasonable policies and methods such as product and market diversification, effective improvement of trade promotion, pursued beneficial exchange rate policies for exports. Therefore, Chinese goods had a favourable platform to be advanced outside.

Thirdly, China was actively in the regional and the world integration, considered it an important direction of economic development in general and foreign trade in particular in the context of today's globalization. In past, China actively integrated in the "flow". China was often not to fall into the passive situation, but always had the initiative plans to adapt step by step all new opportunities and threats.

It can be said that on the way to opening up and reform of foreign trade, China was not necessarily to always get success and achieve many accomplishments. Sometimes, China also faced the mistakes as results of until now it was also not necessarily to achieve as expected. It still existed with a number of problems to continue to be overcome, such as improving the quality of exported goods and foreign trade performance, issues of regional disparities etc.

Through the study of the development experience of Chinese foreign trade, the author realized the State's role in policy-making and overall macroeconomic method-making were very

important for Foreign Trade. Moreover, the Chinese government was very flexible in creating and implementing policies although China is a developing country. In the economic development process, it must also learn itself from advanced countries. However, from learning, China built itself the policies and implemented methods in accordance with the requirements of existing and development of Chinese foreign trade. It also met the general development trend of the era. The development policies of foreign trade were not forced to make in any development mild and flexibly move under practices so that Chinese foreign trade sound develops and has long-term prospect. Another point is worthily to be noted is that when applying a policy or method, China usually pilots on a small scale to test. If success, the new large-scale replicated success will be a conditions for timely adjustment for inappropriate. In fact, China makes foreign trade reform with cautious and solid steps.

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6. Appendix

China GDP and Exports-Imports from 1978 to 2013

Year	GDP	X	M	X-M
1978	3645,21747404589	167,6	187,4	-19,8
1980	4545,62397335573	271,2	298,8	-27,6
1985	9016,03658061248	808,9	1257,8	-448,9
1990	18667,8223761059	2985,8	2574,3	411,5
1991	21781,4994107882	3827,1	3398,7	428,4
1992	26923,4764511214	4676,3	4443,3	233
1993	35333,9247145462	5284,8	5986,2	-701,4
1994	48197,8564447092	10421,8	9960,1	461,7
1995	60793,7292113314	12451,8	11048,1	1403,7
1996	71176,5916539871	12576,4	11557,4	1019
1997	78973,0349964914	15160,7	11806,5	3354,2
1998	84402,279768922	15223,6	11626,1	3597,5
1999	89677,0547509045	16159,8	13736,4	2423,4
2000	99214,5543084772	20634,4	18638,8	1995,6
2001	109655,170558159	22024,4	20159,2	1865,2
2002	120332,689274252	26947,9	24430,3	2517,6
2003	135822,756149557	36287,9	34195,6	2092,3
2004	159878,33791739	49103,3	46435,8	2667,5
2005	184937,36896018	62648,1	54273,7	8374,4
2006	216314,425939354	77597,2	63376,85629719	14220,34370281
2007	265810,30584365	93563,6	73300,1	20263,5
2008	314045,427086554	100394,94142387	79526,52877026	20868,41265361
2009	340902,812581147	82029,69393412	68618,3695744	13411,32435972
2010	401512,795207258	107022,8428244	94699,30415605	12323,53866835
2011	473104,048647262	123240,59573912	113161,39621474	10079,19952438
2012	519470,099169899	129359,25	114800,96	14558,29
2013	568845,209814203	137131,43426019	121037,45812065	16093,97613954

Source: National Bureau Statistics of China - <http://www.stats.gov.cn/>