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REASONS FOR THE DISCREPANCIES IN CHINA'S TRADE STATISTICS WITH MAJOR PARTNERS: THE PARTICULAR ROLE OF THE PROCESSING TRADE

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This document has been prepared by Ms. Hongman Jin, Customs General Administration People's Republic of China, for information and discussion under point b) of item 7 of the draft agenda : Methodological research issues

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REASONS FOR THE DISCREPANCIES IN CHINA'S TRADE STATISTICS WITH MAJOR PARTNERS: THE PARTICULAR ROLE OF THE PROCESSING TRADE

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Introduction

In recent years, China has experienced a rapid development in external trade, with a 17% average growth rate during 1994-2004. Export values have reached US\$ 593.3 billion, with US\$ 561.2 billion worth of imports in 2004. China now takes third place in international terms after the United States and Germany.

The quality of China's trade statistics has attracted much attention from world economists and policy makers. The large discrepancies between China's trade statistics and those of its major trading partners have cast serious doubts on the validity of the data, and have resulted in much heated debate during trade negotiations.

Several reconciliation studies have been conducted between China and its major trade partners. This paper will summarize the results of these reconciliations, and an analysis will be made of the role of the inward processing trade in China.

1. Reason for the Discrepancies

1.1 US, EU, Japan, Korea, HK are major trading partners. Discrepancies in trade statistics exist between China and these partners, in particular with the US and the EU.

Table 1. Eastbound Trade (China Export - US Import, in billion US\$)

	1993	1995	1997	1999	2001	2003
China Exports	17.0	24.7	32.7	42.0	54.3	92.5
US Imports	31.5	45.5	62.6	81.8	102.3	152.4
Discrepancy (Imp - Exp)	14.5	20.8	29.9	39.8	48	59.9
Discrepancy % (Imp- Exp)/Imp	46%	46%	48%	49%	47%	39%

Source: China Customs, US Bureau of Census

Table 2. Westbound Trade (US Export - China Import , in billion US\$)

	1993	1995	1997	1999	2001	2003
US Exports	8.8	11.8	12.9	13.1	19.2	28.4
China Imports	10.7	16.1	16.3	19.5	26.2	33.9
Discrepancy (Imp - Exp)	1.9	4.3	3.4	6.4	7	5.5
Discrepancy % (Imp- Exp)/Imp	18%	27%	21%	33%	27%	16%

Source: China Customs, US Bureau of Census

Table 3. Westbound Trade (China Export – EU Import, in billion US\$)

	1993	1995	1997	1999	2001	2003
China Exports	11.7	19.1	23.8	30.2	40.9	72.2
EU Imports	23.0	34.4	42.5	52.9	68.0	108.4
Discrepancy (Imp - Exp)	11.3	15.3	18.7	22.7	27.1	36.2
Discrepancy % (Imp- Exp)/Imp	49%	44%	44%	43%	40%	33%

Source: China Customs, EUROSTAT

Table 4. Eastbound Trade (EU Export - China Import, in billion US\$)

	1993	1995	1997	1999	2001	2003
EU Exports	13.3	19.1	18.7	20.6	26.9	45.7
China Imports	14.4	21.3	19.2	25.5	35.7	53.1
Discrepancy (Imp - Exp)	1.1	2.2	0.5	4.9	8.8	7.4
Discrepancy % (Imp- Exp)/Imp	8%	10%	3%	19%	25%	14%

Source: China Customs, EUROSTAT

1.2 Reconciliation studies have been carried out with the US and the EU, in cooperation with the US Census Bureau, and the European Commission's statistical office EUROSTAT.

1.3 The following issues have been carried out:

1.3.1 by comparisons of definitions, the discrepancy caused by definition is very small.

1.3.2 Cif/fob rate is estimated, less than 10% of import value. The difference caused by cif/fob is limited

1.3.3 Hong Kong's re-exports is the main reason. Because more than half of Chinese trade with the US or EU are re-exported through a third party (Hong Kong) , by not aware of the final destination, there is underestimation of China export goods to US or EU via Hong Kong, and overestimation of China export to Hong Kong. It is the same for US or EU perspective. The re-export value reported by Hong Kong Statistics Division are used for the adjustment.

1.3.4 Large re-exported margin have been added by Hong Kong in particular in the China-US eastbound trade (China export, US import), and China-EU westbound trade (China export, EU import). Estimation has been made by using Hong Kong re-export unit value comparing with Hong Kong import unit value.

2. Hong Kong's imports or re-exports from China are highly relevant to processing in China

According to a survey by the Hong Kong Statistical Division, a high percentage of Hong Kong's import goods from China and re-export goods from China to other countries, are involved in Hong Kong's outward processing in China. Major products from outward processing are those products which show significant data discrepancies of China with Partners.

Outward processing in China is the main reason for large volumes of Chinese exports are sent via Hong Kong, and significant margins can be added by Hong Kong to the goods thus re-exported.

Table 5. Estimate of Proportion of outward Processing in China

Trade Type	1993	1995	1997	1999	2001	2003
Total exports to mainland China	47.9%	49.0%	48.1%	47.5%	47.5%	43.9%
Total Imports from mainland China	73.8%	74.4%	81.2%	80.5%	78.0%	71.7%
Re-export from China mainland to other places	80.8%	82.2%	88.4%	86.6%	82.2%	79.4%

source: Hong Kong Statistical Division

3. China's Processing Trade

3.1 Definition

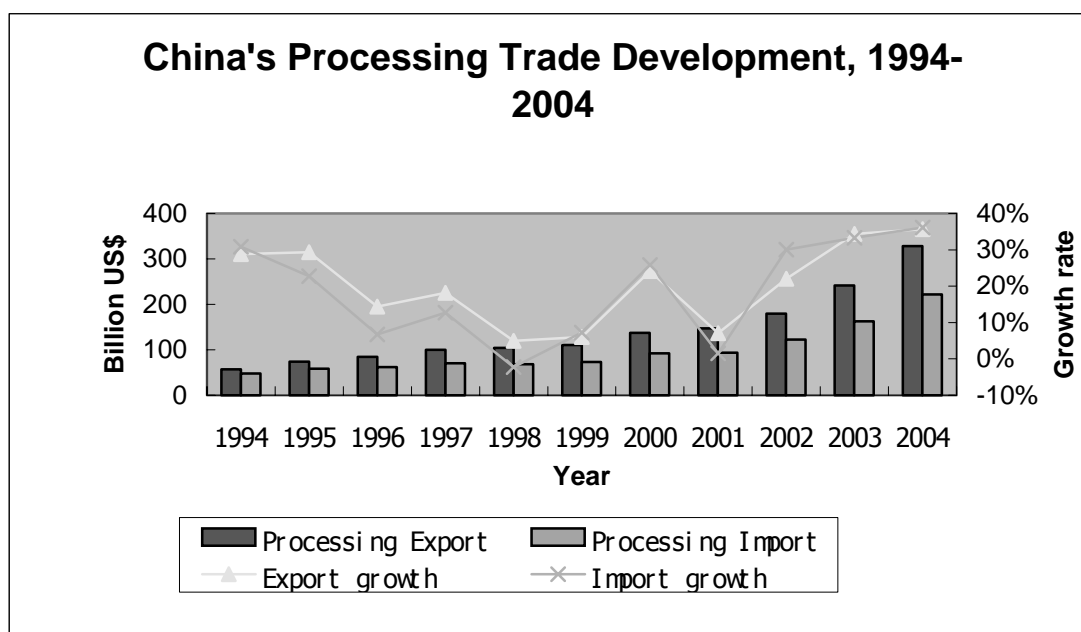
China's Inward Processing Trade is commonly called 'Processing Trade'. According to China Customs' definitions, there are two types of inward processing trade which exist under the customs bonded system and which enjoy duty exemption. The "Contractual inward processing trade" is the term used for export and import transaction, in which the imported inputs remain the property of the foreign supplier. While for the "other inward processing", the ownership of the imported goods as input has been transferred to the Chinese producer, which are mostly foreign- invested enterprises. To record the two types of

processing trade goods in statistics, UN recommendations have been adopted by Chinese Customs.

3.2 Development of China's Processing Trade

3.2.1 The processing trade has been the most dynamic component of China's foreign trade, with about one thirds of China's exporters and importers actively involved in the processing trade.

This rapid growth in the processing trade reached US\$ 328billion for exports, and US\$222billion for imports in 2004, 5.8 times and 4.7 respectively than export and import values for 1994.



3.2.2 Characteristics:

The processing trade is regarded as the driving force of China's foreign trade, accounting for a large proportion of China's total imports and exports, and is a major contributor to the growth of the net increase in China's total exports.

Foreign Invested Enterprises(FIE) play a very important role in the processing trade, with 80% of the processing trade being carried out by FIEs.

Products are concentrated in electronic goods, machinery, clothing, shoes, suitcases and toys.

Guangdong province is prominent in the processing trade, accounting for 64% of China's total processing exports in 1994, although its share fell to 44% in 2004 because of competition in recent years from the Shanghai area (Yangze River economic belt).

For the partner country, Japan, Korea and Taiwan Province are major importing partners in supplying materials, while the US, the EU, Japan are the export markets for final products.

3.3 Hong Kong's involvement

3.3.1 Hong Kong is the most active partner for processing trade.

Since the beginning of economic reform in China in 1979, export-orientated foreign investment has been encouraged and a preferential tax policy has been adopted by Chinese government. A frequent pattern for foreign investors has been the establishment of their regional headquarters in Hong Kong, with assembly or export-processing factories being established in nearby Special Economic Zones in Guangdong province. This has resulted in Hong Kong being the largest supplier of FDI (foreign direct investment) to China since the 1980's, with Guangdong gaining in China's inward processing trade. And most of the manufactured goods have been transported through Hong Kong, which accounts for 73% of total processing exports in 1994.

3.3.2 Figures show a decreasing trend in reliance on Hong Kong in recent years. Although the export value consigned to Hong Kong has grown from US\$ 41.7billion in 1994 to US\$119.4billion in 2004, the Hong Kong's proportion of total processing exports has fallen from 73% to 36%. Simultaneously the discrepancy in percentage of China-US trade or China-EU trade have a falling trend shown as Table 1 and Table 3.

3.4 Debate

Although the processing trade is there is still a lot of debate in China about its real level of contribution. The processing trade involves outputs which are largely labour intensive products, so the Chinese side only directly benefits from the modest salaries paid to workers, whilst foreign investors gain disproportionately. Moreover, some products bring about major environment pollution, and excessively fast growth of the processing trade has brought trade conflicts because of the big surplus with trading partners, although in reality the Chinese side has gained relatively little.

4. Conclusion

Hong Kong's re-export of Chinese goods, in particular Chinese processing goods, is the major reason for discrepancies in China's reported trade statistics with its major partners. The results reflect changing economic reality rather than casting doubt on the quality of published trade data: the real expansion of Chinese foreign trade in the last twenty years is due to the massive outsourcing schemes of foreign invested enterprises into the low-margin processing sector in China. Despite the decreasing trend in reliance on Hong Kong, the increasing scale of the processing trade means large discrepancies will still exist in the future.