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China: Practice and experience of expanding exports

Since the Chinese Government began to apply its policy of reform and opening up, the development of foreign trade has been relatively successful. Since 1985, especially, Chinese exports have increased annually at a smart pace and accounted for a constantly growing proportion of GNP (see figure 0). Successes in these areas are inseparable from China's efforts to expand exports.

Figure 0

Year	Export growth (%)	Exports as a proportion of GNP (%)
1985	4.6	9.5
1986	13.1	11.2
1987	27.5	13.0
1988	20.5	12.6
1989	10.6	12.4
1990	18.2	17.0
1991	15.7	19.5
1992	18.3	

1. China's practice and experience of expanding exports

Before 1978, China was basically a "closed" economy, in which self-reliance was the mainstay of economic construction. Foreign trade was no more than a means of making up for surpluses and shortfalls, and the objective of exporting was chiefly to ensure limited imports of essential goods and a few other crucial items of foreign expenditure. The influence of foreign trade on the national economy was fairly small.

In 1978, the third plenary session of the Central Committee of the Eleventh Congress of the Communist Party of China put forward a strategic plan for reforming the structure of the domestic economy and opening up to the outside world, and Chinese economic development entered a new historic phase of modernization. The development of foreign trade is important to the modernization of China. Accordingly, on the basis of a reassessment of its historical experience and the characteristics of modern international commerce, China has since the early 1980s introduced a series of adjustments and amendments to its foreign trade policy and structure in an effort to promote the modernization process through constant expansion of the scope of its foreign trade.

For China, as a developing country, active export expansion underpins the development of foreign trade to sustain modernization. Accordingly, China attaches great importance to the active encouragement and promotion of exports. Over the past decade or so, it has devoted itself, as far as encouraging and promoting exports is concerned, chiefly to the following policy amendments and structural reforms.

1.1 Amendments to export development strategy and policy

1.1.1 Establishment of an export goods development strategy in keeping with Chinese characteristics, as suggested by the theory of comparative advantage

China's introduction to the theory of comparative advantage in the international division of labour began in the 1980s. It should be noted that a 1984 decision by the third plenary meeting of the Central Committee of the Twelfth Congress of the Communist Party of China on reform of the economic structure called for the country to make full use of domestic and foreign resources and open up both domestic and foreign markets, signalling that China had formally begun to acknowledge and would give more play to its own comparative advantages, taking an active part in the international division of labour.

Initially, China's exports were largely primary commodities. But China has a large population and low per capita natural resources, and its exports could not long be sustained on primary commodities. On the other hand, it is fairly rich in labour resources and labour costs are low, while at the same time the country has a fixed manufacturing base and research capacity. Its latent export advantage lay in the development of labour-intensive and relatively "intellect-intensive" manufacturing industry. Based on this recognition, China actively encouraged exports of manufactured goods, meaning chiefly light industrial products, some textiles and all exports of machinery and electronic items, for which purpose it took the following major steps:

(a) It established special foreign exchange earnings retention rates (for an introduction to the foreign exchange earnings retention system, see section 1.2.2). These came into effect in the early 1980s. Initially the retention rate set for light industrial and knitted goods was 20 per cent, that for machinery and electronic goods was 30 per cent, and that for other products was for the time being set at the low uniform rate of 10 per cent. By 1982, the retention rate for machinery and electronic products had been raised to 50 per cent. Today, after increases in the retention rates for other enterprises, the rate for machinery and electronic products stands at 100 per cent.

(b) The seventh Five-Year Plan (1986-1990) specified the establishment of an export product base to be used to sustain exports of manufactured goods. Several hundred factories producing a wide variety of goods were selected in 1985, with State Council approval, to constitute this base and to receive guaranteed supplies of raw materials, energy and packing materials and enjoy transport and tax concessions. By 1990, roughly RMB 1,700 million yuan had been invested in construction projects to support the manufacturing base for exports in textiles, light industry, machinery and electronics. At the same time, rural and small-town businesses were beginning to be drawn into this manufacturing base scheme.

(c) Special investment funds made available by the Ministry of Foreign Economic Relations and Trade have been used to raise the technological level of selected enterprises. In 1990, every Ministry of Machinery and Electronics

Industry exporting enterprise received US$ 50 million through this channel. To date, roughly 1,300 of the Ministry's enterprises have benefited from funds of this kind.

To give play to its advantages in order to expand exports, the Chinese Government has provided special support for the development of exports of goods produced by advanced and imported processes. Such processes are an effective way of combining foreign resources and achievements with the domestic industrial base of labour resources and processes. Since the early 1980s, the Chinese Government has set up and put into effect a series of policies and measures to encourage and safeguard the smooth growth of exports of goods produced by such processes including restrictions on the scope of businesses using advanced and imported processes, the foreign exchange earnings retention policy, and customs classifications affording exemption from duty.

Experience shows that these efforts have been quite successful, greatly promoting the notable growth in Chinese exports of manufactures since 1985 (see figure 1).

1.1.2 Amendments to export quality strategy and policy

The Chinese Government attaches particular importance to the management of export quality. In recent years it has taken a series of steps to strengthen the original quality management system. It now has a legal framework for export quality management, in the form of the 1989 Commodity Inspection Law. This requires inspections to be carried out on all exported goods on an officially established list. The Government conducts the inspections through the State Commodity Inspection Administration. Other government agencies also follow the question of quality control. For example, the Ministry of Foreign Economic Relations and Trade also conducts quality appraisals and gives awards for goods recognized to be of high quality. An export quality permit system has also been set up on the basis of the national Export Commodity Inspection Regulations.

It should be explained that in order to adapt to further openness and meet the demands of international competition, China has made export quality a matter of high strategic importance. It has abandoned its former strategy of developing exports by relying on bargain basement prices, advancing in the late 1980s a strategy of "winning on quality". The nub of this strategy is the correct appreciation and handling in foreign trade of the links between quality and quantity, benefits and speed, and between goods' intrinsic and apparent quality. If exporting is the objective, then everything from research and development and design to production, fittings, and packaging, warehousing and transport must be attended to in unremitting detail, quality must be assured and foreign trade and exports must be channelled swiftly towards high quality, wide variety, high grades and high foreign exchange earnings.

Figure 1. Composition of exports, 1953-1990 (3)
(following the "Classification of international trade indicators")

(in hundreds of millions of US$)

Year	Manufactures		1. Heavy industry		(1) Chemicals and related products		(2) Manufactured Goods classified by raw materials		(3) Machinery and transport equipment		2. Textiles	
	Value	Percent of total	Value	Percent of total	Value	Percent of total	Value	Percent of total	Value	Percent of total	Value	Percent of total
1953	2.11	20.6	0.85	8.3	0.07	0.7	0.78	7.6			1.26	12.3
1957	5.82	36.4	1.61	10.1	0.21	1.3	1.39	8.7	0.01	0.1	4.21	26.3
1965	10.87	48.8	3.96	17.8	0.53	2.4	1.77	7.9	1.66	7.5	6.91	31.0
1966	9.39	39.7	2.78	11.7	0.48	2.0	1.57	6.6	0.73	3.1	6.61	28.0
1970	10.50	46.5	2.89	12.8	0.67	2.9	1.53	6.8	0.69	3.1	7.61	33.7
1975	31.66	43.6	9.05	12.5	2.14	3.0	4.47	6.1	2.44	3.4	22.61	31.1
1976	31.11	45.4	8.08	11.8	1.98	2.9	3.72	5.4	2.38	3.5	23.03	33.6
1977	35.25	46.4	8.51	11.2	1.84	2.4	3.71	4.9	2.96	3.9	26.74	35.2
1978	45.29	46.5	10.10	10.4	2.34	2.4	4.44	4.6	3.32	3.4	35.19	36.1
1979	63.43	46.4	14.97	10.9	4.24	3.1	6.09	4.4	4.64	3.4	48.46	35.5

Year	Manufactures		1. Heavy industry		(1) Chemicals and related products		(2) Manufactured Goods classified by raw materials		(3) Machinery and transport equipment		2. Textiles	
	Value	Percent of total	Value	Percent of total	Value	Percent of total	Value	Percent of total	Value	Percent of total	Value	Percent of total
1980	85.10	46.6	23.57	12.9	6.30	3.4	8.76	4.8	8.51	4.7	61.53	33.7
1981	105.33	50.4	37.98	18.2	6.99	3.4	13.22	6.3	17.77	8.5	67.35	32.2
1982	113.56	52.0	49.11	22.5	6.24	2.8	11.53	5.3	31.34	14.4	64.45	29.5
1983	119.32	53.8	48.71	22.0	6.53	3.0	9.08	4.1	33.10	14.9	70.61	31.8
1984	122.37	50.1	46.99	19.2	7.72	3.2	8.15	3.3	31.12	12.7	75.38	30.9
1985	118.81	45.8	36.05	13.9	5.95	2.3	8.16	3.1	21.94	8.5	82.76	31.9
1986	152.22	56.3	55.29	20.4	8.28	3.0	10.80	4.0	36.21	13.4	96.93	35.9
1987	212.59	61.2	72.59	20.9	9.89	2.9	16.72	4.8	45.98	13.2	140.00	40.3
1988	261.87	64.4	99.70	24.5	13.23	3.3	28.29	7.0	58.18	14.3	162.17	39.9
1989	283.54	65.3	93.15	21.5	15.27	3.5	26.74	6.2	51.14	11.8	190.39	43.8
1990	352.72	67.7	137.48	26.4	18.19	3.5	37.02	7.1	82.27	15.8	215.24	41.3

1.1.3 Amendment of export market strategy, implementation of market diversification strategy

China's traditional export markets used to be excessively concentrated, and still were in the late 1980s. Figure 2 shows China's major export markets for one specific year.

Figure 2: Markets for Chinese exports, 1990

Export market	Proportion of Chinese exports (per cent)	
	Including re-exports through Hong Kong	Not including re-exports through Hong Kong
Japan	11.6	8.2
United States	25.6	8.7
European Community	19.2	9.2
Others		
including: Hong Kong	6.2	53.9
Remarks Value of China's exports to Hong Kong (Figure reported by China: unit US$ 100 million)		32.9
Value of Chinese goods re-exported from Hong Kong to other parts of the world (Figure reported by Hong Kong: unit US$ 100 million)		29.0
Total value of Chinese exports		62.1

Sources: Annual United Nations COMTRADE database, "Chinese Customs Statistics" and "Hong Kong Overseas Trade Survey". Quoted from World Bank, "Chinese Market Policy", 1993.

To correct the excessive concentration of China's export markets and expand its exports, the Chinese Government has paid careful attention to correct market strategy and market diversification; while maintaining and developing trade with the United States, Japan, the European Community and the Hong Kong-Australian region, it has made great efforts to open up markets in neighbouring countries, the ASEAN States and the Middle East, has striven to increase trade with Africa and Latin America and has exploited many means of developing trade and commerce with the countries of the former Soviet Union. Through trade and commerce it has strengthened political and economic ties with these countries. To put this strategy into effect, it took the following steps:

(a) Establishing a special export liability insurance system;

(b) Comprehensively offering future exports discount schemes in developing markets;

(c) Expanding sales credit and establishing purchase credit;

(d) Laying the groundwork for market diversification and development;

(e) Improving shipping terms.

1.2 Some import aspects of specific reforms

1.2.1 Reform of the foreign trade management system, and establishment of indirect controls.

Before the reforms, China's foreign trade management system was highly centralized and the State bore full responsibility for profits and losses. The central government determined export plans on the basis of import plans, a small number of foreign trade corporations signed contracts with the outside and interrelated business within the country supplied the goods. As complete responsibility for profits and losses on this output was borne by the State Ministry of Finance, the Government used public finances to subsidize foreign trade corporations that made losses on exports. In a planned economy where neither imports nor exports were on a large scale, this arrangement fulfilled the requirement of making up for surpluses and shortfalls while keeping imports and exports in overall balance.

After 1979, the Government began to apply a policy of encouraging exports. As late as 1987, however, since the "common pot" financial system whereby the State handled all revenues and outlays and was responsible for all profits and losses (an arrangement that was especially prominent under the old foreign trade system) had not been reformed, the policy of promoting exports was at odds with the capacity of the public purse to provide subsidies. This was all the more apparent when domestic prices were distorted. Export losses grew as the scale of exports increased, and the limited capacity of the public purse became a restriction on export expansion, sending China's efforts to expand exports into a vicious circle.

Recognizing and solving this problem had a direct bearing on the course of reform throughout China's economic system. After the third plenary meeting of the Central Committee of the Twelfth Congress of the Communist Party of China in 1984, as the markets' choice of the direction of reform was gradually established, the Government began to inquire into ways of shifting control of the economy from dirigiste planning to indirect regulation. It also began to research and gradually set up the framework for a new foreign trade system, and between 1986 and 1987 a new theoretical framework for foreign trade took shape. Against a background of reforms in domestic prices, public finances, taxes etc., the new framework featured adjustments in the exchange rate, improved foreign currency earnings retention rates and a market to regulate foreign currency settlements, an export tax rebate scheme and profitable financial terms for exports by foreign trade corporations in order to reduce export subsidies from public finances. Once exports by foreign trade corporations had reached the point where the corporations could shoulder their own surpluses and shortfalls, trade liberalization and, sustained by credit policy and so forth, an expansion in exports gradually came about.

Influenced by the process of reform in the domestic pricing system and the pattern of public finances, by 1988 experimental reforms abolishing export subsidies had been introduced in only some of the foreign trade corporations while franchizing and a contract system had started to apply to the great majority of enterprises with foreign trade corporations contracting with the Government for an export quota, turning over a proportion of their foreign earnings to the central Government, and the central Government subsidizing export losses at a fixed rate in renminbi. By 1991, as reforms throughout the domestic economic system continued, export subsidies from public finances had been abolished, breaking the vicious circle of reciprocal constraints on export expansion and financial subsidies, and an operational model of foreign trade system regulated by indirect controls had taken shape. Today the export plan is still laid down by the State, and foreign trading enterprises contract for export earnings and receipts in foreign currency, but they are now responsible for the profits and losses they make on exports they handle themselves, responding to signals from indirect controls.

1.2.2. Sustaining export expansion through exchange rate corrections and retentions of foreign exchange earnings

A. Exchange rate corrections

During the initial stages of reform and opening up, China was alert to the use of exchange rates to regulate imports and exports, and repeatedly devalued the renminbi in pursuit of its objective of encouraging exports. Beginning in 1981 it initially turned its single exchange rate into a dual rate and applied "hard-currency trade" values to goods for import and export, setting the exchange rate of 2.8 yuan to the dollar, while non-hard currency trade transactions continued to be converted at the original rate of approximately 1.5 yuan per dollar. In 1985 internal prices were abolished, and both trade and non-trade-related foreign exchange was handled at the new rate (1 US$ = 2.8 yuan). In the second half of 1985 the exchange rate was again reduced, to 1 US$ = 3.2 yuan, and in July 1986, revised downwards to 1 US$ = 3.7 yuan; in late 1989 it dropped to 1 US$ = 4.7 yuan, and in 1991 to 1 US$ = 5.2 yuan. In late 1991 a controlled floating system was introduced, whereby the official exchange rate is routinely adjusted at set times according to the following factors: (a) the balance of incomings and outgoings; (b) conditions on the foreign currency markets; (c) conditions at the foreign exchange adjustments centres; (d) the domestic resource prices required in order to earn foreign exchange (the cost of foreign-exchange-earning exports). Although floating, the basic tendency of the exchange rate has been downward. By the end of September 1993, the dollar had risen to roughly 5.88 yuan.

B. The foreign exchange earnings retention system

China used to have a non-convertible currency and strict foreign currency controls, requiring all exporting production units to transfer their foreign currency receipts to a designated bank which would give them domestic currency in exchange. As a result, exporting production units had no foreign currency to pay for imports. Like other production units, they were not supposed to allot foreign currency other than through the State Planning Commission's annual import plans. In order to give free reign to exporters' energies, beginning in 1979 the central Government authorized local governments, government departments and enterprises, after selling their foreign currency export earnings to the designated bank at the official rate, freely to buy back a portion (quota) of the foreign exchange which they were allowed to retain. This is the foreign exchange earnings retention system.

At the outset, the system was set up to make things easier for exporting enterprises. But as it also authorized enterprises to transfer their rights (quotas) for compensation (foreign-exchange-regulated) prices were also transferred. Until the exchange rate stabilizes, the difference between the official exchange rate and prices regulated by foreign exchange represents a means of balancing financial conditions for exporting enterprises. Hence foreign exchange retention is not only convenient, it also has hidden benefits.

C. Changes in the proportion of foreign exchange retained

Initially, the proportion of their foreign exchange earnings that enterprises were allowed to retain was relatively small. Later, in order to promote its industrial policy objectives, the Government adjusted the retention system. Since the beginning of 1988, as an incentive to export, the trading corporations of the high priority departments (light industry, handicrafts, clothing, machinery and electronics) have been able to retain a much higher proportion of their foreign exchange earnings (70-100 per cent) and they may also be authorized to retain a fairly high proportion of any foreign exchange surplus to the foreign exchange earnings plan. Similarly, in Guangdong, Fujian and other provinces, minority autonomous regions and special economic zones they may be authorized to retain especially high proportions - as much as 100 per cent in special economic zones.

These differing retention rates, although of benefit in promoting industrial policy objectives, also created unequal competitive conditions and factors because of the way financial conditions affected the regulation of foreign currency retention. Beginning in 1991, therefore, the Government adopted the approach of applying standard retention rates throughout the country, depending on the commodity, not the region. Its present approach is to apply a general retention ratio of 80 per cent on exports, of which 10 per cent goes to the local government and 70 per cent to the foreign trade corporation. Mechanical and electronic products still attract a retention ratio of 100 per cent, of which 10 per cent goes to the manufacturing enterprise and 90 per cent to the foreign trade corporation. Foreign and jointly financed enterprises can retain 100 per cent of their export earnings.

D. Market prices regulated by foreign exchange

In order to make it easier for enterpries with debts to pay to transfer their retained foreign exchange, the State has established foreign exchange adjustment centres. By the end of December 1991, there were 90 such centres within the country. They include the State Foreign Exchange Adjustment Centre in Beijing, where most important functions are to promote transactions among central government organs and encourage transactions among the foreign exchange adjustment centres of different administrative regions.

Foreign-currency-adjusted market values formed thanks to the adjustment of retained foreign exchange earnings have in the past few years come to determine the accounting prices for the commodities imported and exported by most enterprises. At present, foreign-currency-adjusted market values are approximately 3 yuan higher than the official exchange rate. On one occasion, under the influence of macroeconomic effects, [the discrepancy] reached nearly 5 yuan and the central government had no option but to take effective measures to reduce the disparity between the two exchange rates, and alleviate some of the exceptional circumstances that developed as a result.

1.2.3 A tax rebate system for exports based on current international practice

China's purpose in rebating tax on exports is to use internationally accepted methods gradually to abolish the discrepancies between its domestic and external pricing systems, smooth away the associated distortions in its export structure, in favour of proper business motives for exporting, and thereby expand exports of manufactures and improve its overall export mix. Since 1988, therefore, the Government has begun to put in place an export tax rebate system.

An export tax rebate means the reimbursement of the indirect taxes paid on export goods during processing. China's indirect tax system is relatively complicated, there being value added tax, goods tax and business tax. But there are also disparities among the rates of value added tax attracted by different goods subject to it. When it defined its export tax rebate policy, therefore, the Government made every effort to reimburse as much as had been levied on common export items, but with an eye to convenience in the procedure. Rebates on exports of one-off and special items are set after ad hoc inspections.

China has now established a complete system for handling export tax rebates, including registration, appraisal, counselling, reporting, examination and approval, methods of inspection and so forth. Experience in recent years has shown that since China established its export tax rebate system and improved financial conditions for exporting, its promotion of exports of manufactured goods has seen positive benefits.

1.2.4 Reform and gradual liberalization of the trade management system

A. Changes in the freedom allowed to enterprises to go into the export business

Before 1979 China had only five ports open for foreign trade, and the principal entities authorized to engage in foreign trade were the dozen or so import/export corporations (groups) subordinate to the Ministry of Foreign Trade and a few branches at the ports; the foreign trade corporations in other areas were mainly responsible for procuring and allocating sources of goods to the ports. Thanks to the changes of the past 10 years or so every province, autonomous region, city with its own plan and special economic area has opened ports for foreign trade; local branches of foreign trade corporations are entitled to engage in foreign commerce on their own account (with the exception of one-off and special items). At the same time, some industrial ministries have been authorized to set up industrial trade corporations. In order to prompt manufacturing enterprises and research institutions to take on international markets directly, enterprises and institutions that meet the requirements have been authorized to handle foreign trade for themselves. China now has more than 4,480 foreign trade corporations; over 1,890 manufacturing enterprises and 100 research institutions are authorized to handle their own imports and exports, and recently another 100 or so village and small-town enterprises acquired similar rights. All enterprises involving foreign business investment are entitled to handle their own imports and exports. Some standards and requirements still apply to normal domestic businesses seeking access to foreign trade, but they are gradually being eased.

B. Gradually widening the scope of export management

When China began to reform and open up, it gradually lifted the restrictions on entry by enterprises into foreign trade but continued to impose limits on the scope of export management. This was principally because the Chinese pricing system was not rational and was constrained by the process of price reform; through dirigisme, the Government hoped to guarantee high earnings while at the same time not allowing the rich profits generated by price distortions to blind enterprises to competition for, especially before there was any mechanism whereby companies could take responsibility for their own profits and losses, such competition posed a growing danger to State interests. As the pricing system was gradually put in order and the machinery for enterprises to handle their own profits and losses began to be set up, China began to ease the restrictions on the management of foreign trade in export items. Today, with the exception of 16 staple commodities associated with the national economy and people's livelihoods, which the Government has directed to be managed by one or only a handful of companies, all commodities are in theory authorized for export by foreign trade corporations (apart from items whose export is banned internationally by the competent organizations). To facilitate operations and embody the administrative controls the Government requires, a scheme of planned quotas, voluntary quotas and standard permits has been introduced for 114 categories of goods, including the 16 mentioned above. These account for roughly 15 per cent of China's exports; in the main they are secondary farm products such as the beef, pork and vegetables exported to Hong Kong. The purpose of arranging for the issuance of permits in this case is to raise the export value of these items by controlling supplies.

1.3 Foreign markets and export promotion

1.3.1 Involvement in and development of multilateral and bilateral trade talks

As the pace of reform has quickened, China has continually reformed its foreign trade management system and expanded the process of internal market development; at the same time, it hopes to become a part of developing and established multilateral trading systems, securing a fair and favourable international trading environment and ensuring that import and export trade continues to enjoy balanced and sustained growth. Accordingly, it participates actively in discussions within international multilateral trading organizations and in talks on the development of bilateral trade. There have been some prominent developments in this area: (a) on 7 January 1984 China signed and became a party to the third Multi-Fibre Arrangement; (b) on 10 August 1986, it formally requested the restoration of China's seat in GATT; (c) in September 1986, China joined the Uruguay Round of negotiations, and became a full member of the Round; (d) China is active in such regional economic organizations as the Asia-Pacific Economic Cooperation Forum (APEC); (e) it regularly conveys its opinions on bilateral trade issues to its trading partners through joint bilateral commissions (mixed commissions) and so forth.

1.3.2 Export promotion machinery and patterns

The Department of Foreign Trade and Economic Cooperation handles all aspects of trade promotion in China. Besides this, there also exists a State Committee on International Trade Promotion which is answerable directly to the State Council.

One major occupation of a Ministry of Foreign Economic Relations and Trade company which engages in international advertising is to plan international advertising and promotions for exporting businesses and export fairs organized by the Ministry. This has had a beneficial effect on Chinese export expansion, as for example in the case of the famous twice-yearly Guangzhou (Canton) Export Commodities Fair. (See figure 3).

As the table shows, the earnings from the Guangzhou Fair were lower as a proportion of Chinese exports throughout the 1980s than in the 1970s. The reason for this is twofold: (a) opportunities for Chinese exporting companies to come into contact with foreign markets were multiplying - a positive result of opening up to the outside; (b) foreign trade management bodies in many provinces and cities now organize their own trade fairs of every description. In many provinces and cities, the trade fair is now an important annual event.

The Committee on International Trade Promotion is chiefly concerned with trade fairs and international fairs staged abroad. Participation in the Exhibitions Committee is open to all comers. An International Trade Arbitration Committee has been set up under the Trade Promotion Committee, to help in resolving legal disputes arising out of trade.

1.3.3 Using the capacities and channels provided by foreign firms investing in China to expand exports

Since China began pursuing its policy of reform and opening up, it has actively encouraged foreign firms to invest in the creation of jointly financed, cooperative and wholly foreign-owned ventures. In order to do so, it has offered a great many benefits - tax exemptions and so forth - to

Figure 3

Value of exports from annual Guangzhou Export Commodity Fairs
(unit: hundreds of millions of US$)

Year	Export earnings			Trade fair exports as a proportion of total exports (%)
	Spring fair	Autumn fair	Subtotal	
1957	0.18	0.69	0.87	5.44
1958	1.53	1.26	2.79	11.57
1959	0.76	1.44	2.20	9.73
1960	1.25	1.05	2.30	12.37
1961	1.30	1.31	2.61	17.52
1962	1.17	1.45	2.62	17.58
1963	1.49	2.09	3.58	21.70
1964	2.42	2.80	5.22	27.19
1965	3.25	4.32	7.57	33.95
1966	3.60	4.81	8.41	35.49
1967	4.18	4.06	8.44	39.44
1968	3.96	4.80	8.76	41.71
1969	3.35	4.28	7.63	34.68
1970	4.03	5.09	9.12	40.35
1971	5.05	6.95	12.00	45.45
1972	7.93	10.79	18.72	54.42
1973	13.81	15.87	29.68	51.00
1974	10.97	12.67	23.64	34.01
1975	12.47	14.20	26.67	36.74
1976	13.33	15.89	29.22	42.59
1977	15.47	16.82	32.29	42.54
1978	18.83	24.48	43.31	44.42
1979	24.32	27.08	51.40	37.63
1980	18.97	25.11	44.08	24.33
1981	20.63	27.35	47.98	21.80
1982	5.04	22.77	27.11	12.15
1983	22.18	22.68	44.86	20.18
1984	23.28	27.78	51.06	19.53
1985	25.73	31.03	56.76	20.75
1986	32.42	40.80	73.20	23.66
1987	42.66	47.83	90.94	23.06
1988	52.18	54.24	106.42	22.39
1989	53.24	55.71	108.95	20.75

foreign firms investing in China. At the same time, the Government hopes that foreign firms investing in and operating businesses in China will bring some firm overseas sales contacts, and that enterprises in which foreign companies have invested will have a firm proportion of exports. On the one hand, this is because of the need, while foreign exchange in China is not yet completely freely convertible, to ensure the balance of exchange for enterprises in which foreign companies have invested, and on the other hand, it is expected that this will spur exports. Experience shows that exports by foreign-financed enterprises build up extremely quickly. In 1992, exports by foreign-financed firms (wholly owned, jointly owned and overseas-Chinese owned) amounted to US$ 43,750 million, or 26.4 per cent of China's total exports.

1.3.4. Foreign trade corporations and other enterprises authorized to engage in foreign trade are encouraged to invest in or establish overseas after-sales service networks. The value of this in encouraging exports of manufactures is obvious. Since 1988, many foreign trading enterprises have begun to consider evolving towards internationalized management, and the few original overseas branches have also begun to pursue increased economic returns. There are now 4,479 enterprises overseas with Chinese investment.

1.3.5. Import/Export Chambers of Commerce have been set up to coordinate export development. As reform of the system progressed, the Chambers were intended to ensure coordination among freely competing enterprises. Today, China has six major Import/Export Chambers of Commerce which, besides helping to coordinate import and export prices, also actively develop other promotional activities such as meetings to discuss markets, training and so forth.

2. China intends to go on expanding exports

2.1 In recent years, conditions have favoured the development of China's economy. Both GNP and GDP have increased steadily from year to year and manufacturing industry already accounts for over 45 per cent of GDP, laying the foundations for China to develop its exports of manufactured goods. (See figure 4)

In the course of over a decade of reform and opening up, the maritime regions of China have been geographically best sited and have enjoyed priority in development. Today their extrovert economic development is on a commensurately large scale, laying the foundations for further development. What must be noted is that China has extended its strategy of opening up the coast to cities on coastal rivers, and the capitals of adjoining provinces. The swift economic development of the central and western regions is attracting increasing attention; by opening up to the outside these regions are developing, because they have enormous export potential.

2.2 In late 1992 the Fourteenth Congress of the Communist Party of China clearly stated that China would construct a socialist market economy. This means that China had correctly grasped the use of market mechanisms to allocate resources and recognized that a modern market economy required an open economy and vice versa, and would therefore do more to encourage the fusion of its domestic economy with the international economy.

Figure 4

Manufacturing industry's share of GDP since 1985

Year	GDP (in hundreds of millions of US dollars)	Manufacturing industry's share of GDP (%)
1985	8527.4	45.3
1986	9687.6	46.4
1987	11 307.1	46.4
1988	14 074.2	46.8
1989	15 997.6	45.5
1990	17 681.3	43.6
1991	19 640.6	46.1
1992	2 393.8	46.1

Source: Almanac of China's Economy, 1992.

Foreign trade is an important binding element in the merger of China's economy with the international economy, and it rests on the development of exports. Chinese exports have always served to meet the country's import requirements, but now China is a part of the international economy it cannot but support exports. Accordingly, the Government will give greater support to and expand exports.

If exports are to expand, further amendments to strategy and reforms to the system are still very important. While continuing its strategy of encouraging exports of manufactured goods, diversifying the markets for them and emphasizing quality, the Government will do its best, through further reforms in public finances, banking, taxation, exchange rates and so forth, to promote development at home while using economic development to create conditions favouring export expansion.

2.3 Exchange rate reform is one area where a major breakthrough is needed. Although foreign-exchange-regulated prices have been of benefit in promoting exports, the "two-tier" exchange rate it entails cannot be ignored. As the economic system is overhauled, the way this two-tier system operates must be changed, for otherwise it will be easy to create new distortions and destroy the value of price signals as guides; this will not help the establishment of market mechanisms. China's experience in reforming the prices of capital goods has already made this point abundantly clear. Accordingly, the Chinese Government will attach priority to this question in the next round of reforms. Many expert research reports have charted the course of reform: introduction of a "single-tier" exchange rate and a floating exchange rate system vis-à-vis the major internationally traded currencies in order to keep the exchange rate at an appropriate level; the free rate that gradually emerges on this basis will eventually give rise to the freely convertible Renminbi. Research into these matters is currently receiving great attention.

2.4 Banking reforms will also help export development. China has already decided to set up an import/export bank to provide guarantees of export-support-policy-related financing. The establishment of a commercial banking system should offer more opportunities for foreign trading enterprises to secure financing in Renminbi, and the significance of this for export-oriented businesses other than foreign trade corporations is immense.

2.5 The trade management system will reform further, and deregulation will be the ultimate objective of reforms to the foreign trade system. The trend is evident: increasing numbers of enterprises will be authorized to import and export, and the range of goods controlled by the State through quotas and permits will gradually diminish. Methods for the allocation of quotas are currently under study to see how they can be turned into invitations to tender. Advances in these areas will doubtless create increasing export advantages.

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