



Foreign &
Commonwealth
Office



FCO COUNTRY UPDATES FOR BUSINESS

China Economy: Trade Surplus Widens

British Embassy Beijing

August 2010

The purpose of the FCO Country Update(s) for Business ("the Report") prepared by UK Trade & Investment (UKTI) is to provide information and related comment to help recipients form their own judgements about making business decisions as to whether to invest or operate in a particular country. The Report's contents were believed (at the time that the Report was prepared) to be reliable, but no representations or warranties, express or implied, are made or given by UKTI or its parent Departments (the Foreign and Commonwealth Office (FCO) and the Department for Business, Innovation and Skills (BIS)) as to the accuracy of the Report, its completeness or its suitability for any purpose. In particular, none of the Report's contents should be construed as advice or solicitation to purchase or sell securities, commodities or any other form of financial instrument. No liability is accepted by UKTI, the FCO or BIS for any loss or damage (whether consequential or otherwise) which may arise out of or in connection with the Report.

Summary

- 1. Exports grow at a rate of 38.1% in July, reaching a record \$145.5 billion. Import growth cools to a rate of 22.7%, as a result of base effects and measures authorities are taking to reduce over-investment in certain sectors. Monthly trade surplus hits an 18-month high of \$28.7 billion in July. With US mid-term elections just a few months away trade tensions are likely to rise, not least as the authorities are not really allowing the renminbi to appreciate.**

Detail

- 2. Goods exports rose at a rate of 38.1% in July, to a record \$145.5 billion (surpassing the pre-crisis peak of \$137 billion in July 2008).**
- 3. Imports rose 22.1% in July on a year earlier, to \$116.8 billion - slower than June's 34.1% rise. Slower import growth was the result of measures adopted by the authorities to cool the overheating property market and reduce investment in heavily polluting sectors and those suffering from over-capacity - confirmed by year-on-year falls in imports in volume terms of many commodities including oil, iron ore, copper and, (most markedly) aluminium. Base effects and weaker international commodity prices also partly explain July's lower than expected imports in value terms.**
- 4. The monthly trade surplus rose to \$28.7 billion in July, up from \$20 billion in June this year and \$10.6 billion in July last year (and the highest monthly trade surplus since January 2009). But the combined trade surplus for the first seven months of this year was 21% lower than the same period last year.**

Comment

- 5. July's export figures beat market expectations (even though the growth rate of exports decelerated from 43.9% in June) and suggest that European debt concerns and a slower than expected recovery in the US economy haven't yet had a significant impact. But export growth is expected to moderate later this year. There are signs that export orders have weakened recently. Growth in non-commodity imports has also weakened, suggesting the processing trade is slowing (the importance of the processing trade in China means a slowdown in import growth often signals slower export growth is on its way). But**

base effects mean year-on-year figures will likely exaggerate the slowdown in export growth later in the year. And for now at least, the continued strong growth in exports makes relaxation of policy less likely (which is why stock markets in Asia fell today).

6. With US mid-term elections just a few months away, the latest export and trade surplus figures are likely to further inflame trade tensions. Since the authorities reverted to their pre-crisis policy of limited flexibility in the renminbi in June they have only allowed the currency to rise by less than 1% against the US dollar. Despite the data released on 10 August they are likely to remain reluctant to strengthen the renminbi by more than a few percent against the dollar this year - given continued uncertainty over the strength of the US economy and the potential impact on global demand of fiscal retrenchment in Europe.

Contact your regional trade team for more information on doing business in China:

<http://www.ukti.gov.uk/export/unitedkingdom/contactus.html>

Alternatively, find out more about this market here:

<http://www.ukti.gov.uk/export/countries/asiapacific/foreast/china.html>