

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Master's Thesis

Foreign Trade of People's Republic of China

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DIPLOMA THESIS ASSIGNMENT

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Economics Policy and Administration
Business Administration

Thesis title

Foreign Trade of People's Republic of China

Objectives of thesis

The objective of this thesis is the evaluation of the current problems and trends of the People's Republic of China's foreign trade, such as the impact of the pandemic and this economic crisis.

The tasks of the thesis:

- development of a methodological approach for analyzing and assessing China's foreign trade, as well as making a forecast for the short and medium term;
- determination of the key factors affecting the foreign trade of the PRC;
- determination of the degree and nature of the impact of the pandemic, the world economic crisis on the foreign trade of the PRC;
- to analyze scientific works devoted to the study of China's foreign trade;
- making forecasts for the PRC's foreign trade for the short and medium term;
- development, based on the results of the study, recommendations for the management of foreign trade of the PRC.

Methodology

The methodology of the thesis is based on quantitative and qualitative methods.

Quantitative methods include: horizontal (temporal) quantitative analysis of statistical data, vertical analysis (determination of specific gravity, proportion, etc.).

Qualitative methods include: analysis of the legal and contractual framework, SWOT analysis of foreign trade of the PRC, a method of personal survey of foreign trade participants (representatives of companies from the PRC and other countries).

To make a forecast, the methods of trend analysis and construction of linear regression were used.

The proposed extent of the thesis

60 – 80 pages

Keywords

PRC foreign trade, foreign trade turnover, export trade operations, import trade operations, structure of foreign trade

Recommended information sources

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Declaration

I declare that I have worked on my master's thesis titled "Foreign Trade of People's Republic of China" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the master's thesis, I declare that the thesis does not break any copyrights of others.

In Prague on 30th November 2021

Mohylna Ilona

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Foreign Trade of People's Republic of China

Abstract

The objective of the thesis is the evaluation of the current problems and trends of the People's Republic of China's foreign trade, such as the impact of the pandemic and this economic crisis.

The structure of the thesis consists of three main sections: literature review (theoretical part), analysis of China's foreign trade (analytical part) and recommendations for improving measures for the development of China's foreign trade (conclusions and recommendations).

The thesis provides an overview of scientific works in the field of defining the concept and role of foreign trade in the economy of the state, methods of managing the development of foreign trade, as well as the peculiarities of the development of foreign trade of the PRC.

During the research work, the analysis of the development of foreign trade of the People's Republic of China for 2015-2020 was carried out in order to determine the main trends, barriers, factors affecting the pace of development and the content of China's foreign trade turnover. The analysis based on the use of quantitative and qualitative methods, such as: statistical analysis, a survey of participants in China's foreign trade, SWOT analysis, etc.

As a result of the study, the main problem areas for the development of foreign trade of the PRC were identified, and recommendations for their elimination were developed.

Keywords: PRC foreign trade, foreign trade turnover, export trade operations, import trade operations, structure of foreign trade

Zahraníční obchod Čínské lidové republiky

Abstrakt

Cílem práce je zhodnocení aktuálních problémů a trendů zahraničního obchodu Čínské lidové republiky, jako jsou dopady pandemie a této ekonomické krize.

Struktura práce se skládá ze tří hlavních částí: literární rešerše (teoretická část), analýza zahraničního obchodu Číny (analytická část) a doporučení pro zlepšení opatření pro rozvoj zahraničního obchodu Číny (závěry a doporučení).

Práce poskytuje přehled vědeckých prací z oblasti vymezení pojmu a role zahraničního obchodu v ekonomice státu, metod řízení rozvoje zahraničního obchodu, jakož i zvláštností vývoje zahraničního obchodu ČLR.

V průběhu výzkumných prací byla provedena analýza vývoje zahraničního obchodu Čínské lidové republiky v letech 2015-2020 s cílem určit hlavní trendy, bariéry, faktory ovlivňující tempo rozvoje a obsah obratu zahraničního obchodu Číny. Analýza založená na použití kvantitativních a kvalitativních metod, jako jsou: statistická analýza, průzkum účastníků zahraničního obchodu Číny, SWOT analýza atd.

Výsledkem studie byly identifikovány hlavní problémové oblasti pro rozvoj zahraničního obchodu ČLR a byla vypracována doporučení pro jejich odstranění.

Klíčová slova: zahraniční obchod ČLR, obrat zahraničního obchodu, exportní obchodní operace, importní obchodní operace, struktura zahraničního obchodu

Table of Contents

1.1	List of tables	10
1.2	List of figures	10
1.3	List of formulas	10
2	Introduction	11
3	Objectives and Methodology	12
3.1	Objectives.....	12
3.2	Methodology	12
4	Theoretical aspects of foreign trade management	16
4.1	The concept and role of foreign trade in the economy of the state.....	16
4.2	The role of the state in the management of foreign trade	19
4.3	Review of scientific works devoted to the study of the development processes of China's foreign trade	22
4.4	Conclusion based on analysis of theoretical and practical sources.....	24
5	Analysis of trends in the development of foreign trade of the PRC	26
5.1	Description of the country and a brief description of the PRC's policy in relation to the development of foreign trade	26
5.1.1	SWOT analysis of the competitiveness of the PRC economy	29
5.2	Dynamics of the development of China's foreign trade in 2015-2020	31
5.2.1	Exports and imports of China's foreign trade	32
5.2.2	International trade associations and organizations	38
5.3	The main factors influencing the foreign trade of the PRC	40
5.3.1	Development of the international division of labor and internationalization of production.....	42
5.3.2	China's accession to the WTO	44
5.3.3	Foreign exchange policy of the state	46

5.3.4	Impact of possible international financial crises.....	47
5.3.5	Low level of trade in services in the PRC	48
5.3.6	The importance of the innovation factor and the possibility of producing products with low added value	48
5.3.7	Survey of participants in foreign economic activity	49
5.4	Conclusion based on the analysis of trends in the development of foreign trade of the PRC	52
6	Results and Discussion.....	53
6.1	Conclusions based on the results of the study.....	53
6.2	The main problems of China's foreign trade and recommendations for their solution.....	58
6.2.1	Problems of the development of China's foreign trade.....	58
6.2.2	Recommendations for solving problems of the development of the PRC's foreign trade.....	59
6.2.3	Conclusion based on the problems and recommendations	64
6.3	Forecasts of the development of foreign trade of the PRC	65
6.3.1	Forecast of China's foreign trade turnover for 2021-2025 by Trend method.....	66
6.3.2	Forecast of China's foreign trade turnover for 2021-2025 by Simple Linear Regression	68
6.3.3	Conclusion based on Trend method and Simple Linear Regression	69
7	Conclusion.....	70
8	References	72
9	Appendix A	78

1.1 List of tables

Table 1: Results of the SWOT analysis of the competitiveness of the PRC economy	30
Table 2: Comparative analysis of the labor division market.....	41
Table 3: The results of assessing the negative impact of external factors on the development of China's foreign trade	51
Table 4: The main problems of the development of foreign trade of the PRC	58
Table 5: Regression analysis	68

1.2 List of figures

Figure 1: Indicators of GDP (PPP) for 2020	27
Figure 2: Dynamics of China's GDP per capita and GDP per capita growth	28
Figure 3: China's foreign exchange reserves at the end of the year 2015-2020	29
Figure 4: Dynamics of exports and imports of China's foreign trade in 2015-2020.....	32
Figure 5: Structure of China's exports by country in 2020	33
Figure 6: Structure of China's imports by country in 2020.....	36
Figure 7: Growth of the average monthly wage in the PRC for 2015-2020.....	43
Figure 8: Comparison of the average monthly wage at the end of 2020 - beginning of 2021	44
Figure 9: Structure of respondents by time of work in the foreign trade sector	50
Figure 10: Results of answers to the question	50
Figure 11: China's export and import forecast for 2021-2025 by Trend method	67
Figure 12: Forecast of China's foreign trade turnover for 2021-2025 in comparison with simple linear regression and the trend method, (billion U.S. dollars)	69

1.3 List of formulas

Formula 1: The specific weight of the answer option	13
Formula 2: Average score for the evaluative answers.....	13
Formula 3: Average growth in imports and exports.....	66

2 Introduction

The relevance of the study is determined by the most important role of foreign trade in the rate of social and economic development of the People's Republic of China. Over the past few decades, the PRC has shown not only an accelerated growth in foreign trade, but also began to dominate world markets as an importer of raw materials and an exporter of high value-added products. It should be noted that the development of foreign trade had a positive effect in all spheres of the economy and society of the PRC. In this regard, serious scientific and practical interest is aroused by those methods, mechanisms, institutions, the use of which by the state so rapidly promoted the PRC to leading positions in international trade.

It is also important to study how, at different stages of the economic reform, the export-import policy of the PRC changed priorities, mechanisms, modified incentives, leaving the main guidelines aimed at foreign trade, at the effective modernization of the national economy. That is, a feature of the management of foreign trade in the PRC is the absolute domination of the state in the market, which undermines the principles of a free market economy. Modernization of the country, becoming a leader in international trade, makes it possible to assume the correctness of the chosen strategy for managing foreign trade turnover.

A comprehensive study of the features of the development of China's foreign trade makes it possible to integrate the positive experience in other countries, to identify the weaknesses that arise as a result of government intervention in market processes.

Also interesting is the impact of the global crisis associated with the COVID-19 pandemic, what tools and strategies have been launched to minimize the impact of negative factors on foreign trade. It is necessary to determine whether the PRC has acquired new opportunities and whether the government was able to use them to strengthen its position in world markets.

3 Objectives and Methodology

3.1 Objectives

The objective of this thesis is the evaluation of the current problems and trends of the People's Republic of China's foreign trade, such as the impact of the pandemic and this economic crisis.

To achieve this goal, it is necessary to complete the following main tasks:

- development of a methodological approach for analyzing and assessing China's foreign trade, as well as making a forecast for the short and medium term;
- determination of the key factors affecting the foreign trade of the PRC;
- determination of the degree and nature of the impact of the pandemic, the world economic crisis on the foreign trade of the PRC;
- to analyze scientific works devoted to the study of China's foreign trade;
- making forecasts for the PRC's foreign trade for the short and medium term;
- development, based on the results of the study, recommendations for the management of foreign trade of the PRC.

The object of the research is the foreign trade of the PRC in a changing institutional environment.

The subject of the research is the dynamics and structural shifts in China's foreign trade for the period from 2015 to 2020.

3.2 Methodology

The methodology of the thesis is based on quantitative and qualitative methods. Quantitative methods include: horizontal (temporal) quantitative analysis of statistical data, vertical analysis (determination of specific gravity, proportion, etc.). Qualitative methods include: analysis of the legal and contractual framework, SWOT analysis of foreign trade of the PRC, a method of personal survey of foreign trade participants (representatives of companies from the PRC and other countries). To make a forecast, the methods of trend analysis and construction of linear regression were used.

The main method of this research is a questionnaire survey of participants in the

foreign economic activity of the PRC. A questionnaire was drawn up (Appendix A), consisting of five questions and 10 positions, which must be answered or evaluated on a point scale. Were interviewed 32 respondents from 32 Chinese organizations - participants in the foreign economic activity of the PRC. The main primary source for analysis is the results of responses to the questionnaire.

The survey of respondents was carried out using modern means of communication: e-mail, applications for the exchange of files and messages, oral survey using communication devices. It was decided to make the survey anonymous. Anonymity, in my opinion, will increase the reliability of the answers to the questions posed.

For the calculation, 2 basic formulas were used.

The specific weight of the answer option was calculated using the Formula (1).

Formula 1: The specific weight of the answer option

$$D = \frac{n}{S} * 100 \% \quad (1)$$

where:

- D – share of the selected answer option in the total amount of answers, (%)
- S – number of respondents, units
- n – number of respondents who chose the considered answer option, units

The average score for the evaluative answers was determined using the Formula (2).

Formula 2: Average score for the evaluative answers

$$B = \sum \frac{b}{S} \quad (2)$$

where:

- B – average score for the assessed position, points
- b – estimated score given by the respondent, points
- S – number of respondents, units

The following **research hypotheses** were formed:

- a null hypothesis **H₀** - Participants in foreign economic activity experience significant problems when performing foreign trade operations, which hinder the development

of foreign trade;

- an alternative hypothesis **H₁** - Participants in foreign economic activity do not experience problems in the performance of foreign trade operations and the development of foreign trade does not interfere with anything;
- an alternative hypothesis **H₂** - Participants of foreign economic activity do not experience problems when performing foreign trade operations, but there are factors that hinder the development of foreign trade.

Research questions:

- What research has been done on China's foreign trade in the past five years?
- How effective can the methods used in the study of China's foreign trade be considered?
- How has China's foreign trade developed over the past 10 years (2011-2021)?
- What problems (barriers) exist in the development of China's foreign trade?
- How do the pandemic and other crisis periods affect the development of China's foreign trade?
- What factors influence China's foreign trade?
- How will China's foreign trade develop in the short and medium term?

Sources of data:

- official statistics on foreign trade operations of the PRC: exports and imports;
- results of studies on foreign trade of the PRC: reports, analytical notes of international and Chinese government organizations;
- the results of the questionnaire survey of the participants in the foreign economic activity of the PRC.

The main stages of the thesis:

- collection and review of scientific literature devoted to research on the importance of foreign trade in general, as well as foreign trade turnover of the PRC;
- collection of statistical data on China's foreign trade: by structure, by volume, by country and by goods (services);
- drawing up a questionnaire and questioning participants in China's foreign trade activities;
- analytical work on the collected statistical materials and survey results;

identification of the main problems in the development of foreign trade, factors that have a negative impact on growth rates and the development of recommendations for their elimination.

For forecasting, the methods of trend analysis and linear regression will be used. Trend analysis is an analysis method, the essence of which is to compare each analyzed position with a number of previous periods and determine the trend, that is, the main trend of the indicator dynamics, cleared of random influences and individual characteristics of individual periods.

Linear regression analysis is used to predict the value of a variable based on the value of another variable. The variable that needs to be predicted is called the dependent variable - in our case, the foreign trade turnover of the PRC. The variable that is used to predict the value of another variable is called the independent variable, which is the PRC's GDP.

4 Theoretical aspects of foreign trade management

4.1 The concept and role of foreign trade in the economy of the state.

Foreign trade has always been the most important component of the development of the state and its economy. The first state formations arose and grew stronger thanks to the effective organization of trade both within the country and abroad.

The content and role of foreign trade were revealed in the works of the founders of economic theory, such as: «An Inquiry into the Nature and Causes of the Wealth of Nations» (A. Smith, 1776), «On the Principles of Political Economy and Taxation» (D. Ricardo, 1817), «Grundsätze der Volkswirtschaftslehre» (C. Menger, 1871) and others.

The understanding of the role of foreign trade was revealed in various classical theories. So, in the mercantilist theory, its early representatives demanded administrative barriers for the outflow of natural money and the creation of conditions for their inflow (W. Stafford, 1581; C. Scaruffi, 1582). Later representatives of mercantilism concluded that protectionist measures are needed against their own producers and the creation of conditions for the development of foreign trade (A. Serra, 1613; A. Montchrestien, 1615). Over the course of several decades, foreign trade has transformed from an insignificant sphere of the economy into a key one, requiring increased attention and in-depth study.

The role of foreign trade is revealed in the theory of absolute advantages by A. Smith (A. Smith, 1776), the theory of comparative advantages by D. Ricardo and D. S. Mill (D. Ricardo, 1817), the Heckscher-Ohlin theory (E. Heckscher, B. Ohlin, 1933), Leontief's paradox (W. Leontief), Michael Porter's theory (M. Porter, 1986), Rybczynski theorem (T. Rybczynski, 1955), as well as the theorem of Samuelson and Stolper (W. Stolper, P. Samuelson) and other lesser known models and theories .

There are interesting scientific works devoted to the use of foreign trade as one of the elements of a mathematical model. So, in 1962, Jan Tinbergen developed a gravitational model of foreign trade, where the volume of exports depended on such variables as the GDP of countries participating in trade and the geographical distance between trading countries (J. Tinbergen, 1962).

Also, the scientific works of famous Czech scientists are devoted to the study of foreign trade. In 1962, Jaroslav Vanek published his work "International Trade: Theory and Economic Policy", in which he analyzed the problems of the theory of economic growth and

international economics (*J. Vanek, 1962*). Tomáš Sedláček in his work «Economics of Good and Evil. The Quest for Economic Meaning from Gilgamesh to Wall Street» tried to consider economic laws, theories, processes (including foreign trade) from the position of an interdisciplinary approach (*T. Sedláček, 2013*).

Based on a brief review of scientific works on foreign trade, we can conclude that the authors, on the basis of their studies, tried to explain the reasons for participation, the benefits of being involved in foreign trade, and also made recommendations for achieving the best results, considering the identified patterns and phenomena maintaining competitive advantages. In my opinion, there are no universal scientific theories that would be able to explain all the problems and phenomena that occur in foreign trade. None of the existing theories can cover all the factors that affect the flows and effects of foreign trade, its structure, and dynamics, and, accordingly, cannot provide recommendations that are equally suitable for all of its member countries.

Also, based on the analysis of scientific literature, it can be noted that until now there is no unified approach to the definition of the concept of "foreign trade". At the same time, the conceptual construction of many approaches to the concept under consideration has many similarities.

Here are some definitions of the concept of "foreign trade". So, J. L. Hanson under "foreign trade" proposes to understand: "the exchange of various goods and services between different countries" (*J.L. Hanson, 1961*). Professor Kindleberger proposes to understand international trade as transactions of goods and services between two or more sovereign countries (*C. Kindleberger, 1978*). The definition proposed by John D. Daniels also does not differ much from the above: "foreign trade is all commercial operations of the private and public sectors: sales, investments and transportation between two or more countries." (*J. D. Daniels, 2007*).

Thus, the simplest definition of the concept under consideration is the following: trade between two or more states. Trade should be understood as commercial transactions for goods, services, investments, etc. Transactions can be both government and commercial. That is, the parties to the transaction can be private organizations, government agencies and individuals. So, for example, an example of foreign trade is a transaction in which a government organization of one country purchases goods or services from a commercial organization of another country.

The latter definition takes into account the specifics of the global economy and the

development of transnational companies. So, for example, one transnational company may have production facilities in several countries: in some, raw materials are mined, in others, parts are produced, and in others, products are assembled. In fact, the company does not carry out commercial transactions, but transports parts, raw materials from one country to another. In accordance with the definition of J. D. Daniels, this turnover will also refer to foreign trade.

But, for example, if a citizen or a foreign company of one country purchases goods or services from subjects of another country without the need to cross the border, then these transactions will not apply to foreign trade. That is, the fact of crossing the border, going through customs procedures is also one of the signs of transactions related to foreign trade.

Let's consider one more scheme. Will foreign trade apply to a transaction in which the buyer and seller are subjects of the same country, but are physically located in different states? With this scheme, customs clearance of goods when crossing the state border is mandatory. This allows us to assert that such a transaction applies to foreign trade as well.

Thus, I propose the following definition of the concept of "foreign trade": operations or transactions associated with the physical movement of the object of the transaction from one country to another, as well as cases when the parties to the transaction for services and investments are subjects of two or more states. This definition, in my opinion, most accurately gives an idea of the nature and content of the concept of "foreign trade".

Various factors influence the dynamics and structure of foreign trade of individual countries. So, M. Dubravskaa in her research, on the example of Slovakia, highlights the following:

- exchange rates;
- competitiveness;
- growing globalization;
- tariffs and trade barriers;
- fare;
- languages and culture;
- international trade agreements, etc. (*M. Dubravskaa, 2015*).

This list of factors can be supplemented by the following:

- the level of production capabilities;
- availability of material and human resources;

- the nature of public policy;
- structure and volume of domestic demand;
- living standards of the population and other factors.

A large number of factors affecting the structure and nature of the state's foreign trade, speaks about its importance for almost any sphere of the country's socio-economic development. This determines the allocation of foreign trade into a special area of research, that the entry of states into foreign markets and participation in world integration processes has a positive effect on the welfare of society.

Thus, foreign trade, being an integral part of the foreign economic complex, is considered one of the priority areas that contribute to the formation and stabilization of the country's economy, as well as the growth of the nation's well-being. This conclusion is based on a large number of scientific studies devoted to the study of foreign trade, its influence on the development of the state and society. The development of the country's foreign trade directly depends on the effectiveness of managerial decisions of state bodies, which in turn are based on the results of analytical studies carried out at the macroeconomic level.

In this regard, in the next subsection of the study, the main tools and mechanisms of state management of the development of foreign trade will be considered.

4.2 The role of the state in the management of foreign trade

The goals, methods and means of foreign trade are determined by the goals and objectives of the state foreign trade policy. Foreign trade policy is one of the elements of the country's foreign policy, which is formed taking into account political and economic goals and priorities.

The state, creating conditions for a free-market economy or exerting significant influence on the markets, is a key source of creating favorable conditions for the development of foreign trade. The choice of certain methods and means determines the general policy of the state in the field of regulation of market processes.

A large number of theoretical and practical studies are devoted to the issues of government intervention in the development of foreign trade. So, V.V. Bezpalov in his work defines the modern role of the state in the development of foreign trade. The author believes that the high level of state interference in foreign trade processes is due to the fact that this area is related to issues of national security and sovereignty of the country. Also, the author

has developed a mechanism for managing the development of foreign trade based on an economic and mathematical model, which, in his opinion, should be implemented at the national and regional levels (*V. Bezpалov, 2017*).

But not all researchers agree with the exclusive role of the state in the development of foreign trade. The study by a group of scientists led by N. Bloom analyzed the export operations of American, Chinese, and Indian companies. It was determined that companies with the best indicators of the management system conduct foreign economic activities more efficiently (*N. Bloom, 2021, p. 443*). At the same time, it can be noted that the state is pursuing a policy to support the development of management systems in commercial organizations through a number of state and public structures. That is, it directly affects this area of development of the business environment, and indirectly affects foreign trade.

Also, Anne-Marie Geourjon does not agree with state dominance in foreign trade. In her book, she examines the global trends of abandoning the principles of free trade, and also offers her own approach to the liberalization of markets. The study noted the following negative aspects of the high level of state domination in foreign trade:

- as a result of the protectionist policy of the state, the real competitiveness of companies decreases;
- consumers receive inferior products at inflated prices;
- political factors are put above economic expediency, etc. (*Anne-Marie Geourjon, 2003*).

In this case, I cannot agree with this author. There are areas that really affect the level of national security of the state. For example, food security. The competitiveness of national food producers cannot be higher than that of transnational companies. That is, opening the market to transnational companies is guaranteed to destroy local production and increase the country's dependence on food supplies from a commercial company. As practice shows, this dependence can be used for political and other purposes by the governments of other states.

This opinion is based on a growing body of research on the impact of trade sanctions on the states against which they apply. S. Kwaku, using a gravity model and data on the imposed sanctions from 1960 to 2009, determined that sanctions negatively affect the living standards of the population and are often imposed in violation of international conventions that prohibit the imposition of sanctions on essential goods. Also, during the study, the author proved that while the imposed sanctions lead to a decrease in foreign trade, the threat of sanctions leads to an increase in trade flows. This is due to the fact that companies are starting

to increase their stocks in anticipation of the imposition of sanctions (*S. Kwaku, 2016*).

That is, we can speak about a free market with minimal government intervention only when all market participants adhere to market principles. When one of the market participants uses economic instruments to achieve political goals and objectives, other participants will perceive such policies as a threat to their independence, sovereignty, and integrity. But back in 1945, A. Hirschman in his work «National Power and the Structure of Foreign Trade» revealed how the state should use foreign trade as an instrument of power and influence in the international arena. (*A. Hirschman, 1945*). In my opinion, the tools and mechanisms described in the work are relevant and used in the modern world.

In the process of studying the level of government influence on foreign trade, as a rule, the following means of influence are considered:

- *international agreements*: between states, within the framework of trade associations, etc.;
- *customs tariffs*: regulation of export and import of goods, fiscal function, protection of national producers, etc.;
- *measures to stimulate exports and imports*: preferential lending and taxation of companies that produce products for export; support for the development of production facilities, consulting, and other assistance to national companies;
- *restrictive conditions*: quotas, toughening requirements for the import of products, a ban on import, etc. (*M. Kitieva, 2019*).

That is, all means of state influence on foreign trade are divided into price and non-price ones. As a rule, pricing methods are introduced in cases where there is no need to hide their protectionist policy, not to violate certain international obligations. Non-price instruments are used for more covert regulation of foreign trade turnover.

Thereby, despite the processes of liberalization of the sphere of foreign trade, a significant role in its development and regulation belongs to the state, which develops and implements an appropriate foreign trade policy. It must be recognized that in the modern world, state policy aimed at the development and regulation of foreign trade plays one of the main roles in strengthening the state's position in the world economic arena and is also an important component of sustainable socio-economic development. Despite the fact that many developing states express their disagreement with the policy of military-political pressure from developed states, the situation will remain the same in the foreseeable future. In this regard, I consider it a normal practice when states adopt special legal documents that

contribute to the creation of the most favorable conditions for the operation of national businesses in world markets as a manufacturer.

In the next subsection of the study, we will consider works devoted to the peculiarities of the development of foreign trade in the PRC.

4.3 Review of scientific works devoted to the study of the development processes of China's foreign trade

For more than three decades of comprehensive economic reforms, the PRC has achieved tremendous results in the field of economic development and the area of improving the living standards of the population. From a third-rate industrial country, the PRC has become a "factory of the world", leading in a number of gross industrial indicators. In addition, the country is leading in terms of GDP growth, improving per capita indicators.

All this could not but arouse the interest of scientists. With the help of analysis and evaluation, the use of mathematical methods, the researchers identified the reasons for the rapid development of China's foreign trade (*Y. Dong, H. Song, 2018; Y. Xing, 2021*).

M. Belton and X. Zhang in their research note that the transformation of the PRC's economy began from the moment when Deng Xiaoping initiated a gradual transition from a planned to a market economy. But, unlike other countries that tried to make such a transition, the PRC had the following features that ensured success:

- economic reforms were introduced gradually. The innovation was tested in one of the regions of the PRC and, with positive results, was scaled to the whole country;
- economic reforms did not concern the political structure of the state. The political stability of the state has become one of the reasons for the effectiveness of the reforms. That is, the new political forces did not start reforms from the very beginning;
- long-term strategic planning in the implementation of reforms. That is, the initiators of the reform did not expect quick results;
- along with the reforms, a tough fight against systemic corruption was carried out, as well as work was carried out to form a peaceful and honest labor community, the goal of which was to be the economic development of the country (*M. Belton, X. Zhang, 2021*).

A large number of studies are devoted to the impact of specific processes on China's foreign trade. For example, WTO experts have analyzed the entry of the PRC into this organization. It is noted that the PRC has received great advantages and significantly increased its turnover in connection with its entry into international markets. The WTO has opened new markets for developed and developing countries for Chinese manufacturers (*WTO Accession, 2009*). But, despite its membership in the WTO and the presence of a number of advantages in trade, the PRC is experiencing a number of difficulties. For example, in order to develop online marketplaces, the PRC government has introduced subsidized postal services for Chinese companies around the world. Huge flows of goods from China forced a number of developed countries to introduce tariff and non-tariff regulation measures, such as: reducing the cost of a parcel, in which there is no need to pay customs duties; increase in customs tax, etc.

I also reviewed a study on the consequences of the trade war between the United States and China. Researchers analyze the causes and potential risks of such trade wars, as well as the need to improve the PRC's strategy in order to minimize the negative impact on trade turnover, the welfare of the population and the financial stability of Chinese companies.

Scientists also paid attention to the impact of the pandemic on China's foreign trade. Thus, a group of researchers using the MIDAS regression analysis made a forecast for the development of China's foreign trade in the post-covid period. The flexibility of the MIDAS regression allowed the authors to use various variables: GDP by quarters, export sales and foreign exchange reserves by months, the dynamics of exchange rates and prices for Brent crude oil. The results of this study showed that the COVID-19 pandemic has had and continues to have a significant negative impact on China's GDP growth. In line with the results of the forecast, the authors expected the recovery of strong economic growth in China in the second quarter of 2020 (*S. Gunay, G. Can, M. Ocak, 2021*). These predictions did not come true. In 2020, the PRC economy showed the worst growth rates, and in 2021 the recovery rate was lower than predicted.

R. G. Bilro and J. F. da Cunha conducted a study in which they examined the reasons why Western companies cannot successfully develop in the PRC. In their research, they identified and analyzed seven factors that influence the development of foreign companies in the PRC, such as:

- political
- socio-cultural

- financial and economic
- marketing
- production
- competitive
- and technological.

They came to the conclusion that the specifics of doing business in China is quite specific and complex for Western companies (*R. Bilro, J. Cunha, 2021*). It is believed that this situation is associated with the protectionist policy of the PRC government, in which foreign companies have limited access to inexpensive resources, labor, etc. In this regard, foreign companies have to cooperate with Chinese companies, purchase finished products from them, and not participate in its production. This statement does not apply to transnational companies. It is also possible to highlight: the work of R. Nicholas, dedicated to assessing the role of foreign investment in the Chinese economy and in the volume of foreign trade (*R. Nicholas, 1995*); Xin Zhang's study on the legal features of China's entry into the international trade arena (*X. Zhang, 2006*); analyst Marc Bacchetta, who compiled a practical guide (collection of methods) for the analysis of China's foreign trade (*M. Bacchetta*).

Thus, as shown by a review of scientific literature, there is a large number of studies devoted to various aspects and processes in China's foreign trade. This suggests that the topic of China's foreign trade, forecasts of its development and changes in vectors is important not only for the state itself, but for the whole world. Foreign trade of PRC has reached such a scale that any changes in dynamics and structure affect many countries of the world.

4.4 Conclusion based on analysis of theoretical and practical sources

Based on the analysis of theoretical and practical sources in the field of foreign trade, the following conclusions can be drawn:

- in the scientific literature there is no single approach to the definition of the concept of "foreign trade". Within the framework of this study, I proposed my own definition, which will be used in the course of analytical work within the framework of this thesis;
- at present, in the context of globalization and the intensification of integration phenomena, the national economies of individual states largely depend on each

other. In this regard, the determination of the optimal level of state intervention in the development of foreign trade is of particular relevance;

- the effectiveness of the public administration system directly affects the development of the country's foreign trade. Accordingly, it is necessary to conduct analytical research, the results of which can be used in practice;
- China's foreign trade, its problems, methods of influencing it, factors influencing it are the object for research by scientists from all over the world. This is due to the influence of the PRC's foreign trade turnover on other countries;

analysis of the PRC's foreign trade and, accordingly, the directions of the formation of foreign trade relations as an object of research seems to be relevant in modern conditions.

5 Analysis of trends in the development of foreign trade of the PRC

5.1 Description of the country and a brief description of the PRC's policy in relation to the development of foreign trade

The PRC is a state in East Asia. It ranks third in the world in terms of territory after Russia and Canada and first in terms of population. Most of the population is ethnic Chinese, the self-name is Han.

The PRC, in accordance with the constitution, is a socialist state. It is a great power - a potential superpower, an economic superpower, a permanent member of the UN Security Council (*Da Lu, 2019*). Also, the state is one of the leading space powers in the world and has nuclear weapons, the largest army in the world in terms of the number of military personnel.

The economic transformations that began in 1978 under the leadership of the Communist Party of China (CPC), based on the concept of "practice - a criterion of truth," led to the acceleration of socio-economic development and contributed to the transformation of the PRC into an advanced and actively developing industrial-agrarian power, as well as a significant improvement in the material situation of the Chinese population.

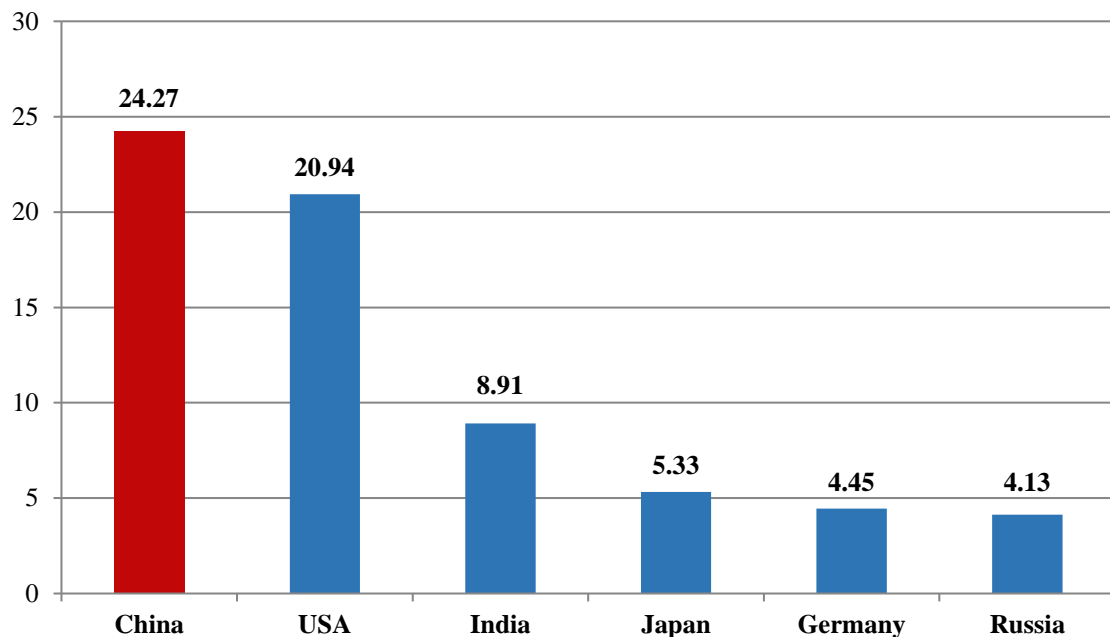
Since 1980, the Chinese economy has grown at an average of 15% annually, but in the late 1990s, growth slowed by almost half, but with the country's accession to the WTO, a new wave of growth began, driven by an influx of foreign investment. Today, China is a leader in the export of light industrial goods, as well as other labor-intensive industries. Over the past decades, China has demonstrated to the whole world colossal GDP growth rates (over the past 20 years, they have grown 20 times).

Since the mid-1990s, China has been one of the world's largest recipients of foreign capital. Today, foreign investment is one of the most important factors in China's economic growth, and the country is very attractive for investors: already 400 out of 500 leading transnational corporations have their offices in China. More than 170 countries of the world invest their capital in the Chinese economy. Currently, there is practically no region in which China would not invest its funds: the Middle East, Latin America, the European Union, Africa (*S.Yu. Murtuzaliev, D.A. Ivanov, 2018*).

For 2021, the PRC economy remains the second largest economy in the world in

terms of nominal GDP and the first economy in the world in terms of GDP (PPP), as shown in Figure 1.

Figure 1: Indicators of GDP (Purchasing Power Parity) of the countries of the world for 2020, (trillion. U.S. dollars)



Source: World Bank Data

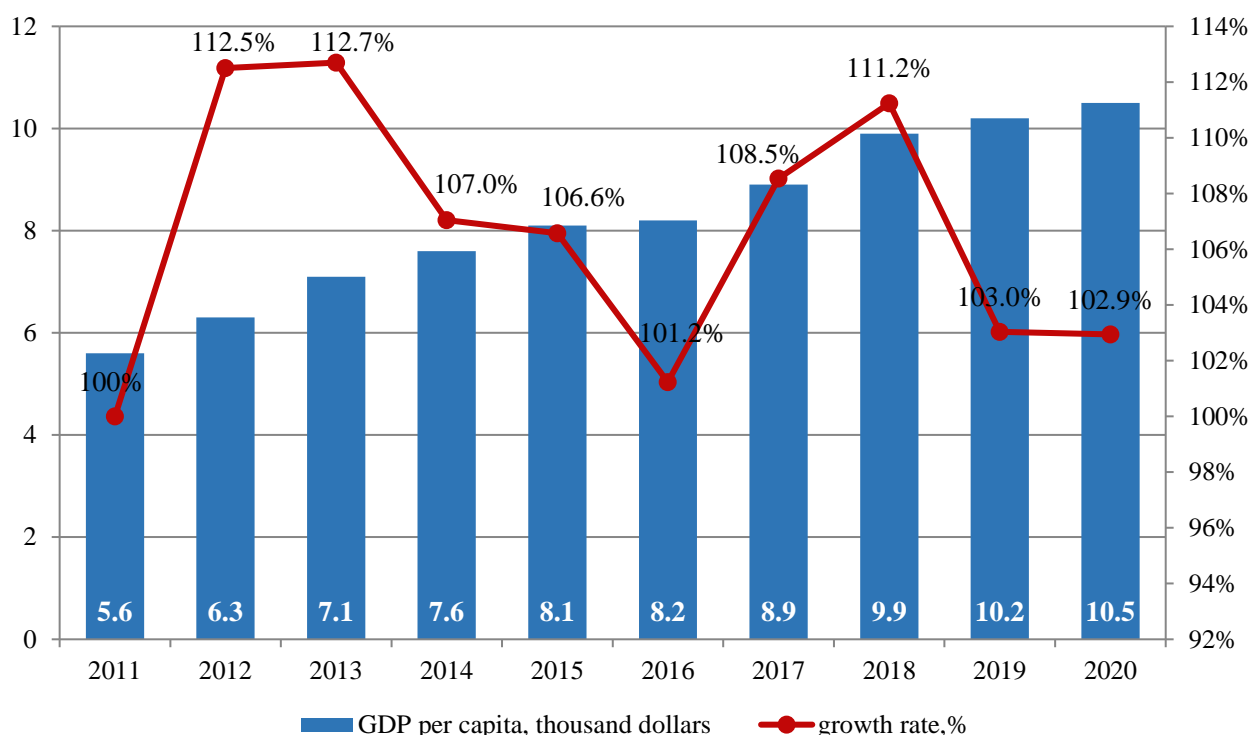
By purchasing power parity, means the adjustment of the price level in the country's economy and, therefore, the purchasing power of the currency. With this amendment, the PRC, as previously noted, ranks first in the world with \$ 42.27 trillion.

In terms of nominal GDP, the PRC ranks second with \$ 14.72 trillion (the United States ranks first with \$ 20.94 trillion, and Japan ranks third with \$ 5.06 trillion). The economies of the PRC and the United States are significantly separated from the rest of the world. The two super economies are natural competitors in the world market.

At the same time, despite the significant growth (Figure 2), the GDP per capita of the PRC remains low in comparison with other developed countries (54th place in 2020).

Over the past 10 years, GDP per capita has increased from \$ 5.6 thousand in 2011 to \$ 10.5 thousand in 2020. As the GDP per capita growth curve shows, the slowdown is caused by the global economic crises. So, a slowdown in growth is observed in 2015-2016 and in 2019-2020. It should be noted that the PRC government has not allowed negative growth rates since 1979 (\$ 183 per capita).

Figure 2: Dynamics of China's GDP per capita for 2011-2020, (thousand U.S. dollars) and GDP per capita growth (%)



Source: World Bank Data

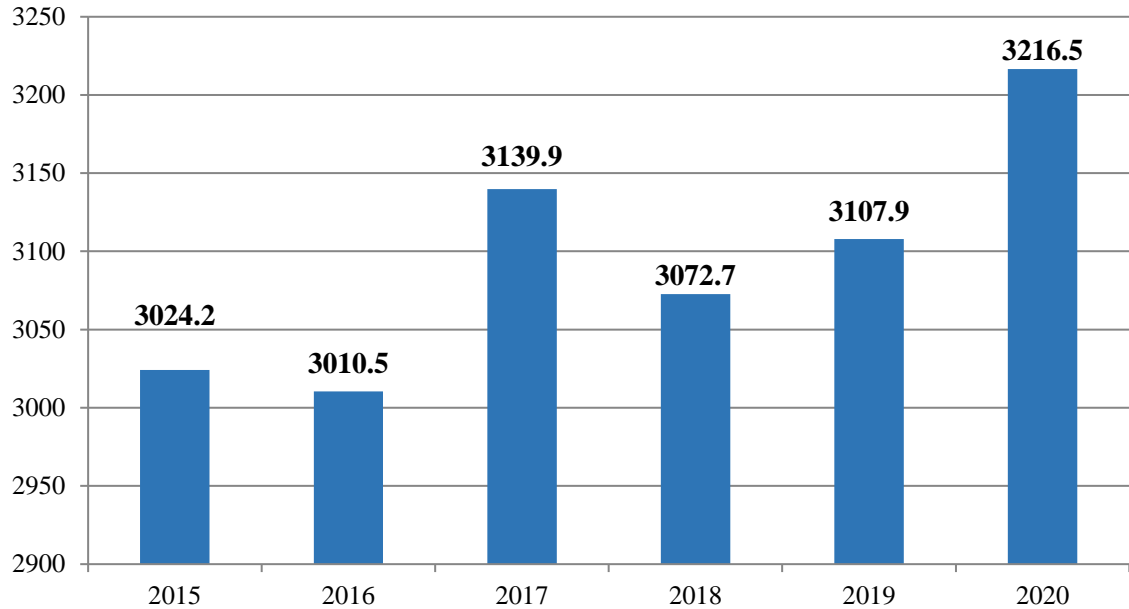
The PRC is the world leader in the production of most types of industrial products:

- construction of 370 thousand new industrial enterprises (since 1950);
- 360 branches of industry. (*Central Compilation & Translation Press, 2021*)

Most of the factories and plants of the PRC are located in the main industrial centers of the country, in the eastern and coastal provinces: Jiangsu, Shanghai, Liaoning, Shandong, Guangdong, Zhejiang, Fujian, Anhui, Jiangxi, etc. as in Shanghai, Tianjin, Chongqing and Hong Kong. The largest centers of mechanical engineering are Shanghai, Harbin, Beijing, Shenyang, Tianjin, Dalian, Chongqing, Nanjing, Guangzhou, Qingdao, Zhengzhou, Xian, Chengdu, etc. (*J. Lin, F. Zhang, 2015*). Most of the Chinese factories for processing cotton and livestock products are located in the northwest of the country, while factories and plants for the paper, sugar and dairy industries are located mainly in the northeast of the PRC. The food industry is more developed in the southwest. The PRC is considered the world's largest exporter ("factory of the world") and one of the main sales markets.

In addition, China has the world's largest foreign exchange reserves (Figure 3).

Figure 3: China's foreign exchange reserves at the end of the year 2015-2020 (billion U.S. dollars)



Source: National Bureau of Statistics of China, 2021

As shown in Figure 3, at the end of 2020, China's foreign exchange reserves reached \$ 3216.5 billion, which is \$ 108.6 billion more than at the end of 2019 (\$ 3107.9 billion). The average exchange rate for 2020 was 6.8974 yuan per U.S. dollar, up 0.02% from 2019. These data indicate that the country's financial system is quite stable in the face of increasing negative macroeconomic factors in 2020.

5.1.1 SWOT analysis of the competitiveness of the PRC economy

Quite a large amount of statistical data on the economy of the PRC was studied, such as: industry, agriculture, energy, transport, etc. Stable growth is observed in all sectors of the country's economy. At the same time, in various scientific works devoted to the development of the PRC's economy, not only strengths, but also weaknesses are noted.

Based on the results of these studies, I compiled a SWOT analysis of the competitiveness of the PRC economy on the world stage.

Table 1: Results of the SWOT analysis of the competitiveness of the PRC economy

Potential INTERNAL factors	
STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Favorable geographical location • Stable growth of the main indicators of economic development • Developed infrastructure in industrial regions • Large domestic market • Diversified external market • Low cost of manufactured products in comparison with competitors 	<ul style="list-style-type: none"> • Dependence on technical and innovative developments in developed economies • Dependence on trade with partner countries • Dependence on external energy sources • The upward trend in the cost of labor in the country and the forced transfer of production capacity in a country with cheap labor
Potential EXTERNAL factors	
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Expansion of sales markets due to domestic demand (experience of South Korea) • Improving the country's competitiveness through the development of technology • Attracting investments from developed countries • Formation of new jobs outside the country, by creating Chinese business in the territories of other countries • Closer cooperation with regions of the world 	<ul style="list-style-type: none"> • Possible cataclysms and accidents of natural and technogenic character • New trade wars • Decrease in economic growth as a result of a drop in demand for products, a decrease in consumers' solvency, etc • The emergence of new diseases

Source: own work

Within the framework of this study, it is not possible to examine in detail the main sectors of the PRC economy. And there is no scientific need for this. It can be noted that the entire economy of the country depends on the development of foreign trade. The next subsection analyzes the main indicators of China's foreign trade.

5.2 Dynamics of the development of China's foreign trade in 2015-2020

As noted earlier, foreign trade made a significant contribution to the development of the PRC's economy, which was focused on meeting the demand in the world market for goods. At the end of 1978, modernization, reforms, and a policy of foreign economic openness began, which led the PRC to a number of economic and political leaders of the modern world. Then, in 2013, the following events took place, marking the turn of the PRC towards a qualitatively new stage in the development of foreign economic relations:

- initiative to build a new overland Silk Road from China to various countries and regions;
- creation of the first experimental free trade zone in Shanghai, which was focused on mastering in a short time the most advanced international practice of trade and investment interaction with the outside world.

A number of Chinese scholars announced that these events marked the second stage of the foreign economic openness policy, which was focused on shifting the center of gravity from trade in goods to trade in services, as well as an ever-closer connection of foreign economic activity with scientific and technical innovations, a fundamental improvement in the regime for protecting intellectual property (*Chi Fulin, 2017*).

In 2017, the results obtained in the course of introducing innovations into the foreign trade development policy were summarized, and new tasks were set to stimulate the formation of a new architecture of comprehensive openness in world markets and promote the ideas of an open economy (*National Congress of the Communist Party of China, 2017*). To develop the competitiveness of Chinese goods and services, it was decided to focus on:

- accelerating the formation and development of new competitive advantages in world markets;
- strengthening positions in the international labor division market;
- radical improvement of the regional structure of external economic openness (*Wang Yang, 2017*).

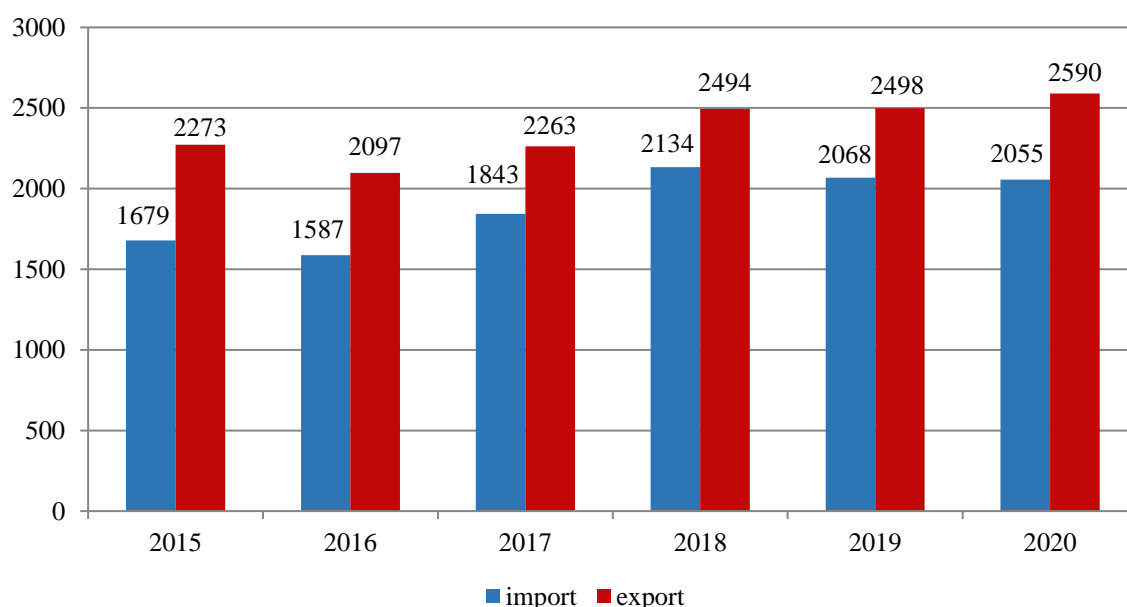
Thanks to the filling with concrete content and the beginning of the practical implementation of the Belt and Road Initiative (BRI), especially against the background of the US refusal to participate in the Trans-Pacific Partnership agreement, China, with all possible reservations, has become the leader and engine of economic integration in Asia (Marlene Laruelle, 2018).

China's persistent promotion of various projects in the “belt-and-road” format has contributed to a better understanding in the world of the qualitative features of the new stage of China's foreign economic openness. Previously, the priority was to attract equipment, technologies, and investments from abroad to the country. Now the main emphasis is on the total external promotion of Chinese goods, capital, and services (V. Ya. Portyakov, 2019).

5.2.1 Exports and imports of China's foreign trade

Consider the main indicators of the development of China's foreign trade for 2015-2020 (Figure 4).

Figure 4: Dynamics of exports and imports of China's foreign trade in 2015-2020 (billion U.S. dollars)



Source: Trend Economy (<https://trendeconomy.ru/data/h2/China>)

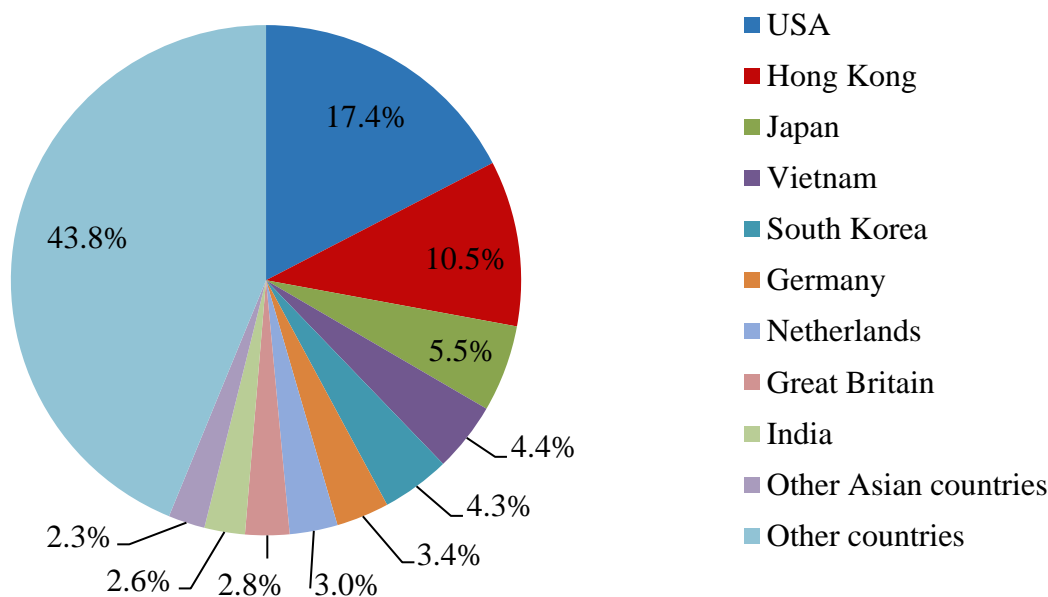
As shown in Figure 4, China's exports against the background of the pandemic at the end of 2020 increased by 3.6% compared to 2019, while imports decreased by 0.6%.

Aggregate exports from China amounted to \$ 2.590 billion in 2020. In value terms, the increase in the supply of goods from the PRC compared to 2019 was 3.6%: the export of goods increased by \$ 92 billion (in 2019, goods worth \$ 2.498 billion were supplied from the PRC). As these diagrams show, the import values are more sensitive to global economic crises - they decrease. The reason for this reduction is that, during a crisis, the cost of the cost of resources decreases as a result of falling global demand or other factors.

5.2.1.1 Exports of China's foreign trade

Consider the structure of China's exports of goods by country in 2020 (Figure 5).

Figure 5: Structure of China's exports by country in 2020, (%)



Source: Trend Economy (<https://trendeconomy.ru/data/h2/China>)

The five leaders of the countries to which Chinese products are exported include:

- The **USA** with a specific weight of 17.4% or \$ 452 billion;
- **Hong Kong** with a specific weight of 10.5% or \$ 272 billion;
- **Japan** with a specific weight of 5.5% or \$ 142 billion;
- **Vietnam** with a specific weight of 4.39% or \$ 113 billion;
- **South Korea** with a specific weight of 4.34% or \$ 112 billion.

It should be noted that Hong Kong and Vietnam, in my opinion, cannot be considered

net exporters. Hong Kong is considered to be the territory of the People's Republic of China and has historically been a major trade hub, which mostly performs transit functions. And Vietnam is represented by Chinese entrepreneurs who transferred production facilities to this country due to inexpensive labor.

Of the European countries, Germany has the largest share - **3.35%** or \$ 86 billion ; Netherlands - **3.04%** or \$ 79 billion and Great Britain - **2.8%** or \$ 72 billion.

The structure of exports by goods is represented, to a greater extent, by goods with high added value. So, in 2020, goods from the following groups were exported:

- Electrical machinery and equipment, their parts; sound recording and reproducing equipment, equipment for recording and reproducing television images and sound, their parts and accessories - **26%** or \$ 698 billion;
- Nuclear reactors, boilers, equipment and mechanical devices; their parts - **17.4%** or \$450 billion;
- Furniture; bedding; lamps; illuminated signs, illuminated advertising, etc. - **4.22%** or \$ 109 billion;
- Plastics and products from them - **3.74%** or \$ 96 billion, etc (*General Administration of Customs of the People's Republic of China, 2021*).

Over the past several decades, there have been significant changes in the structure of China's exports. Thus, the share of raw materials (including minerals and fuel, agricultural raw materials) in 1995 in exports amounted to 14.4%, the share of industrial goods - 85.6%. In the structure of exports, consumer goods accounted for 36.6% of China's exports, machinery and equipment - 21.1%, and light industry products - 21.7%. In other words, the PRC exported low-tech products.

By 2020, as shown earlier, the commodity structure of exports has undergone significant changes. Machines and equipment for various purposes now account for about 45% of exports. That is, the growth in exports was achieved not due to the growth in sales of consumer goods, but due to the sale of high-tech goods.

For example, here are the Top-5 leading goods exported from China in 2020:

- Computers and their units; magnetic or optical readers, machines for transferring data to storage media in coded form and machines for processing such information, not elsewhere specified or included: **7.23%** or \$ 187

billion;

- Transmitting apparatus for broadcasting or television, whether or not receiving, recording or reproducing apparatus; television cameras, digital cameras and camcorders: **7.22%** or \$ 187 billion;
- Electronic integrated circuits: **4.56%** or \$ 118 billion;
- Other finished goods, including sewing patterns: **2.13%** or \$ 55 billion;
- Telephones, including telephones for cellular networks or other wireless networks: **1.8%** or \$ 46 billion (*General Administration of Customs of the People's Republic of China, 2021*).

Thus, a review of the dynamics and structure of exports of goods from the PRC shows some changes in favor of an increase in the share of exports of high-tech goods. Among the main consumers of Chinese products are the United States, Japan, South Korea, the EU and India. These states can be divided into those countries that are final consumers and those countries that use exported goods for both consumption and production. It is also necessary to understand that in order to attract foreign direct investment, the PRC has established about 18 thousand companies abroad, they are located in 177 countries, the net amount of foreign direct investment is \$ 424 billion. 3/5 of China's foreign trade turnover falls on Japan, the United States and East Asia (*A. Parmentola, 2017*).

Exports to countries such as Vietnam and other countries in Asia and Africa are the result of the international expansion of Chinese transnational companies, which is an interesting and unexplored area of scientific research. By examining the international strategy that Chinese companies have used in the past, it is also helpful to understand the reasons for the actual success of these companies.

Today, China is the world leader (or one of the top three countries) in the production of many types of industrial products. Informatization, according to the leaders of the PRC, acts as an important strategic resource that determines the prospects for all economic and social modernization. Therefore, the position of the PRC in the system of world economic relations, which were previously provided mainly by low production costs when supplying shallow products to the foreign market (textiles, sportswear, toys), are now "growing" by an increase in export income from trade in high-tech products.

High-tech industries and information technology play an increasingly important role in the global economy, therefore, in the future, the most significant results will be achieved

by those countries that will take advantage of the globalization of world markets for high-tech products. Analysis and comparison of indicators make it possible to state the progressive economic development of Asian countries, primarily due to the development of industry in Japan, China and in newly industrialized countries (Republic of Korea, Singapore, Taiwan, Malaysia, Indonesia, Thailand, etc.).

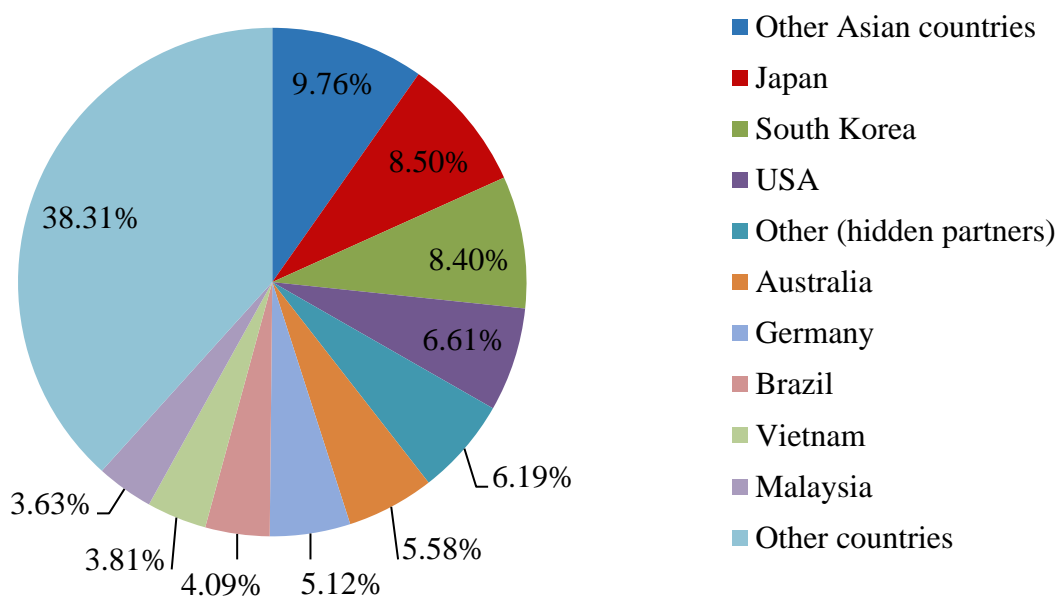
5.2.1.2 Imports of China's foreign trade

Consider the dynamics and structure of China's import operations.

The total volume of imports to the PRC in 2020 amounted to \$ 2 055 billion (Figure 4). The decrease in the supply of goods to China in value terms amounted to 0.6%. Compared to 2019, imports of goods decreased by \$ 13 billion (in 2019, China imported goods worth \$ 2 068 billion).

Figure 6 shows the largest import trade partners of the PRC in 2020.

Figure 6: Structure of China's imports by country in 2020, (%)



Source: Trend Economy (<https://trendeconomy.ru/data/h2/China>)

The import structure differs from the export structure, but the main partners are also represented:

- **other Asian countries** with a specific weight of 9.76% or \$ 200 billion (in

my opinion, these are transactions between Chinese companies within the country and Chinese companies established in foreign countries within the framework of transnational groups);

- **Japan** with a specific weight of 8.5% or \$ 174 billion;
- **South Korea** with a specific weight of 8.4% or \$ 172 billion;
- The **USA** with a specific weight of 6.61% or \$ 135 billion;
- **Others (hidden partners)** with a specific weight of 6.19% or \$ 127 billion;
- **Australia** with a specific weight of 5.58% or \$ 114 billion;
- **Germany** with a specific weight of 5.12% or \$ 105 billion;
- **Brazil** with a specific weight of 4.09% or 84 billion dollars;
- **Vietnam** with a specific weight of 3.81% or \$ 78 billion;
- **Malaysia** with a specific weight of 3.63% or \$ 74 billion;

According to the General Administration of Customs of the PRC, the structure of imports in 2020 was represented by the following main commodity groups:

- Electrical machinery and equipment, their parts; sound recording and reproducing equipment, equipment for recording and reproducing television images and sound, their parts and accessories - **26%** or 548 billion dollars;
- Mineral fuel, oil and products of their distillation; bituminous substances; mineral waxes - **13%** or \$ 267 billion;
- Ores, slag and ash - **8.75%** or \$ 180 billion;
- Nuclear reactors, boilers, equipment and mechanical devices; their parts - **8.68%** or \$ 178 billion;
- Optical, photographic, cinematographic, measuring, control, precision, medical or surgical instruments and apparatus; parts and accessories thereof - **5.48%** or \$ 112 billion;
- Ground transportation vehicles, other than railway or tram rolling stock, and their parts and accessories - **3.59%** or \$ 73 billion;
- Plastics and products from them - **3.46%** or \$ 71 billion;
- Copper and copper products - **2.36%** or \$ 48 billion;
- Organic chemicals - **2.21%** or \$ 45 billion;
- Oil seeds and fruits; other seeds, fruits and grains; medicinal plants and plants for technical purposes; straw and fodder - **2.18%** or \$ 44 billion (*General*

Administration of Customs of the People's Republic of China, 2021).

As the structure of imported goods shows, the PRC in 2020 mainly purchased goods with low added value.

5.2.2 International trade associations and organizations

Analyzing the priorities of China's foreign trade, in my opinion, it is necessary to point out the international trade associations in which this country participates, which gives preferential rights to the supply and purchase of goods and services in the framework of cooperation and movement of goods, services, labor and capital (depending on the degree of integration). PRC is a member of 56 different international and regional associations and organizations, including the WTO, ASEAN, APEC, SCO, etc. The main tasks of the PRC's membership in the WTO were:

- integration of the Chinese economy into the world economy;
- increasing the competitiveness of Chinese goods in world markets;
- attracting foreign direct investment in various sectors of the Chinese economy to create a modern industrial base, infrastructure, trade and services of an international level;
- application of WTO rules and regulations to resolve international trade disputes in the domestic market of the PRC and protect Chinese exports to third countries.

In recent years, the PRC has been conducting active bilateral and multilateral negotiations with a number of states on the recognition of the market status of the Chinese economy. As is known, upon accession to the WTO, the issue of granting such a status was postponed for 15 years from the moment of accession, however, at the bilateral level, the PRC insists on not applying this provision and is making tangible progress in this matter. In 2007, the full status of China's market economy was recognized by Norway, Zimbabwe, Syria, Switzerland, Cape Verde. China held regular rounds of negotiations with New Zealand, Australia and Iceland on the creation of free trade zones, etc. Since January 2005, China has provided preferential duty-free treatment for a range of goods from 25 least developed countries in Africa. This measure is aimed at further expanding imports from the countries of the African continent, stimulating Sino-African bilateral trade (*I. Rodionova, 2011*).

Thus, the PRC's foreign trade grew rapidly, and the PRC's accession to the WTO made it possible to further increase the growth rate of trade turnover. The PRC realizes its competitive advantages very profitably for itself. The impact of foreign trade on the country's economy is key. This is evidenced, among other things, by the growing indicator of the openness of the economy from year to year. The PRC buys technologies and raw materials, processing the latter, creates a huge amount of goods that are in demand both on the domestic and world markets. In the commodity structure of China's foreign trade, the export of machinery and equipment, including electronics and electrical products, is becoming increasingly important. During the period analyzed in this thesis, changes were noted both in the geographical and in the commodity structure of China's foreign trade. The country is diversifying its geographic structure of exports and imports, increasing trade with new partners. At the same time, the PRC has significantly improved its position in the world economy and international trade. The global financial and economic crisis of 2020 had the greatest impact on European countries and the United States, while the direct impact of the crisis on the Chinese economy and its financial sphere is not so significant. The country has the ability to minimize negative consequences and overcome the crisis more confidently than other countries. I consider it correct to believe that expanding domestic demand is a promising strategic course for the PRC to counter possible global financial crises. This policy will contribute to the long-term development of the PRC's economy. Also, the stabilization of external demand is of great importance for increasing employment, promoting the development of Chinese companies and expanding consumption in the country. According to forecasts, one should expect even greater rates of development of China's foreign trade - the basis of the country's economy and development. The industrial development of the PRC is an important prerequisite for the post-industrial development of the United States and other developed countries. In turn, the industrial development of the PRC is based on the American and European markets, technologies and investments, that is, it depends on their development, therefore, the well-being of the key partners of the PRC - the United States, Japan, South Korea and Germany - is an indispensable condition for this. Foreign trade relations between these countries are so great that the PRC and its key partners can only come out of the current and future crises together.

In the next subsection of the study, the main factors influencing the foreign trade of the PRC will be considered, as well as a search for development barriers and risks in foreign trade.

5.3 The main factors influencing the foreign trade of the PRC

In the previous sections, the dynamics and structure of export and import foreign trade operations of the PRC were considered. I agree with Han Chao, who believes that the development of China's foreign trade takes place within the framework of the Heckscher-Ohlin theory, which is commonly called the theory of the ratio of factors of production (*Han Chao, 2017*). This theory is based on the views of D. Ricardo, his concept of comparative advantage, which explains foreign trade through the theory of factors of production (*D. Ricardo, 1817*).

Thus, each state has at its disposal the factors of production in varying degrees of saturation. One country may have a relatively surplus amount of capital, another may have a surplus of labor resources, and a third is characterized by a large amount of free land resources. The essence of the Heckscher-Ohlin theory is that each state should specialize in the production of products for which the factors of production at its disposal are needed to a greater extent. A surplus of resources always means a low price. That is, if the state has a lot of labor resources, then it, first of all, must develop labor-intensive industries. In the case of a large number of land plots, the state, as a rule, should specialize in agriculture (agricultural production) (*S. Ryuzo, 1964*).

It is in this context that the vector of development of China's foreign trade becomes understandable, in which there is an excessive amount of labor resources - cheap labor has allowed China to become a world production site. In addition, as noted earlier, the Government of the PRC made a great contribution by taking measures to create an investment attractiveness of the Chinese economy, to benefit from the climatic features of the territory (the creation and operation of special economic zones). All of the above together led to the fact that the production sites of many foreign companies were located in the PRC: nearly 400 of the world's top 500 transnational corporations invested free capital in the Chinese economy, which led to the possibility of developing foreign trade (*S.Yu. Murtuzaliev, D.A. Ivanov, 2018*).

Thus, the PRC, using the principles of the "Heckscher-Ohlin theory" and the economic concept of "comparative advantage", is following a forward course. The period of the beginning of reforms and the opening up of the economy transformed the PRC's position in the world division of labor, in turn, demonstrating changes in the dynamics of the structure of Chinese exports. Table 2 provides a comparative analysis of the division of the labor

market.

Table 2: Comparative analysis of the labor division market. Leadership in global export markets.

№	Country	Exported goods
1.	Japan	<ul style="list-style-type: none">• Vehicles, automobiles, spare parts, and accessories.• Products from the category of electronic integrated circuits, household appliances, communications.
2.	Germany	<ul style="list-style-type: none">• Vehicles, automobiles, spare parts, and accessories.• Medicines.
3.	USA	<ul style="list-style-type: none">• Vehicles, automobiles, spare parts, and accessories.• Aircrafts.
4.	Russia	<ul style="list-style-type: none">• Commodities: oil and petroleum products and natural gas.
5.	PRC	<ul style="list-style-type: none">• Computing equipment, spare parts for it; liquid crystal devices, electronic integrated circuits, and microcircuits.• Goods related to apparatus and devices for radiotelephony, television, and radio broadcasting.• Technological, power, and other equipment, pumps, machine tools, etc.

Source: *World Bank*

From Table 2, we can conclude about the differences in global specialization, which occurs along with the deepening gap between developing and developed countries. This gap can be explained by the different levels of use of the possibilities of scientific and

technological progress and post-industrial development. The transition of a country by specialization from one category to another requires a lot of resources and efforts, however, without increased government regulation, such a transition may become completely impossible.

It can be noted that the above differences between developing and developed countries in the field of foreign trade are also due to the peculiarities of the state of competition and competitiveness in modern conditions of world economic development. I agree with Rory Horner that countries generally adhere to three concepts of global development, based in each case on their competitive advantages:

- the concept of intellectual leadership (USA, partially EU countries, Japan, newly industrialized countries);
- the concept of the production of cheap goods (PRC);
- the concept of raw materials supply (RF).

In this regard, the following main factors can be identified that affect the development of China's foreign trade in 2020.

5.3.1 Development of the international division of labor and internationalization of production

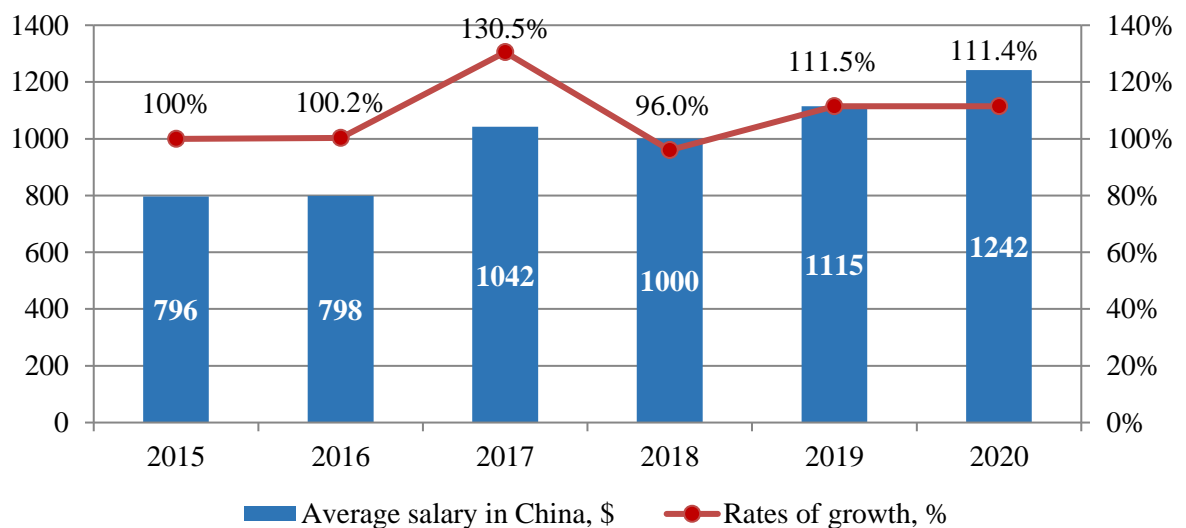
Consider the first factor, such as the development of the international division of labor and the internationalization of production.

The time of reform and opening up coincided with the movement of labor-intensive industries from developed countries to emerging economies, where there is a cheap level of labor costs and a lack of funds for the development of heavy manufacturing industries. In the same period, the PRC government is implementing measures of an intensive economic strategy for the development of coastal areas in order to expand participation in the international division of labor and international exchange, to intensively develop an economy oriented towards the international market. This factor influences the development of foreign trade in order to intensively develop the economic strategy of the economy of the export-type of labor-intensive industries (*Yang Yao, 2012*).

In the initial period, as mentioned above, the PRC was a state with surplus labor resources and cheap labor costs, which made it possible to develop labor-intensive industries and attract foreign investment.

Subsequently, over the next 30 years since the beginning of the implementation of the policy of reform and opening up, the PRC received huge profits from exports due to the factor of cheap labor. But in recent years this factor has been lost (Figure 7).

Figure 7: Growth of the average monthly wage in the PRC for 2015-2020



Source: *Average salary in China. Statistical data*

Figure 7 shows the steady growth in average wages. Growth acceleration is observed in post-crisis periods. A feature of public administration of the size of wages is the division of the minimum wage by city.

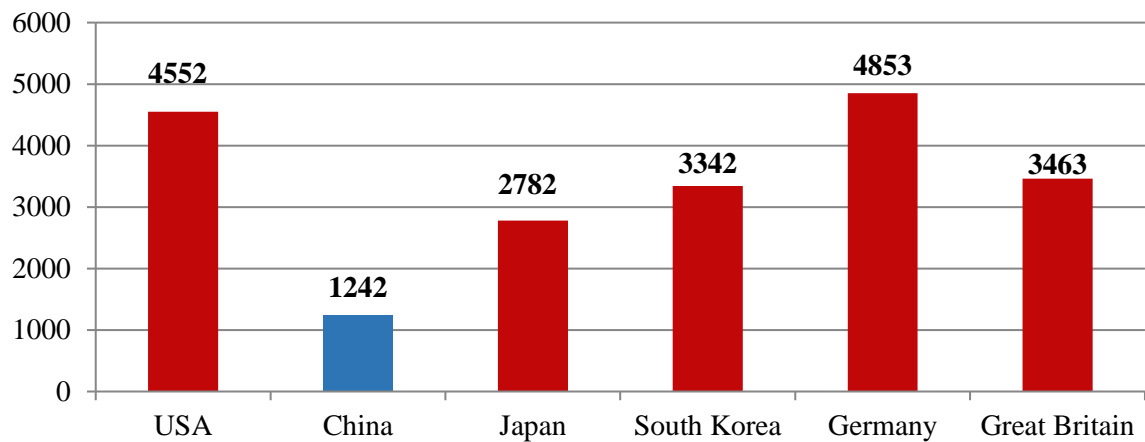
So, in 2020, the following minimum wages were established in the following cities:

- the **highest** minimum wage: Shanghai – 2 480 yuan (\$ 369.51), Shenzhen - 2 200 yuan (\$ 322.39), Beijing - 2200 yuan (\$ 322.39);
- the **lowest** minimum wage: Liaoning - 1120 yuan (\$ 166.88), Qinghai - 1500 yuan (\$ 212.21); Tibet - 1650 yuan (\$ 233.43) (A. Tarasov, 2021).

For the domestic economy of the PRC, this factor can be called negative, since the cost of labor has been underestimated for a long time. Then, for 10 years, the cost of the Chinese labor force turned into a period of a sharp rise, when low wages could no longer attract workers.

The average wage in the PRC for 2021 is even lower than the average wage of the country's main trading partners, but its rapid growth may deprive the PRC of its competitive advantage (Figure 8).

Figure 8: Comparison of the average monthly wage at the end of 2020 - beginning of 2021 (U.S. dollars)



Source: World Trade Organization (WTO) Data

The increase in the cost of labor in China is also associated with demographic factors, among which the main one in this context is the aging of the Chinese population. According to the statistics of the Sixth National Population Census, according to experts, the aging Chinese make up almost 9% of the total population, while according to forecasts, this figure will reach 30% by 2050 (H. Yuting, 2020). A similar situation is not observed in any country in the world, and it is very negative that the aging of the population is taking place against the background of a very high population of the PRC.

In addition, inflation is driving the rise in labor costs. Thus, as a result of the increased openness of the economy, the level of wages in the PRC is gradually beginning to reach international standards. Due to the above factors influencing the cost of labor, the development of foreign trade with the help of cheap labor becomes impossible, therefore, there is a need to improve the quality and efficiency of labor, the need to transform the economic model of development.

5.3.2 China's accession to the WTO

Consider the second factor, such as China's accession to the WTO.

The entry of any state into the WTO should stimulate the development of foreign trade, which enhances competition in foreign economic activity. The ongoing competition between Chinese and foreign manufacturers is being conducted to capture important

segments of the domestic market. Gradually, foreign enterprises are allowed to carry out import and export operations, and the competition between subjects of foreign economic activity is becoming more and more fierce. Thus, the export of labor-intensive products from the PRC takes place in conditions of harsh competitive relations from the southeastern states, whose products are characterized by lower costs. The process of China's accession to the WTO has increased the opportunities for expanding the export of labor-intensive products of Chinese manufacturers, who receive the same foreign trade conditions in this area.

For the successful development of foreign trade, it seems expedient to maintain correspondence between the levels of economic development of the PRC and the ongoing reforms of the Chinese government, while creating a positive image of the country in the world economic system. It is also necessary to revise the key strategic goals for the development of foreign trade. At the first stages, the key goal was to increase the possibility of obtaining foreign exchange by exporting its products; subsequently, special attention should be paid to increasing the competitiveness and efficiency of the national economy.

Since joining the WTO, Chinese export-oriented enterprises have used the most-favored-nation and the exemption from the reduction of export customs duties. That is, accession to the WTO allowed the PRC to receive more benefits and opportunities from exports. The PRC government is implementing measures to improve a new open economic system, which facilitates trade facilitation and liberalization, including:

- increasing openness in the service sector;
- simplification of import control procedures;
- assistance in simplifying customs procedures;
- promoting cross-border settlements in yuan;
- attracting foreign investment (*V. Perskaya, 2021*).

After joining the WTO, China continues to assume various obligations, and I act as a major developing trading power. Occurred:

- reduction of the overall level of Chinese customs duties from 15.3% to 9.8%;
- reduction of subsidies for the export of agricultural products;
- abolition of import quotas;
- abolition of special control over tenders;
- providing access to service establishments;
- introduction of zero customs duties for products that are imported from less

developed countries (*Petros C. Mavroidis, André Sapir, 2021*).

Thus, the positive impact of China's accession to the WTO on the development of foreign trade is beyond doubt.

5.3.3 Foreign exchange policy of the state

The third factor influencing the development of foreign trade of the PRC is the foreign exchange policy of the state.

The foreign exchange policy of the state stimulates foreign trade by regulating the exchange rate of the yuan, and the essence of its regulation is to internationalize the Chinese yuan and transfer it to the category of widely used world reserve currencies along with the U.S. dollar and, possibly, to replace it. In July 2005, the RMB exchange rate reform began. Over the five years, the transformations have positively influenced the real sector of the country's economy, created favorable conditions for macroeconomic regulation, played an important role in responding to important changes taking place both in the country and abroad, at the same time, the intended results were achieved (*H. Zengping, 2019*).

The reform contributed to:

- increasing the technological level of companies;
- strengthening the innovative potential;
- strengthening competitiveness (*Evelyn Cheng, 2021*).

This was necessary in order for the export sector of the economy to maintain a relatively high competitiveness. The floating exchange rate is the driving force and pressure to increase the level of production and the degree of openness to the outside world, contributes to the optimization of the export structure and changes in the model of foreign trade development.

This, in turn, has a beneficial effect on changing the model of economic development and achieving comprehensive sustainable development. At the same time, enterprises are actively adapting to a floating exchange rate, increasing their ability to prevent risks caused by exchange rate fluctuations. Thus, the foreign exchange market begins to develop. The measures taken have led to the formation of the principles of balancing the world economy.

In addition to the exchange rate reform, the process of internationalization of the RMB provides an impact on the growth of total foreign trade:

- in 1998, the total volume of foreign trade was \$ 100 billion;

- in 2001 more than \$ 500 billion;
- in 2015 was \$ 3 958.64 billion;
- in 2020 was \$ 4 650 billion (*China publishes foreign trade statistics for 2020, 2021*).

Conversely, the implementation of the internationalization of the RMB promotes the development of foreign trade:

- internationalization of the RMB promotes trade relations with other countries and an increase in the share of foreign trade between the PRC and these countries.
- reducing the risk of changes in the exchange rate in the process of foreign trade;
- there is a reduction in transaction costs.

Currently, transnational corporations play an important role in foreign trade, using the yuan in international trade to simplify formalities, improve the efficiency of cross-border accounts, increase the level of internationalization of Chinese enterprises, and participate in international competition at a higher level.

5.3.4 Impact of possible international financial crises

The fourth factor is the impact of possible international financial crises.

The impact of global financial crises on the development of China's foreign trade is due to the fact that a decrease in the activity of partner countries in trade activities reduces the possibility of maintaining and expanding the volume of cooperation. So, after the crisis in 2008, the volume of China's foreign trade fell to its lowest level: the volume of exports of goods and services fell by 22.6%.

In connection with the crises, there are also various problems of the need to strengthen the exchange rate of the Chinese currency, since an increase in the exchange rate negatively affects the growth of profits that Chinese enterprises can receive from foreign trade operations. The impact of the yuan exchange rate is associated with a negative impact on the export of traditional products, since first of all, the export of products of labor-intensive industries is weakened.

Also, the rise in the yuan exchange rate is a barrier to the inflow of foreign investment, which entails a decrease in reinvestment received by foreign enterprises and a

halt in the process of localization of production. In addition, a decrease in the export of goods of labor-intensive industries and a decrease in the volume of foreign direct investment creates the problem of an increase in unemployment among the population. All of the above, undoubtedly, has an impact on foreign trade.

5.3.5 Low level of trade in services in the PRC

The fifth factor is the low level of trade in services in the PRC.

This factor is a weak link in a country with a large volume of foreign trade. Although the PRC demonstrates high indicators in the total volume of foreign trade, the opportunity to become a leader in foreign economic activity is limited by the low level of services in the total volume of exports.

Globally, trade in services accounts for about 20% of the total volume of international trade, and in developed countries this ratio is even higher, but in China it is only 9-10%. The weakness of trade in services in the PRC manifests itself not only in scale, but also in specific content. According to the Ministry of Commerce of the PRC, traditional services such as tourism and transport account for a significant share of Chinese trade in services, accounting for 56% of the total; in trade in goods, the PRC has a large surplus, and in the service sector - a significant surplus, which in 2020 amounted to approximately 110 billion yuan (*European Commission, 2021*).

5.3.6 The importance of the innovation factor and the possibility of producing products with low added value

The last sixth factor influencing the development of China's foreign trade is the importance of the innovation factor and the possibility of producing products with low added value.

So, at the moment, in the developed world powers, up to 75-90% of the increase in gross domestic product is provided through the growth and development of the innovation sphere, in the PRC this figure reaches only 15%, which negatively affects the overall efficiency of the country. According to experts' forecasts, as a result of the innovation lag, the lost profit is estimated at \$ 1214 billion per year (*Han Chao, 2017*).

Research by analytical agencies indicates that in the PRC, given the existing standard of living, which characterizes the average per capita GDP, the cost of research activities should be at the level of 1.7% of GDP, which corresponds to the average world trends. Over

the years, the PRC indicator was below the trend line, which indicated a significant underfunding of this field of activity, which, as a result, had a negative impact on the rates of macroeconomic growth and the standard of living of the population. But in 2021, the PRC government announced that, as part of the next five-year development plan for 2021-2025, it will significantly increase the cost of research and technological research (R&D). Annual growth of government spending for these purposes will amount to 7%. In 2020, the PRC government spending on R&D reached 2.44 trillion. yuan (\$ 378 billion), accounting for a share of 2.4% of GDP. In addition, the government will increase spending on basic research by 10.6%. Among the promising scientific and technological areas outlined in the five-year plan of the PRC government are such as artificial intelligence, quantum research, research on human brain activity and cognitive abilities, genetic research and biotechnology, clinical medicine, healthcare, deep space exploration, polar exploration, deep sea space exploration of the world's oceans (*E. Khvostik, 2021*).

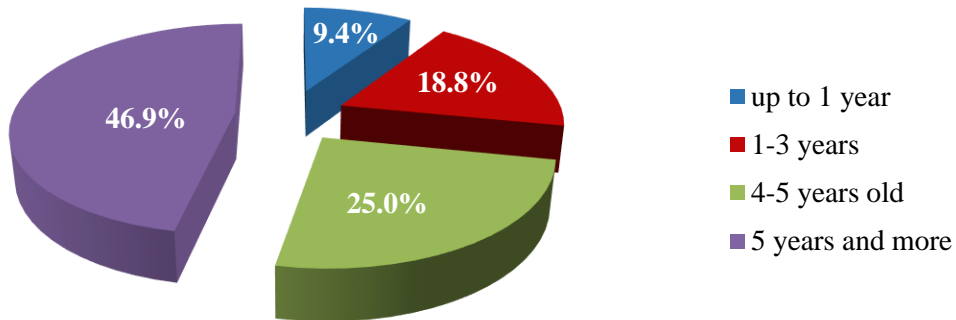
Thus, it should be noted that throughout the entire process of the development of foreign trade, the PRC had certain problems in the field of foreign trade, which, as a rule, were solved with the help of scientifically based effective state regulation of foreign economic activity. For the intensive development of foreign trade as a key factor in economic growth, Chinese enterprises will improve the innovativeness of production and their products in the future in order to increase profitability, technical level and innovative potential.

5.3.7 Survey of participants in foreign economic activity

Within the framework of this study, a survey was conducted among participants in foreign economic activity - representatives of Chinese companies. A total of 32 foreign economic activity participants were interviewed. The survey was conducted using the questionnaire provided in Appendix A. The questionnaire was sent to the email addresses of companies with a request to answer a number of questions.

Most of the respondents represented companies that have been working in the field of foreign economic activity for a long time (Figure 9).

Figure 9: Structure of respondents by time of work in the foreign trade sector, (%)

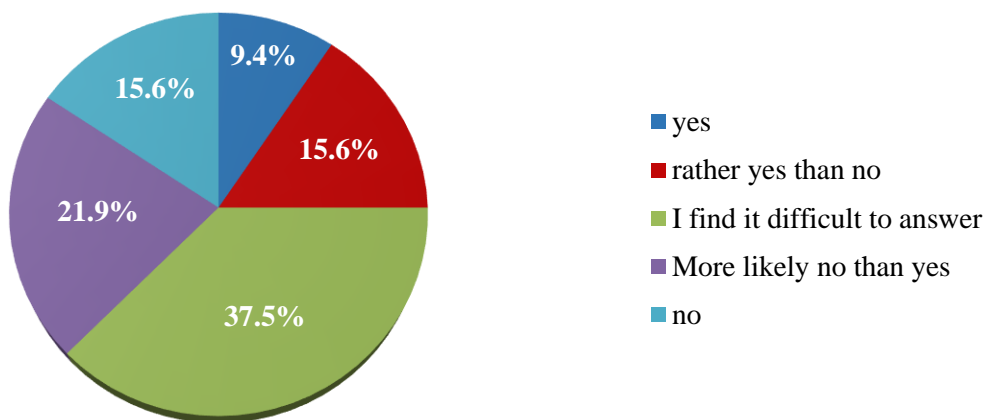


Source: based on the results of the survey

On the second question "What are the main foreign trade operations carried out by your company?" - 84% of respondents represent companies that carry out both import and export operations, that is, the Chinese companies that participated in the survey do not have a narrow specialization in any particular type of foreign trade operations.

To the question "Do you experience difficulties in the implementation of foreign trade operations?" the answers presented in Figure 10 were received.

Figure 10: Results of answers to the question "Do you experience difficulties in the implementation of foreign trade operations?"



Source: based on the results of the survey

25% of respondents or representatives of 8 out of 32 companies experience some difficulties in the implementation of foreign trade operations. As a rule, these problems are associated with transport logistics, the difficulties of customs clearance both in the PRC and in countries - trading partners. But overall, it can be argued that Chinese entrepreneurs operate in an environment conducive to development and foreign trade.

The following assessment results were also obtained (Table 3).

Table 3: The results of assessing the negative impact of external factors on the development of China's foreign trade

№	Statement	Average score across 32 responses
1.	Modern processes of the international division of labor and the internationalization of production negatively affect the foreign trade of the PRC	2.6
2.	The growth in the average wage of Chinese workers negatively affects the competitiveness of Chinese goods in the world market	3.8
3.	The foreign exchange policy of the PRC government negatively affects the efficiency of foreign trade	2.1
4.	World crises negatively affect the development of China's foreign trade	3.6
5.	Trade wars negatively affect the development of China's foreign trade	4.1
6.	The low level of spending on innovative projects negatively affects the structure, quality, and volumes of foreign trade	2.6

Source: based on the results of the survey

According to the results of the assessment, the highest points were scored by such factors as an increase in labor costs and an increase in the cost of goods and services produced - 3.8 points, as well as trade wars with various developed countries - 4.1 points.

The respondents also identified the following directions for the development of China's foreign trade:

- unification of requirements for customs and tax clearance with the main partners for 2020 and developing countries;
- participation in international, regional trade unions, associations to create conditions for favorable cooperation within these organizations;
- improving the quality (accuracy) of forecasting and analyzing trends in foreign markets in order to predict and eliminate possible risks;
- to separate the political and economic goals and objectives of the partner states;
- continue to improve the processes of customs clearance, transport logistics, etc.

The results and conclusions of the survey will be discussed in more detail in the next section of the study.

5.4 Conclusion based on the analysis of trends in the development of foreign trade of the PRC

Thus, this section of the study analyzes the development of the economy and foreign trade of the PRC. The main factors influencing the development of foreign trade are considered and analyzed. A SWOT analysis of the competitiveness of the Chinese economy was compiled, the results of which, in general, are applicable to the field of foreign trade. It can be concluded that analytical work on China's foreign trade is carried out at a high level both on the part of the scientific community and on the part of government agencies, which leads to early identification of new barriers to the development of foreign trade and the prompt development of measures to eliminate them.

The next section of the work will provide detailed conclusions based on the results of the study, highlight the current problems of the development of foreign trade of the PRC, and also develop recommendations for increasing the foreign trade turnover of the PRC.

6 Results and Discussion

6.1 Conclusions based on the results of the study

In the course of the study, an alternative hypothesis H_2 was confirmed, namely, that participants in foreign economic activity do not experience problems when performing foreign trade operations, but there are factors that hinder the development of foreign trade. This conclusion is based on the results of searching for answers to research questions:

- **What research has been done on China's foreign trade in the past five years?** In the course of the literature review, a large number of scientific studies were revealed on foreign trade, its elements, the influence of certain factors and events on the rate of development of China's foreign trade, etc. The great scientific interest is due to the leadership of Chinese foreign trade in world markets, the great connection between the PRC's foreign trade and the indicators of its Gross Domestic Product (GDP). Today, the economies of most countries in the world are closely connected with the Chinese economy, in general, and its foreign trade, in particular. For foreign trade partner countries, the stable development of the PRC is important, since this affects the volume of consumption of resources, energy, etc.

- **How effective can the methods used in the study of China's foreign trade be considered?** Researchers of China's foreign trade, in their works, use a wide range of methods and models for analysis, assessment, and forecasting. As practice shows, most predictive methods give inaccurate results. This is due to a huge number of factors affecting the real foreign trade turnover, which, often, are non-market, unpredictable in nature. An attempt to make a forecast of the development of Chinese foreign trade turnover will be undertaken in this study.

- **How has China's foreign trade developed in recent years?** It was determined that the volume of foreign trade of the PRC in recent years has shown a stable growth in both import and export operations. A slight decrease in import transactions in monetary terms is due to a decrease in the cost of raw materials on world markets. For example, during crisis periods, the cost of crude oil, metals and other raw materials purchased by Chinese companies fell. It was determined that the share of exports of high-tech equipment in the structure of exports continues to increase. So, if at the initial stages of

the development of Chinese foreign trade, such goods as clothing, furniture, metal prevailed in the structure of exports, then by the time of the study, high shares began to belong to such goods as production equipment, nuclear reactors, etc. That is, Chinese manufacturers began to compete in world markets with such traditional countries as manufacturers of high-tech products such as Germany, the USA, and Japan.

It was determined that the high level of competitiveness of Chinese products in world markets was provided by a number of factors:

- General state policy aimed at the development of foreign trade through the creation of favorable conditions for increasing the competitiveness of Chinese manufacturers. The foreign trade openness policy is annually updated taking into account new challenges identified, the emergence of new strategic opportunities, etc.;
- Accession to both the WTO and a number of regional trade, economic and political associations, the development of bilateral economic and financial cooperation. The integration of the PRC into world trade, assistance to developing countries, the development of trade routes and channels forms a stable layer of consumers of Chinese products, both from national companies of other states and from the number of companies belonging to transnational groups;
- Low labor cost. This factor of the competitiveness of Chinese products remained in comparison with other developed countries but was lost in comparison with a number of developing countries. For example, in India, Thailand, Vietnam, African countries, Central Asia and Mongolia, labor is much cheaper than in China. Currently, the loss of this competitive advantage over developing countries is being replaced by the level of automation of Chinese manufacturing companies, high production volumes, well-established sales channels for Chinese products in world markets, as well as the availability of capital from Chinese entrepreneurs;
- RMB internationalization policy. This policy is visible in those countries that are closely intertwined with the Chinese economy, which is dominated by Chinese companies. For example, in a number of African countries, Chinese companies perform most of the construction, production, and various services. In their activities, they mainly use imported Chinese goods,

equipment, materials, and raw materials. And transactions are usually made in RMB. The transition to mutual settlements in this currency makes trading operations more independent from fluctuations in world currencies (dollar and euro). Also, the Government of the PRC has reached agreements with a number of countries on the implementation of trade in national currencies of participants in foreign economic activity.

The main partner countries-consumers of Chinese products are the USA, Germany, South Korea, and Japan. Such countries as Vietnam and Hong Kong are physically incapable of consuming such a volume of products (in the structure of exports). Such states either carry out transit operations or have relocated Chinese manufacturing facilities. The policy of transferring Chinese production facilities to other countries is due to the search for inexpensive labor and maintaining the competitive advantages that the PRC had 10 years ago and earlier.

• **What problems (barriers) exist in the development of China's foreign trade?** This research question was also answered. The answers were obtained during a survey of Chinese participants in foreign trade activities, a statistical analysis of the results of China's foreign trade in recent years.

The existing problems in the development of foreign trade cannot be called critical and completely hindering foreign trade turnover. This conclusion was made based on the results of the survey. That is, there are problems, but they are removable and, in some cases, were predictable.

All identified problems of the development of foreign trade of the PRC were divided by me into two groups:

1. Problems of a globally difficult-to-regulate nature:

- The protracted nature of the global crisis caused by a pandemic. In 2020-2021, the states of the world had reserves to mitigate the negative impact of the pandemic - measures were taken to support the solvency and well-being of the population, support was provided to national companies and financial institutions. With the emergence of new aggressive cliches of the COVID virus and a return to strict quarantine measures, most countries in the world will no longer have enough reserves to maintain the previously achieved production indicators and the well-being of the population. This will lead to

a decrease in the consumer ability of the population and companies, freezing of investment projects, country defaults, etc. The demand not only for Chinese products, but also for products in general on world markets will begin to decline;

- Trade wars with political roots. In my opinion, trade wars will become more frequent. States, creating more favorable conditions for their own companies, will use various political reasons for the non-market decline in the competitiveness of Chinese companies. The dominance of Chinese companies in many markets and the strengthening of competitive positions are the reason for concern on the part of traditional leaders of world markets: the USA, Japan, and EU countries. The basis of the strategy of the most developed powers is to weaken the economy of the PRC by introducing various restrictions on Chinese companies and Chinese products. The reasons for the imposition of restrictions and sanctions can be both political (the position of the PRC in relation to national minorities, regarding the status of Hong Kong, the implementation of military exercises, etc.), and economic (theft of intellectual property, non-market measures of state support, etc.).

2. Internal regulated issues:

- The rise in the cost of labor in the PRC. Over the past years, the average wage of a worker in the PRC, as well as the amount of the minimum monthly wage, has been growing. It does not exceed the indicators for developed countries, but exceeds the indicators for developing countries;
- Population aging and loss of competitive advantage in the number of the country's working population. The burden on the budget for the maintenance of the aging population is increasing, which reduces the financial possibilities for the implementation of new trade and economic projects;
- The presence of certain operational and transport and logistics problems between Chinese companies and companies from other countries. A number of states are creating a protectionist system of checks on the development of trade relations with Chinese manufacturers: customs clearance, taxation, quotas, licensing, etc.;
- Low rates of development of foreign trade in services;
- Low growth rates of investment in innovation.

The identified barriers to the development of foreign trade of the PRC are confirmed by other studies that were previously presented in the framework of this work.

- **How do the pandemic and other crisis periods affect the development of China's foreign trade?** It was determined that the PRC goes through crises quite successfully in the short-term (up to a year) and medium-term (up to 3 years) periods. Accordingly, the crisis of 2020, when most countries of the world announced a lockdown, the PRC passed with the least losses. The forecasts for the recovery of the Chinese economy turned out to be close to real values - the Chinese economy and foreign trade quickly recovered their growth rates. At the same time, it should be noted that a real decline in the indicators of the development of GDP and foreign trade turnover has not been recorded even in the conditions of the crisis.

- **What factors influence China's foreign trade?**

The following main factors influencing the development of the PRC economy were identified:

- modern processes of the international division of labor and the internationalization of production;
- an increase in the average wage of Chinese workers;
- monetary policy of the PRC government;
- world crises;
- trade wars and the level of spending on innovative projects.

For each of these factors, the analysis of their influence was carried out both with the involvement of participants in foreign economic activity, and according to statistical and other data sources.

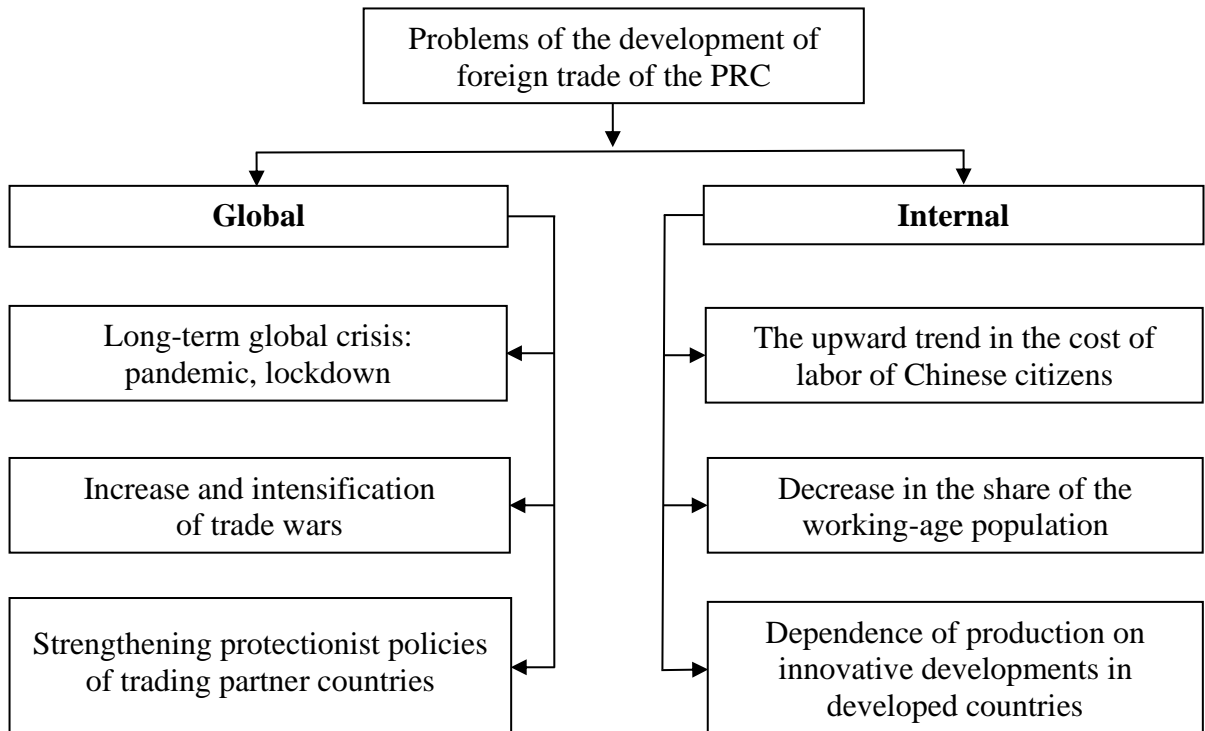
Thus, in this subsection, I summarize the main findings of the study, determine the confirmed research hypothesis, and also disclose the answers to research questions. The main barriers to development are highlighted. Measures to minimize the negative impact of a number of problems in the development of foreign trade will have a positive effect on the volume and structure of China's foreign trade turnover. In the next subsection, we will consider in more detail my proposals for eliminating the identified barriers to the development of foreign trade of the studied state.

6.2 The main problems of China's foreign trade and recommendations for their solution

6.2.1 Problems of the development of China's foreign trade

Earlier, the main problems of foreign trade of the PRC, identified in the course of research work, were noted. As noted, scientific research, analytical work on the peculiarities of the development of foreign trade enables the Government of the PRC to respond as quickly as possible to the strengthening of the influence of negative factors. The problems identified in the course of the study, as well as the problems identified in the studies of other modern authors, are schematically presented in Table 4.

Table 4: The main problems of the development of foreign trade of the PRC



Source: based on the results of the study

Each of the listed problems of the development of foreign trade of the PRC is not a secret for the Government of the PRC, and already in 2021 a number of decisions were adopted, which, in the opinion of the developers of the proposals, will reduce the risks in the sphere of foreign trade of the country.

6.2.2 Recommendations for solving problems of the development of the PRC's foreign trade

This research study proposes the author's vision of solving the identified problems.

6.2.2.1 Recommendations on the internal factors of foreign trade development

Let's start with the recommendations from internal factors in the development of foreign trade:

1. The upward trend in the cost of labor of Chinese citizens.

The PRC government plays a key role in all spheres of the country's economy and society. The increase in the cost of wages occurred with the aim of increasing domestic demand. This experience was adopted from South Korea, which, in order to maintain the dynamics of GDP growth, set itself the goal of increasing the welfare and ability to pay of the population. As a result, domestic consumption began to grow, becoming one of the tools for overcoming the recession stage on the economic growth curve. That is, the PRC in the medium and long term will follow the policy of increasing the minimum wage. The share of labor costs in the cost of goods and services will grow from year to year, which will negatively affect the competitiveness of Chinese products in world markets. But the advantages from the growth of domestic consumption (the PRC is the largest state in terms of population) are higher than the disadvantages that arise in foreign trade.

In order to minimize the negative impact of the chosen development strategy of the state in the field of wages, the Government of the PRC took the following steps:

- cost reduction due to production automation, equipping with the latest production equipment;
- attracting foreign labor;
- the withdrawal of labor-intensive industries to countries where the cost of labor of workers remains low.

Amid the pandemic and reduced labor demand, Chinese companies have been able to contain unemployment by introducing part-time work and restrictions on foreign labor. With the economic recovery in 2021, the situation has improved, and the cost of wages has continued to rise.

I propose to improve the migration policy of the PRC in order to attract, according

to the experience of South Korea, cheaper foreign labor (India, countries of East and Central Asia). The current migration policy of the PRC cannot be called truly mature and consistent for the following reasons:

- There is **no special body** responsible for the implementation of migration policy. Currently, these functions are divided between departments, such as: The Ministry of Public Security, in charge of the entry and exit of foreigners; The Ministry of Labor and Social Security, which deals with social security and the employment of foreigners; Bureau of Foreign Specialists, which implements the policy of attracting highly qualified specialists to the PRC. In addition, from time to time, the Overseas Chinese Affairs Office intervenes in the implementation of migration policy; Ministry of Commerce; Ministry of Foreign Affairs; State Committee for Development and Reforms, as well as a number of other departments. Despite the well-established interaction, these bodies often duplicate administrative functions of each other, which negatively affects the implementation of migration policies;
- **Lack of a single law** that would regulate all issues of migration policy and determine the vector of development of the country's migration policy. As a result, the provinces of the country independently establish the provisions of the migration legislation. This should be considered as the main reason why migration policies differ significantly in different provinces of the PRC. As an example, we can cite the difference between the situation in Guangzhou and the neighboring Foshan region. While in the first one there are extremely strict rules in relation to illegal migrants (up to three months' imprisonment), in the second one the violators are treated quite loyally.

These facts, obviously, indicate the absence of a single space for the implementation of migration policy in the PRC. It seems that it is exactly the factor of the lack of a common space in the implementation of migration policy that prevents a significant increase in the migration flow to the PRC. This important factor of production could contribute to reducing the cost of goods manufactured in the PRC.

2. Decrease in the share of the working-age population.

Leadership in terms of the number of working-age population has always been a competitive advantage that determines both economic growth and the growth of China's

foreign trade turnover. Today, the prospects for economic growth in the long term largely depend on the dynamics of population aging. An extraordinary increase in the workload of elderly is fraught with a shortage of labor resources, which in turn will become another factor in the growth of labor costs.

The proportion of the elderly in China will grow, while the proportion of young people will decline. In the coming years, the country will lose 72 million pairs of workers. It is the demographic situation that can play the role of a "ticking time bomb" for the Chinese economy, Liang Jianzhang, professor of applied economics at Peking University, told *The New York Times* (*L. Jianzhang, 2021*). If events develop according to an unfavorable scenario, the PRC will not have time to overtake the United States in terms of nominal GDP, which will negatively affect the rate of development of foreign trade. But even if this happens, then China will not retain its leadership for a long time. From 2027, demographers generally predict the beginning of a decline in the population of the PRC, which threatens global economic growth.

The global liberal economy has proven to be an effective remedy against the "Malthusian trap" of overpopulation. But by negating demographic dynamics, it undermines the mechanics of its own growth. The danger of the Chinese case is that the rapid growth has not yet made wide social strata really wealthy there; it is still a country with a predominantly poor population. A halt in growth rates in such a country is fraught with the most serious social upheavals.

The PRC has taken a number of steps in solving this problem. For example, it canceled strict restrictions on the birth of children. I propose to supplement the measures to correct the demographic problem of the PRC by:

- the introduction of a childbirth allowance;
- expanding state support for large families;
- promoting family values.

3. The dependence of production on innovative developments in developed countries.

Until now, the PRC has not got rid of its dependence on the innovative developments of Western states. In previous years, the lag was reduced due to the import of new technologies into the country - the opening of production facilities of leading manufacturers of electronic equipment, cars, etc. But states such as the United States and Japan, possessing

powerful scientific and innovative potential, are leading in this area. The innovation life cycle has become much shorter than several decades ago, and the PRC does not have the necessary resources in this area. In this respect, Chinese companies depend on research and production centers in developed foreign countries.

For 2020, the leaders of the innovation ranking were Switzerland, Sweden, the USA, and the United Kingdom. They have been in the top five for the past three years. In 2021, South Korea entered the top five of the Global Innovation Index for the first time, and four other Asian economies were included in the top 15 economies: Singapore (8), China (12), Japan (13) and Hong Kong, PRC (14) (*Global Innovation Index, 2021*). The increase in the PRC index was achieved due to the fulfillment of tasks for the five-year plan:

- an increase in R&D spending to 2.5% of national GDP;
- an increase in registered patents up to 12 per 10 thousand people;
- the return of knowledge-intensive industries in the country's economic growth is at least 60%.

China's main technological interests include biotechnology, artificial intelligence, quantum calculus, robotics, and blockchain.

I propose to expand government support for the development of innovations in the following areas:

- development of the venture capital market;
- scientific research in the field of medicine and pharmacology;
- development of fundamental science. Only by relying on fundamental research, the PRC will be able to develop nuclear and space industries and nanotechnology on the basis of higher educational institutions.

Thus, the issues of the development of foreign trade are closely related to the general issues of the development of the PRC's economy. The more competitive the country's economy and the more stable the rate of economic growth, the more active Chinese producers of goods and services will be in world markets.

6.2.2.2 Recommendations on the global factors of foreign trade development

Consider the global problems of foreign trade development faced by the PRC.

1. Long-term global crisis: pandemic, lockdown.

The COVID-19 pandemic that struck the world has become a difficult test for many countries and has affected all aspects of their lives, including the economy. The PRC, which has become one of the leaders of the world economy during the years of reforms and globalization and was the first to be hit by a pandemic, is making tremendous efforts to overcome its negative consequences and find ways to fulfill the plans to achieve the tactical and strategic goals of the country's development. This is reflected in the foreign and domestic policies of the country's leadership, which actively and purposefully uses the coronavirus factor to maintain the won positions, move forward and strengthen the influence of the PRC in the world. As shown in the practical part of the thesis, the PRC managed to avoid deep negative consequences for the national economy. The PRC achieved this by introducing fiscal and monetary support measures, and the pandemic itself raised the question of the need to revise the economic growth model that was formed in the pre-coronavirus era, to reduce its dependence on foreign markets and large-scale investments in fixed assets. In the context of a pandemic, the PRC was able to fully manifest itself as a global responsible power, which supplemented and supported the idea of building a “community of the destiny of mankind” with the idea of forming a “community of common health for mankind” based on strengthening international cooperation in this area. After the end of the pandemic, one can expect a further strengthening of the PRC's position and its influence in the world.

The internal market is a kind of insurance in the worst-case scenario of the world economy. But at the same time, measures are needed to maintain the level of China's foreign trade with other countries. In the context of a protracted crisis, companies from foreign countries will no longer be able to receive government support measures, since the resources of many countries were exhausted by the end of 2020 - the beginning of 2021. I propose the following measures to ensure additional demand for Chinese products and services:

- opening of credit programs to support foreign companies with long-term growth potential;
- subsidizing Chinese entrepreneurs who set up companies in foreign countries;
- investments in large projects abroad: construction, processing, production.

2. Increase and intensification of trade wars.

Trade wars harm both the warring parties (the state and the private sector) and the growth rate of world trade. The main reason for allowing trade wars, declaring sanctions and

setting quotas, increased customs duties, unilaterally in violation of international trade law, is the weakening of the WTO's role in the international arena.

I believe that the PRC cannot independently influence the situation in the world. It is necessary to unite with the EU countries and Russia to restore the force of international legislation, including in the field of foreign trade.

3. Strengthening the protectionist policy of trading partner countries.

Many states, countering Chinese expansion, impose restrictions on the activities of Chinese companies, introduce protective tools for their manufacturers. Such a policy, contrary to the principles of a free economy and free trade, is undertaken within the framework of ensuring national security. Protection mechanisms are provided not only against Chinese companies, but in general against transnational companies and global trade networks.

I believe that the Government of the PRC should diplomatically agree with the governments of such countries on the rules for working in the internal markets of these states. For example, the PRC can provide guarantees for the provision of new technologies, attraction of local labor, refusal of attempts to monopolize industries, etc. That is, the best solution would be to operate in the market according to the rules of a particular state, than to lose these markets. In the future, such companies can provide additional export volumes of Chinese products.

6.2.3 Conclusion based on the problems and recommendations

Thus, in this subsection, the existing problems of the development of foreign trade of the PRC were examined in detail, measures taken by the Government of the country to solve these problems were given. Also developed and proposed author's recommendations for solving barriers, minimizing negative factors affecting the development of foreign trade of the PRC.

6.3 Forecasts of the development of foreign trade of the PRC

The decisions of the Government of the PRC in the field of foreign trade are largely determined by the conditions and the expected environment in which they will be implemented. In addition, the PRC's foreign trade is a complex multi-level system, the effective management of which is possible only when the PRC government is able to foresee and comprehensively assess the consequences of decisions made.

In modern conditions, high-quality management of the process of development of foreign trade is possible only through the use of an effective forecasting and planning mechanism, which makes it possible to predict and assess the consequences of decisions made, as well as develop promising development programs.

In world science, a significant arsenal of methods for forecasting and planning foreign trade indicators has been accumulated and tested, which makes it possible to solve a set of tasks to substantiate the prospects for its development. When making a forecast, it is necessary to know the principles, methods and techniques of forecasting and planning the development of both foreign trade in general and for individual goods, industries, companies.

Foreign trade in the first three quarters of 2021 grew by 32.8% year-on-year to \$ 4.374 trillion, according to data released by the PRC General Administration of Customs. The country's exports in January-September 2021 increased by 33% to \$ 2.4 trillion. Imports rose 32.6% to \$ 1.973 trillion.

During the first three quarters of 2020, against the backdrop of the pandemic, there was a slight decline in foreign trade indicators, which provided a low comparative base and high growth rates of foreign trade in 2021. In October-December 2020, the indicators gradually recovered, which means that very high growth rates should not be expected in the fourth quarter of 2021. At the same time, the general growth trend in China's foreign trade will not change, and it is expected that significant growth will be achieved by the end of the year (*General Administration of Customs of the People's Republic of China, 2021*).

The reason why foreign trade reached such high rates in 2021 is also closely related to the decisions and measures implemented by the PRC government. In particular, a number of unconventional methods to stabilize foreign trade continued to be used to reduce costs, prevent risks, and fulfill orders. The expansion of markets for the operation of foreign trade companies also played an important role.

Over the three quarters of 2021, the share of participation of private enterprises in

foreign trade operations increased, the central and western regions became more active, and other positive trends emerged and developed. The positive dynamics were facilitated by the significantly expanded geography of trading partners, the optimization of trade methods and the growth of the traditional Chinese import of high-quality goods.

In the first quarter of 2021, China's imports and exports to the countries implemented in accordance with the One Belt, One Road project totaled 2.5 trillion yuan, an increase of 21.4%. Among them, imports and exports to Vietnam, Indonesia and Poland showed particularly sharp increases. Taking into account the tendency of the PRC's increasing openness to the outside world, the channels for the development of PRC's foreign trade will continue to expand (*General Administration of Customs of the People's Republic of China, 2021*).

In the first quarter, imports and exports of the PRC Comprehensive Free Trade Zone increased by 41.1%, imports and exports of the pilot free trade zone increased by 28.4%, and imports of duty-free goods at the Hainan Free Trade Port increased by 162.5%. In addition, China's share of total trade imports and exports increased by 1.3 percentage points over the same period last year, while the share of exports of mechanical and electrical products exceeded 60% (*General Administration of Customs of the People's Republic of China, 2021*).

The above data reflects the continuous optimization of China's foreign trade in terms of trading entities, domestic regional structure, international market structure, trading methods, product quality, and so on. Compared to the same periods in 2018 and 2019, the first quarter of 2021 increased by 25.3% and 20.5%, respectively.

Let's make a forecast of exports and imports of China's foreign trade using two methods: **trend** and **linear regression**.

6.3.1 Forecast of China's foreign trade turnover for 2021-2025 by Trend method

To calculate the trend, let's take the period from 2015. Let's calculate the average growth in imports and exports for this period using the following Formula (3):

Formula 3: Average growth in imports and exports

$$\frac{E}{I} = \frac{(S_{2015}+S_{2016}+S_{2017}+S_{2018}+S_{2019}+S_{2020})}{5} \quad (3)$$

where:

- E – average increase in exports for the period
- I – average increase in imports for the period
- s – growth rate in relation to the previous year

Using the data in Figure 4, the average values were calculated, and the following result was obtained:

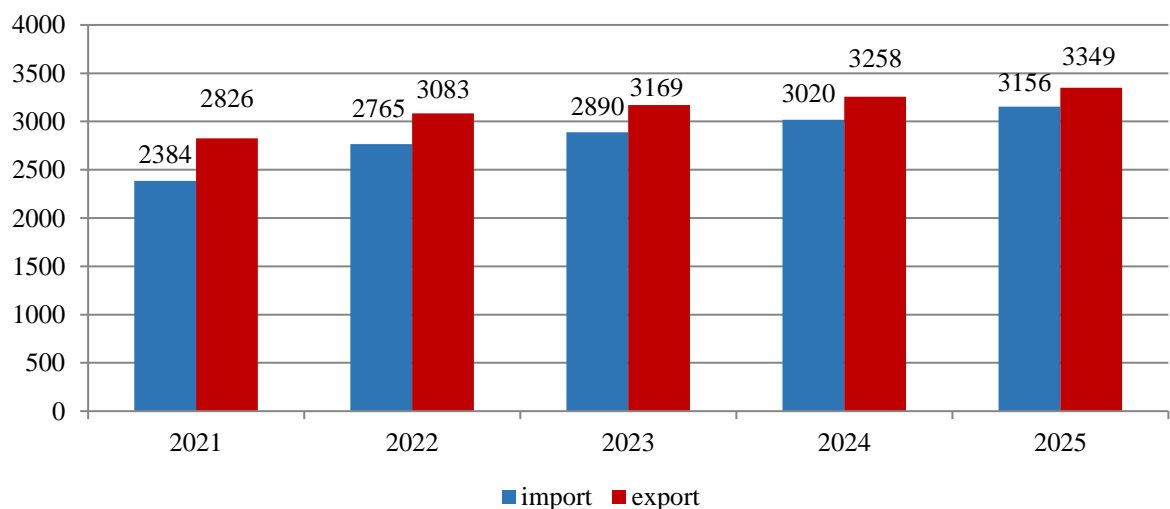
- I = 104.5%;
- E = 102.8%;

It is also necessary to introduce a correction factor for the specifics of economic recovery in the post-crisis period. Foreign trade turnover showed significant growth in the next two years. So, the average growth in 2017-2018 for imports was 116%, for exports - 109.1%.

Therefore, I believe that in 2021-2022 the growth rates will be high as a result of the opening of new sales channels, as well as the measures of the PRC Government to activate foreign trade in the context of the economy emerging from the crisis.

For the forecast, let's take the values of 116% and 109.1%, respectively, for imports and exports. In 2023-2025, the growth rates will stabilize and will show average values of 104.5% and 102.8%, respectively, for imports and exports.

Figure 11: China's export and import forecast for 2021-2025 (Trend method), (billion U.S. dollars)



Source: own work

Based on these assumptions, a forecast of China's exports and imports for 2021-2025 was made (Figure 12).

Thus, the total foreign trade turnover in 2021 will amount to \$ 5210 billion (for 9 months the turnover has already amounted to \$ 4370 billion), in 2025 - \$ 6505 billion.

6.3.2 Forecast of China's foreign trade turnover for 2021-2025 by Simple Linear Regression

Let's give an example with dependence on the country's GDP.

Table 5: Regression analysis

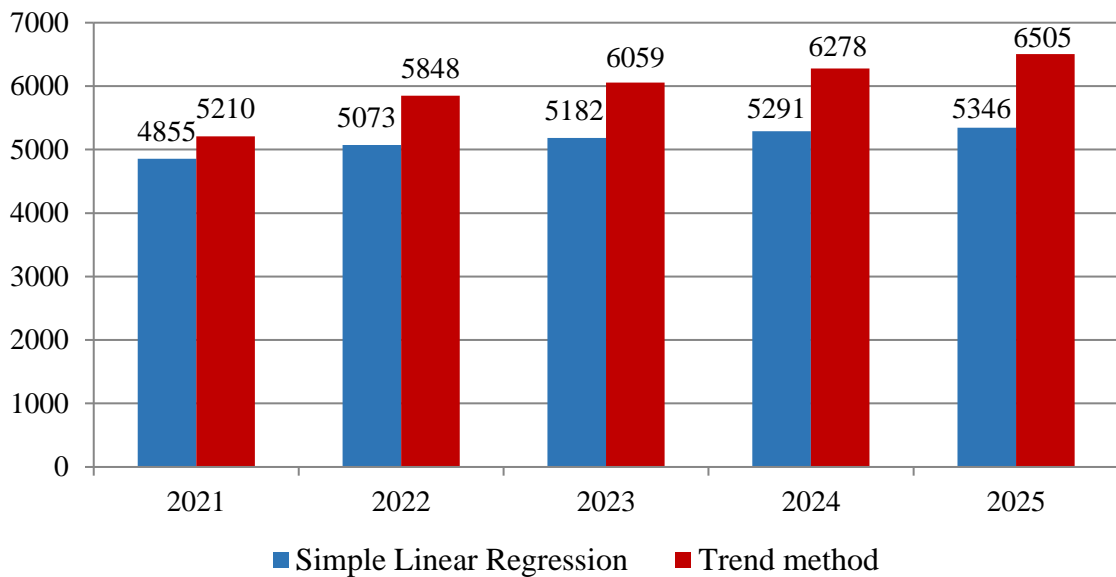
<i>Regression analysis</i>					
Multiple R	0.902480138				
R-squared	0.814470399				
Normalized R-squared	0.768087999				
Standard error	195.9197972				
Observations	6				
ANOVA					
	<i>df</i>	<i>Sum of squares</i>	<i>Mean Squared Errors</i>	<i>F-value</i>	<i>Significance F</i>
Regression	1	1 754 747.48	1 754 747,48	71.16217548	3.08315E-10
Residual	4	153 538.27	38 384.57		
Total	5	2 691 767.80			
	<i>Coefficient</i>	<i>Standard error</i>	<i>t-statistics</i>	<i>P-value</i>	<i>Lower 95%</i>
Y-intersection	2 593.109173	434.0616184		0.235975709	-55.8877724
Variable X ₁	-4.930941335	1.3951542	8.435767628	3.08315E-10	1.379018768

Source: own work

6.3.3 Conclusion based on Trend method and Simple Linear Regression

Based on the results of the calculation, the forecast of foreign trade turnover for 2021-2025 using the method of simple linear regression, a comparative graph is presented with the results of the trend forecast in Figure 13.

Figure 12: Forecast of China's foreign trade turnover for 2021-2025 in comparison with simple linear regression and the trend method, (billion U.S. dollars)



Source: own work

In my opinion, the trend method with corrective edits in terms of growth rates gives a more accurate forecast of the development of China's foreign trade for the next 5 years. At the same time, it should be noted that the forecast is general in nature and may be inaccurate in the event of unpredictable events. So, for example, if new strains of the virus emerge and spread around the world, the global economy could suffer more, which will negatively affect China's foreign trade.

Thus, this subsection provides an answer to the last research question formulated in the methodology: “*How will China's foreign trade develop in the short and medium term?*”. I believe that the Government of the PRC will continue to take both standard and non-standard measures to develop foreign trade as a key element of the country's economic system and guarantee the development of the state in the future.

7 Conclusion

In the process of writing the thesis, an analysis of scientific literature on the theoretical aspects of foreign trade management and practical issues of the development of China's foreign trade was carried out.

Based on the analysis of theoretical and practical sources in the field of foreign trade, the following conclusions can be drawn:

- in the reviewed literature there is no single approach to the definition of the concept of "foreign trade" and, in this regard, the author's approach to the definition was proposed;
- the effectiveness of the public administration system directly affects the development of the country's foreign trade;
- China's foreign trade, its problems, methods of influencing it, factors influencing it are the object of research by scientists around the world. This is due to the influence of the PRC's foreign trade turnover on other countries;
- analysis of the PRC's foreign trade and, accordingly, the directions of the formation of foreign trade relations as an object of research seems relevant in modern conditions.

In accordance with the methodology, the analysis of trends in the development of foreign trade of the PRC was carried out, and the factors influencing it were considered. The main conclusions based on the research results are presented. The alternative second hypothesis of the research was confirmed, and the answers to the research questions were found.

The following main barriers to development have been identified:

- the growth trend in the cost of labor of citizens of the PRC;
- decrease in the proportion of the working population;
- dependence of production on innovative developments of developed countries;
- long-term global crisis risk: pandemic, lockdown;
- risks of increased frequency and intensification of trade wars;
- strengthening of the protectionist policy of the countries of trading partners.

The measures taken by the Government of the PRC to solve these problems were considered, and the following author's recommendations were developed:

- cost reduction due to production automation, equipping with the latest production equipment;
- attracting foreign labor;
- the withdrawal of labor-intensive industries to countries where the cost of labor of workers remains low;
- the introduction of a childbirth allowance;
- expanding state support for large families;
- promoting family values;
- development of the venture capital market;
- scientific research in the field of medicine and pharmacology;
- development of fundamental science. Only by relying on fundamental research, the PRC will be able to develop nuclear and space industries, nanotechnology on the basis of higher educational institutions;
- opening of credit programs to support foreign companies with long-term growth potential;
- subsidizing Chinese entrepreneurs who set up companies in foreign countries;
- investments in large projects in foreign countries: construction, processing, production;
- the policy of unification with the EU countries and Russia to restore the force of international legislation, including in the field of foreign trade;
- diplomacy in the sphere of agreements with the governments of countries on the rules of work in the internal markets of these states.

Also, using two methods, a forecast of the development of the general foreign trade turnover was compiled. It is concluded that the trend method, for all its simplicity with corrective edits of growth rates, gives a more accurate forecast of the development of China's foreign trade for the next 5 years.

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9 Appendix A

Questionnaire:

1. How long have you been a participant in foreign economic activity?
 - up to 1 year
 - 1-3 years
 - 4-5 years old
 - 5 years and more
2. What are the main foreign trade operations your company conducts?
 - export
 - import
 - export and import
3. Do you experience difficulties in the implementation of foreign trade operations?
 - yes
 - rather yes than no
 - I find it difficult to answer
 - more likely no than yes"
 - no
4. Please rate the statements in the table on a five-point scale according to the degree of "agreement" or "disagreement", where 1 - completely disagree, 2 - disagree, 3 - find it difficult to answer, 4 - agree, 5 - completely agree:

№	Statement	Score
1.	Modern processes of the international division of labor and the internationalization of production negatively affect the foreign trade of the PRC	
2.	The growth in the average wage of Chinese workers negatively affects the competitiveness of Chinese goods in the world market	
3.	The foreign exchange policy of the PRC government negatively affects the efficiency of foreign trade	

4.	World crises negatively affect the development of China's foreign trade	
5.	Trade wars negatively affect the development of China's foreign trade	
6.	The low level of spending on innovative projects negatively affects the structure, quality, and volumes of foreign trade	

5. What are the priority problems, in your opinion, need to be solved in the development of foreign trade of the PRC_____
