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### THE MAJOR DIRECTION OF CHINA'S FOREIGN TRADE DEVELOPMENT

Foreign trade plays leading role in external economic relations of the Peoples Republic of China. It is the major source of new machinery and technologies that helps to maintain fast development of economy, satisfy the needs for raw materials and foods in case of their shortage. At the same time the foreign trade policy is important part of external economic policy of the Chinese government and represents a series of measures, called to promote growth of competitiveness on foreign markets, to increase currency receipts from export, to provide protection for national manufacturers.

Importance of foreign trade for economic development of the country at various stages was different. Till the end of 1970es, during the course of self-isolation, foreign trade was the unique form of Chinese economic interaction with other countries. China traded in small volumes with a very limited number of countries. New stage of economic policy started in December 1978, when Chinese National People's Congress (CNPC) adopted a policy of modernization and reforms. Chinese leadership normalized bilateral relations with leading Western countries, including the U.S. China has entered IMF and IBRD. In 2001 China has finalized negotiations about joining the World Trade Organization (WTO) that actually meant a new step in development of foreign trade of the Peoples Republic of China. China now enjoys unconditional MFN (most favorable nation) regime and the ability to enforce its rights through the dispute settlement system.

Since the accession to the WTO foreign trade and foreign direct investment have made important contributions to Chinese growth. Between 2001 and 2008, for example, the dollar value of Chinese exports and imports increased at annual rates of 29,3. As a result of this performance, China's share in world imports increased from 3.3 % in 2001 to 7 % in 2008. This makes China a major participant in world trade and, having now surpassed Japan, the dominant trading power in East Asia. China looms particularly large as an exporter of labor-intensive manufactured goods and components and as a major importer of capital goods, primary commodities, and semi-finished parts.<sup>1</sup>

Joining the WTO has also caused significant

changes in the role of state in regulation and realization of the foreign trade operations.

At the initial stage of the policy of external openness all foreign trade operations were carried out only by specialized state organizations. Such system, at certain times, played positive role, as the government monopoly for the foreign trade operations allowed to accumulate large amounts of currency in the hands of the state, that provided more resources to be used for solution of the important economic problems, including import of modern machinery and equipment. On the other hand, such system did not correspond to the world practice and caused criticism from major trading partners of China and from global economic organizations. All this demanded transformation of foreign trade system of the country, and such transformation was gradual.

Reformation of China's foreign trade regulations system can be divided into several basic stages. The first stage started in the beginning of 1980-s and lasted till 1992. The majority of provinces and enterprises received the right to keep part of currency, gained from export; national companies were allowed to carry out import operations on commodity positions, (excluding those that were subjects to restriction), without special coordination with the higher organizations; direct manufacturers of goods got the right of independent export and import operations. But the state monopoly for trade in the strategic goods such as mineral oil, black and nonferrous metals, woods, cotton and a number of others, however, remained. During this period the currency market has started to function.

At the next stage, which covers the period till 2001, measures on gradual cancellation of the state budgetary subsidies for export, decrease in the customs duties in accordance with the requirements of the World Trade Organization were taken. The important changes took place in the system of currency regulation.

In December 2001 China has been officially accepted into the WTO, so the third stage of reforming of the foreign trade system began. It is connected with the fulfillment of obligations taken by China during negotiation process with the WTO's Working Group.

Participation in the World Trade Organization is the central direction of trade and economic policy of the

<sup>1</sup> Having assumed the ranks of the world's third largest trader, Chinese trade policies will now be subject to the WTO trade review mechanism every two years — a treatment reserved for countries with large trade volumes.

Total value of China's imports and exports (bln. dollars)

Year	Total imports & exports	Total exports	Total imports	Balance	Dynamics (previous year)
1980	37,8	18,3	19,5	-1,2	—
1981	43,1	21,5	21,6	-00,1	14,05
1985	70,4	27,6	42,8	-15,2	42,4
1990	115,4	62,1	53,3	8,8	3,3
1995	281,1	149,2	131,9	17,3	18,7
2000	474,3	249,2	225,1	24,1	31,5
2005	1421,9	762,0	659,9	102,1	23,2
2007	2173,7	1217,8	955,9	261,9	23,5
2008	2563,3	1430,7	1132,6	298,1	17,9
2009	2219,5	1207,4	1012,1	195,3	-13,5

Source: China Statistical Yearbook 2009, p.724; [http://www.uschina.org/public/export/2000\\_2009/](http://www.uschina.org/public/export/2000_2009/)

Peoples Republic of China of the last decade. It means a transition from a policy of use of external factors to a policy of integration into a world market economy. The WTO provides the legal basis for global trade that allows to defend the national economic interests. The given circumstance had especially great value for China as the massed escalating of deliveries of the Chinese goods on the markets of the developed countries faced numerous unilateral sanctions from their part. Before entering the WTO access of the Chinese goods to many foreign markets was limited, antidumping procedures and investigations against China took place many times. Considerable currency losses were consequences of such investigations. Being behind WTO frameworks, China had no possibility to use the low mechanism of the Organization to protect its rights. Besides, participation in the WTO gave the most favoured nation trade regime in trade relations with WTO — members countries. That assumed decrease in the customs duties and cancellation of not tariff restrictions from outside leading trading partners of the Peoples Republic of China on the major goods of the Chinese export. Despite the big efforts and the considerable time interval spent for an accession to WTO (about fifteen years), Chinese government has been assured that in long-term prospect the benefits from participation in the global trade regime will exceed the costs connected with an accession to WTO.

The greatest interest of the most influential trade nations to include China in the WTO has been connected with liberalization of Chinese market for foreign goods, services and capitals. The main task was to create the mechanism of control over China's obligations fulfillment. For these purposes China has achieved the status of developing country with corresponding advantages, including transition period (from three to five years on different goods). During this period stage-by-stage liberalization of foreign trade activities within Chinese territory should take place.

By the end of 2007 China has already fulfilled all

the obligations on decreasing import duties and quotas. In order to encourage export activities the majority of export duties are now abolished. But the system of export and import licensing for a number of so-called strategic goods continues to operate. It is clear that despite foreign trade policy liberalization, the Chinese authorities will undertake the long-term policy directed on protection of the most vulnerable branches of national economy.

In the past years China's foreign trade has rapidly increased. If the world trade rise during 1980-2007 was 7,5 % per year (average), foreign trade of China with other countries these years grew on the average 15,8 %. The highest dynamics of China's external trade was observed in 2002-2007 when rates of increase in the outward trade operations were over 20 % annually, especially in 2003-2004 when rates of its growth have reached 36,9 % and 35,8 % accordingly.<sup>2</sup> The greatest scale the foreign trade operations China have reached in 2008 when total volume of exports and imports exceeded 2,56 bln. dollars. China turned into large foreign trade power and since 2004 constantly keeps the 3d place in the world trade turnover. Because of the consequences of world financial and economic crisis in 2009 the volume of the foreign trade turnover of the Peoples Republic of China has reduced by 13,5 %.

The analysis of the data of the table 1 shows that the volume of foreign trade of China in 1980 -2009 years increased more, than in 60 times. In 2009 export of the country has reached 1,2 bln. dollars, and import -1,01 bln. dollars. In 1990-2009 negative dynamics were observed only twice — in 1998 and in 2009. In both cases reduction of volumes of foreign trade has been connected with influence of external crises. On the contrary, the country's role in world trade constantly increased. According to the WTO data, the share of the Peoples Republic of China in world trade in 2009 has reached 9,2 % while in 1980 this indicator was only

<sup>2</sup> Calculated on: China Statistical Yearbook, 2009, China Statistics Press, Beijing, p. 724.

Table 2

**China's export value by category of commodities**  
(USD 100 million)

year	1985	1990	1995	2000	2008
Total	273,50	620,91	1487,80	2492,03	143306,93
Primary goods, Including:	138,28	158,86	214,85	254,60	779,57
Food and live animals	38,03	66,09	99,54	122,82	327,62
Mineral fuels, lubricants, and related materials	71,32	52,37	53,32	78,55	317,73
Non-edible raw materials	26,53	35,37	43,73	44,62	113,19
Manufactured goods, including:	135,22	462,05	1272,95	2237,43	13527,36
Light textile, rubber products, mineral and metallurgical products	44,93	125,76	322,40	425,46	2623,91
Machinery and transport equipment	7,72	55,88	314,07	826,00	6733,29
Chemicals and related products	13,58	37,30	90,94	120,98	793,46
Miscellaneous products	34,86	126,86	545,48	862,78	3359,59

Source: China Statistical Yearbook 2009, p. 726

1,2 %.<sup>3</sup> So we can see the steady trend of strengthening of China's positions in world trading system.

Trade balance of China since 1990 is characterized by proficiency which reached a record value in 2008 of 298,1 bln. dollars. As a result China became the first country on the sizes of currency reserves which in 2007 reached 1,53 bln. dollars, and in 2008 — 1,94 bln. dollars. In 2009, despite world crisis, foreign currency reserves of China have reached the maximum size of 2,24 bln. dollars. During last years currency reserves of China annually grew for 200 billion dollars and more. The surplus of external trade of China reached 7,8 % of GDP (Gross Domestic Product) in 2007, but was a little reduced by 4,9 % in 2009 due to the global crises. On the other hand in a number of large countries chronic deficit of trade balance is observed. For example, in the U.S. the negative balance of foreign trade in 2008 reached 6,2 % of GDP. Many foreign analysts name global trading imbalance as one of the reasons of the present economic crisis. The economic crisis slightly smoothed these problems as the USA trade deficit was in the reduced almost twice to the level of 3,5 % of GD in the last two years.

The reason for the Peoples Republic of China's efforts to increase currency reserves is the necessity to defend the country in case of regional or global financial crisis. Such approach has been accepted after the Asian financial crisis of 1997-1998. Significant currency reserves allow to support stability of national financial system. Large currency reserves raise ability to resist the international risks and speculative impacts. Besides, currency reserves can be used for stabilization in case of deficiency of the

balance of payments or large fluctuations of the exchange rate. Therefore, the main goal of accumulation of currency resources is the maintenance of their high liquidity while questions of profitability fade into the background.

As the American dollars remains the main international means of payment for China, dollar assets make about 70 % of currency reserves of the country. 20% of reserves are in the European currency. There are also Japanese yens, the Swiss francs, South Korean won — 10 % of the Chinese foreign currency reserves totally.

As to the commodity structure of China's foreign trade, it is necessary to notice that for the last twenty years there were serious positive shifts. In the late eighties the Chinese export consisted mainly of the textile industry, agriculture production, natural resources such as mineral oil, metals, coal. Among the goods of this group the clothes was especially allocated, the volume of its sales constantly increased and has made one of the largest articles of the Chinese export. Fast escalating of Chinese export of textile goods in the world trade has led to China's turning into the leading supplier of this products in 1990-s. At the same time export of machinery products was very low. Deliveries of these goods to the world market for a long time were restrained by poor quality, narrow assortment, bad design and could not compete with other world leading manufacturers. However, after the improvement of quality and extension of assortment, production of equipment and machinery in Chinese export gradually increased.

The Chinese products of light and textile industry are in demand in the world market because of their low cost and high quality. However, the further escalating of

<sup>3</sup> WTO database <http://www.wto.org/english/res/statis/>

sales of this products is affected by restrictions of the majority of developed countries, including the U.S. and the EU countries, which apply various sanctions against Chinese goods to protect domestic manufacturers. At the same time participation in global trading organization allows China to use the conventional legal procedures for protection of national exporters.

Main trend in transition of the PRC's export structure is the increase of the share of machinery and equipment which now takes a leading place in the Chinese sales in foreign markets. If in 1990 China exported cars and the equipment for the sum of 5,6 billion dollars that has made 8,7 % of total exports of the country, in 2008 the volume of cars and equipment sales has exceeded 673,3 billion dollars that has made 47 % of China's total exports. The given group is various enough on its content and includes metal-cutting machine tools, power devices, the medical equipment and so on. We can see the increasing growth in the world market of mass production of electronic industry of China such as office devices, TVs, video equipment, mobile phones. At the same time sales of various vehicles, including cars also grows.

The third place in the Peoples Republic of China's export take chemical goods. The structure of this group includes products of organic chemistry, varnishes, paints, pyrotechnic goods, plastic and others. During the period from 2000 to 2008 cost of export of chemical production has increased from 12,1 billion dollars to 79,4 billion dollars. This group of goods in China's export for the last years remains practically on the same level and makes 5-6 %.

Reduction of the share of raw materials in the structure of Chinese export is connected, first of all, with increase in demand inside the country because of economy's rapid growth. Therefore, since 1991 China began to turn into net-importer of some raw materials, first of all, crude oil. The role of mineral raw materials and fuel in Chinese export was constantly reduced and in 2000-s.

The most important feature of modern development of Chinese export is its leading role in mass production of consumer goods. And for rather short period of time this country managed to get rid off raw dependence of its export and occupied more advanced position in the international division of labor.

Along with the changes in export's commodities structure of the Peoples Republic of China there were essential shifts in the Chinese import from foreign countries in the last decade. First of all, it is a sharp increase of import demand for minerals that shows requirements of a growing national economy in raw and, first of all, the power goods. During 2000-2008 import of mineral fuel, oils and the accompanying goods has increased 20,6 billion dollars to 169,2 billion dollars.

The sharp increase in cost of mineral fuel's import began to occur in 2000th years, and that was connected not only with requirements of the Chinese economy, but

also with the increased world market prices for raw materials. If in 2000 the volume of crude oil's import was 60 million tons or 27 % of China's general demand for this commodity, in 2008 the volume of import has exceeded 88 million tons or 34 % of the country's general demands.

In accordance with calculations of experts, by 2015 the volume of demand for crude oil in the country will increase to 351 million tons (48 % of total internal demand), while own extraction will reach only 180 million tons. Thus it is obvious that oil import of China will increase and further, annual rates of increase of crude oil during 2000-2015 will be about 9-11. Now China takes the second place in world economy (after the U.S.) as the main oil consumption nation. The reason for these high volumes of consumption are the size and rates of development of national economy.

Along with oil import, China has turned into the leading world buyer of other important kinds of the mineral resources and raw materials, such as iron and manganous ore, copper ores, alumina, and also wood, cellulose, producer of organic chemistry, rubber, polymers. In particular, in 2008 China has bought at world markets: iron ore ( for the sum of 60,5 billion dollars), copper ore — (for the sum of 10,4 billion dollars), a sheet steel — for the sum of 23,4 billion dollars. As a whole in 2000th years China has turned into the largest importer (second after the USA) of not only mineral oil, but also other raw goods. Its share in world import of mineral raw materials (except for power resources) now makes 12 %. In the conditions of world economic recession high dynamics of economic development of China ( 8,5% in 2009) is one of the main factors of existing demand for many kinds of raw goods and materials at the world markets.

Despite the fast increase in China's purchases of the raw goods, machinery products take the leading part in commodity structure of import. In 2008 China bought cars and the equipment for a total of 441,7 billion dollars that has made 39 % of the country's import. Machinery and technical products are the basic articles of China's import for many years. Volumes of purchases of these goods constantly grow, reaching in separate years almost half of all Chinese import value. For example, in 2006 import of all kinds of machinery, equipment and cars reached 49 % of China's foreign purchases. The given commodity group is very various on the structure and reflects requirements of the Chinese industrial development.

Geographic distribution of China's foreign trade is also very important. During the first years of the of policy of "an external openness" China took the first steps to carry out diversification of foreign trade geographical structure. By now China has bilateral trade relations with majority of countries of the world. Chinese government develops cooperation not only in bilateral, but also a multilateral forms. Besides the WTO, China is a member of an intergovernmental forum «Asian-Pacific economic cooperation», aspiring to use its possibilities for own

Table 3

## China Import (USD 100 million)

year	1985	1990	1995	2000	2008
Total	422,52	533,45	1320,84	2250,94	11325,62
Primary goods, Including:	52,89	98,53	244,17	467,39	3623,95
Mineral fuels, lubricants and related materials	1,72	12,72	51,27	206,37	1692,42
Non-edible raw materials	32,36	41,07	101,59	200,03	1666,95
Food and live animals used mainly for food	15,53	33,35	61,32	47,58	140,51
Manufactured goods, Including:	369,63	434,92	1076,67	1783,55	7701,67
Machinery and transport equipment	162,39	168,45	526,42	919,31	4417,65
Chemical and related products	44,69	66,48	172,99	302,13	1191,88
Light textile industrial products, rubber products, mineral and metallurgical products	118,98	89,06	287,72	418,07	1071,65
Miscellaneous products	19,02	21,03	82,61	127,51	976,41

Source: China Statistical Yearbook 2009, p.727

interests. Though prospects of concrete realization of plans on creation in Asian-Pacific region zones of free trade remain unclear, China actively advances the idea of economic and financial integration with ASEAN countries. Such integration will stimulate annual growth of China trade with these countries by 20-25 %.

At the end of this decade regional distribution of foreign trade of the Peoples Republic of China looks as follows: share of Asian countries reached 53 % of China's foreign trade, share of European countries — 20 %, Northern America — 14,5 %, Latin America-5,6 %, Africa — 4,1 %.

Among the concrete countries Japan, the U.S. and Hong Kong traditionally occupy leading places as major Chinese trade partners. In 2008 the Chinese-American trade has reached 333,7 bln. dollars, while China and Japan trade has made 266,7 bln. dollars. Share of the U.S. was about 13 % of China's foreign trade whole volume, share of Japan — 10,5 %, and share of Hong Kong-8,0 %.

The leading role of the U.S. as the trading partner of China is defined by a number of circumstances. Besides powerful economic, scientific and technical potential, the USA is the world's largest commodity market for many kinds of goods from other countries. That makes American market especially attractive to China. Fast development of bilateral commercial relations in 2000-s was facilitated by the enrollement of China into the WTO, and removal of many tariff and non-tariff restrictions from American side. As a result the volume of bilateral trade from 2000 to 2008 has increased more than four times and reached 333,7 bln. dollars. Now China is the third export market for American producers (after Canada and Mexico). In 2009 volume of Chinese import from the U.S. reached 77,4 bln. dollars. At the same time the U.S. are the main commodity market for Chinese products, the sizes of these sales

more than twice exceed export of China to Japan and more than four times exceed Chinese export to Germany. China is the main supplier of textile products to the U.S. because of high quality and low prices of these Chinese products.

The second largest trading partner of China is Japan. In 2009 trade between the two countries reached 228,9 bln. dollars, having reduced in comparison with previous year by 14,2 % because of the world economic crisis. However, despite crisis, relations with Japan occupy one of the key places in China's external economic and trade relations. Level of Japanese economic development, its international position, geographical position have great influence on the size and character of two countries economic cooperation.

To the middle of 2000th years China took the top place among trading partners of Japan, having superseded the U.S. from a place of its main foreign trade partner. From its part Japan is the second trade partner of the Peoples Republic of China. Despite remaining political contradictions, degree of economic integration of two countries constantly grows, thanks to what China has possibility to receive the hi-tech Japanese goods. In Chinese import from Japan cars and the equipment have the main positions. Both countries now make efforts to create in East Asia zone of free trade with participation of China, Japan, republic Korea and other countries of region to promote there to regional specialization and cooperation that will lead to the further strengthening of regional trade and economic cooperation.

At present time China also continues to develop trade relations with the EU countries, which are important source of reception of many modern industrial products and at the same time very important commodity market for Chinese goods. A maximum level trade between China and EU countries has reached in 2008, having made 425,6 billion dollars, but in 2009 reduced to 387,3 billion dollars (because

China's main trade partner (USD bln.)

country	2000	2005	2006	2008	2009
United States	75,1	211,5	263,1	302,6	293,3
Japan	83,2	184,5	207,3	266,7	228,9
Hong Kong (China)	53,9	136,7	166,1	203,6	174,5
Korea Rep.	34,5	111,9	134,2	186,1	156,2
Taiwan, China	30,5	91,2	107,8	129,2	106,2
Germany	19,7	63,2	78,2	114,9	105,7
Russia	8,0	29,1	33,4	56,9	38,8
Malaysia	8,1	30,7	37,1	53,5	52,0
India	3,0	18,7	24,9	51,8	43,4
United Kingdom	9,9	24,5	30,7	45,6	39,6
France	7,7	20,6	25,3	38,9	32,1
Italy	6,9	18,6	24,6	38,3	33,4

Source: China's Customs Statistics; China Statistical Yearbook 2009

of world economic crisis). More than third of consumer demand of these countries it is satisfied by deliveries from China. Now China is important supplier on the markets of these countries of variety of the goods, such as mobile communication facility, video- and TV-equipment, office furniture, clothes. During last decade the share of China in external trade of these countries (EU-27) has increased almost twice and has reached 14,1 % by 2008. For comparison we can notice that the share of the U.S. in trade of EU was about 17,3 %. Last decade trade between China and the European Union has stable tendency of growth. Despite difficult market condition in 2008-2009, China could hold its positions at European markets only with small losses. Decline in their trade in 2009 was only 9 %. In comparison American- European trade fell by 17 %, Russia-European trade fell by 35 %. Such decline in trade between the EU countries and Russia was caused by falling prices of energy products, while China is the important supplier of the industrial consumer goods. Demand on these goods remains at high level even in the conditions of an economic crisis.

The main problem of trade relations between China and the EU countries is considerable deficit of the EU trade balance as the Chinese export to this countries almost three times exceeds volume of its import. So for last years China is under great pressure from European countries insisting along with the U.S. on liberalization of Chinese currency (yuan) exchange rate. In their opinion, the yuan exchange rate is overestimated and as a result the Chinese goods get additional competitive advantages. During several last years Chinese yuan was consistently revaluated (till 6.84 to the beginning of 2010). Despite pressure from outside the EU countries and the USA, China hardly will go on the further increase of a course of the national currency.

As a whole for last two decades China had a certain group of the European trading partners which consists of Germany, Great Britain, Italy, France and Holland. These countries accumulate two third of all trade volume of EU with China. Germany now is the leading trade partner of

China from this group of countries. Bilateral trade between Germany and China in 2009 reached 105,7 billion dollars or 27,3 % of total amount of trade of China with the EU countries.

Despite dynamical (as a whole) development of trade relations between China and EU countries, its basic trading partners in a regional context are the states of East Asia. Besides Japan, China actively develops commercial relations with Republic Korea, Hong Kong and Taiwan. In 2009 trade between China and Republic Korea has made 156,2 billion dollars, with Hong Kong — 174,5 billion dollars, with Taiwan-106 billion dollars. As a result trade of the Peoples Republic of China only with these three trading partners exceeds China's trade with all EU countries.

In the past fifteen years the People's Republic of China, Taiwan, and Hong Kong have become one integrated economic region. Often referred to as «Greater China» or «China Circle», this region is driving the dramatic growth of investment, production, and trade in East Asia. The emergence of this economic region represents in certain respects the triumph of economic over politics. Three very different political entities have today become an economic trading and production region. The basis for emergence of the China Circle was the success of Hong Kong and Taiwan in developing labor-intensive manufactured exports in the 1980s, particularly to the US market. This success had both a demonstration effect (as China sought to emulate their success) and a restructuring effect (as export surpluses, increasing cost, and a currency realignments created strong incentives to move production to lower-wage locations). These trends reached a high point following the currency realignments of the late-1980s. The Japanese yen appreciated sharply, and the Taiwan dollar followed the yen. In response to rapidly increasing wage rates and labor shortages, as well as increasing costs for land and environmental protection, business in Hong Kong and Taiwan (as well as in Japan) sought to restructure existing export production networks. The opening of China to foreign investment at this time created a dramatic opportunity to transfer labor-

intensive export production to People's Republic. Wages were much lower, and land and operating costs were lower as well. The opportunity to use low-cost labor in the PRC was very advantageous for businesses in Taiwan and Hong Kong, because for them transaction costs in the PRC were low, aided by common language and customs, made doing business on the mainland easy and cheap. Moreover, low transaction costs made it possible to initially move only the low-skilled labor-intensive stages of production onto the mainland, while retaining other activities in Hong Kong or Taiwan. Production chains were quickly created that crossed political boundaries and allowed Hong Kong and Taiwan to specialize in high value services and technology-intensive production, while much of the ordinary manufacturing moved to the PRC. The combination created explosive growth on the Chinese littoral as production was moved onshore, permitting Hong Kong and Taiwan to sustain rapid growth and significantly higher income levels. The restructuring of existing export production networks into larger, low-cost networks is the basis for the current division of labor.

The sharp reduction in transaction costs among the China Circle participants reflects worldwide trend toward increased intra-industry trade, accompanied by increased intrafirm trade and associated with increased investment. As international transactions costs fall, it becomes profitable to locate different stages of the production process, characterized by different factor input needs, in different locations, according to where factor proportions and costs are most appropriate. The trend, which has been particularly prominent in the electronics industry, started with U.S. electronic firms in the seventies of last century. They were the first to significantly disperse their production facilities overseas. Southeast Asia, Taiwan, and Hong Kong were major beneficiaries. The movement of certain labor-intensive stages of production chains to the China mainland is a specific case of this ongoing trend.

At present time over 70% of foreign direct investment in China come from Hong Kong and Taiwan. Trade data also show the significance of economic relation in this region. Total trade of the PRC with Hong Kong and Taiwan grew from 84,4 billion doll. in 2000 to 280,7 billion doll. in 2009. Investment from Hong Kong to mainland China reached 41,0 bln. dollars, or more than 44% of total foreign direct investment in China in 2009. Hong Kong plays the central role only as source of investment but as re-export base of PRC's export products. Taiwan's trade is an integrated part of this trade and investment relations. Hong Kong funnels equipment, components, and materials into China from Japan, Taiwan, and the United States and brings out consumer goods that it sells in developed-country markets. In other words, Hong Kong is China's gateway to the world in commodity trade.

As manufacturing production has moved to the China

mainland, the southern coastal provinces have been industrializing rapidly, while Hong Kong is de-industrializing. The manufacturing labor force is declining in Hong Kong. The Hong Kong industrial labor force declined from 0,93 million in 1985 to 0,202 million in 2007.<sup>4</sup> Meanwhile, in two southern provinces of Guangdong and Fujian, the industrial labor force increased from 10 million at the end of 1995 to 15 million to at the end of 2008. Hong Kong experienced substantial success in upgrading to higher-skilled activities. The increased exchange of intermediate goods within the China Circle has not changed the fact that a large proportion of the markets for the region's final products lies in the OECD (Organization for Economic cooperation and Development) countries, particularly the United States; the region as a whole is externally oriented despite its integrated production network. The region continues to display a degree of market dependence on North America. One symptom of this has been persistent U.S. trade deficit with the China Circle—formerly attributed primary to Hong Kong and Taiwan, but now largely attributed to the PRC. For a series of specific commodities (such as footwear, toys), a declining U.S. market share for Hong Kong or Taiwan has been matched by an increasing market share for the PRC.

Now the basic line of China's foreign trade policy is expansion of its geographical orientation. Despite most developed countries, East Asia compatriots and neighbors are the main trade partner, China tries expand trade relations with Latin America, Africa, CIS, Southern Asia.. Expansion of China's commercial relations speaks about increasing requirements for import of raw materials and energy, and also tasks for searching new commodity markets for export-oriented production.

Last years was achieved an increase in commercial relations between China and Russia. Prior to the beginning of world economic crisis Russia was the 8th main trade partners of the PRC. China remains Russia's second largest trading partner only after the European Union. The share of Russia in China's trade was about 2-2,5 %. It is less than indicators for the U.S. Japan, Hong Kong and some other countries.. At the same time the role of Russia is much higher in trade of some commodity products. In particular, the Russian share in the Chinese import of oil and mineral oil in 2006-2008 was 7-8 %. Russia's deliveries of round wood are over 60 % of the general Chinese import of this commodity group. At the same time a share of machinery and equipment in Russia's export to China remains very low ( 1,8-2%). For the last decade the share of machinery and equipment in Russia's export to China decreased more, than twice.( except deliveries of military equipment). Because of it, Russia is running a substantial trade deficit that first appeared in 2007.

Two additional trends characterize Russian-Chinese trade relations. First, Russia is running a substantial trade

<sup>4</sup> China Statistical Yearbook 2009, p. 968.

deficit that first appeared in 2007. Second, the global economic crisis has further aggravated old problems in bilateral trade. As a result, it is now clear that the goal set by the leaders of both countries to increase the trade volume to 80 billion dollars by the end of 2010 will not be met. It is possible, that Russia will drop from being China's eighth-largest trading partner to the 15<sup>th</sup> or 16<sup>th</sup> largest, falling behind such countries as India, Malaysia, Singapore, the Netherlands, and possibly Britain, Brazil, and France. That would further decrease the mutual importance of Russia and China as trading partners.

Now Russia gives priority to improving investment environment, and creates favorable conditions for fresh investment cooperation with China. Russia has oil and natural gas resources in Siberia and its Far Eastern region. Since 1990s Sino-Russian cooperation in the energy sector has been growing steadily. The two sides have completed feasibility studies of several projects, the construction of the gas field and the pipeline construction are at the stage of realization and gas may be supplied to China and possibly Korea and other third countries. As stressed Russian deputy Prime Minister Alexander Zhukov, although faced with the global financial crisis, the two nations should especially expand energy cooperation. In 2009 two nations signed an oil-for-loan deal, under which China offered Russia 35 billion dollars of long-term loan and Russia would supply 300 million tons of oil through pipelines to China from 2011 to 2030.<sup>5</sup> The two sides had also agreed on the construction of a pipeline from Russia's Skovorodino in its far-eastern Amur region to China's northeastern city of Dacin.

There are prospects of economic cooperation between two countries in some technological spheres, including atomic engineering. They exist because Russia preserves some essential advantages in these areas. Two countries should work hard to restructure trade to upgrade economic and technological cooperation.

As a whole, among foreign observers it is widely believed, that development of China's external trade for the last two decades has been very successful, generating unprecedented growth of export and import. About a quarter of a century ago, China accounted for a relatively small share of global trade. By now China has become one of the most powerful trade nations of the world.

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### **Kotlyarov N. N. The major direction of China's foreign trade development**

The article examines the main aspects of China's foreign trade. Special attention is given to China's participation in the World Trade Organization (WTO), Chinese foreign trade relations with its major trade partners. By using historical information and latest statistical data the author analyzes the main changes in China's foreign trade commodity and regional structure. Certain problems and perspectives of China's trade development are also considered.

*Key words:* Foreign Trade, export, import, world economy the World Trade Organization (WTO), foreign investment; economic development.

### **Котляров М. М. Основные направления развития внешней торговли Китая**

У статті досліджуються найважливіші аспекти розвитку зовнішньої торгівлі Китаю. Особлива увага приділяється еволюції зовнішньоторговельної політики, питанням участі Китаю в Світовій Організації Торгівлі (СОТ), проблемам розвитку торгових зв'язків цієї країни з її провідними партнерами. На основі використання історичних фактів та новітніх даних китайської національної статистики показані основні зміни в товарній і географічній структурі зовнішньої торгівлі Китаю.

*Ключові слова:* зовнішня торгівля, експорт, імпорт, світова економіка, Всесвітня Торгова Організація (ВТО) іноземні інвестиції; економічний розвиток.

### **Котляров Н. Н. Основные направления развития внешней торговли Китая.**

В статье исследуются важнейшие аспекты развития внешней торговли Китая. Особое внимание уделяется эволюции внешнеторговой политики, вопросам участия Китая во Всемирной Торговой Организации (ВТО), проблемам развития торговых связей этой страны с ее ведущими партнерами. На основе использования исторических фактов и новейших данных китайской национальной статистики показаны основные изменения в товарной и географической структуре внешней торговли Китая.

*Ключевые слова:* внешняя торговля, экспорт, импорт, мировая экономика, Всемирная Торговая Организация (ВТО) иностранные инвестиции; экономическое развитие.

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<sup>5</sup> Neftegas, 26.11.2009