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## Trade Trends Show China Should Take the Opportunity to Diversify its Market<sup>①</sup>

The China-US trade row has been drawing a lot of attention. A detailed review of the bilateral trade situation between China and the US from January through April is a good reference for the future trend.

Bilateral trade between China and the US in the first four months of this year has seen an obvious drop. According to data from the General Administration of Customs, bilateral trade in the same period totaled \$161 billion, a 15.7 percent drop compared to the previous year. China exported 9.7 percent less year-on-year

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for a total of \$121 billion - the biggest drop in export numbers among all trade partners. Imports from the US during the same period slumped 30.4 percent.

**Table 1: China's Trade in Goods by Selected Countries and Areas in the First Four Months of 2019**

	Value (in 100 billion dollars)				Growth Rate (%)			
	Total Trade	Imports	Exports	Trade Deficit	Total Trade	Imports	Exports	Trade Deficit
Total	13998.2	6552.1	7446.1	763.1	-1.1	0.2	-2.5	16.5
U.S.	1612.3	387.8	1224.4	836.6	-15.7	-30.4	-9.7	4.7
EU	2200.6	885.4	1315.2	429.8	5.9	2.5	8.3	22.6
ASEAN	1879.7	828.8	1050.9	222.1	3.4	-1.5	7.5	63.1
Chinese HK	851.9	30.3	821.6	791.3	-5.8	39.2	-6.9	-8.1
South Korea	921.0	566.5	354.6	-221.9	-6.8	-11.6	2.2	-24.5
Japan	999.4	544.4	455.0	-89.4	-3.4	-4.1	-2.5	-11.5
Chinese Taiwan	679.6	515.2	164.4	-350.8	-3.0	-6.4	9.7	-12.4
Australia	511.2	368.0	143.2	-224.8	6.6	7.9	3.4	11.0
India	287.0	61.8	225.2	163.4	-2.8	-0.3	-3.5	-4.7
Russia	331.7	188.1	143.7	-44.4	5.8	7.6	3.4	23.9

Source: General Administration of Customs, China, <http://english.customs.gov.cn/>.

One reason behind these numbers is that companies on both sides have made purchases and shipped orders in advance to dodge the possible tariffs from the trade frictions. When the rush to trade fades, the numbers start to fall.

Another fact to be noted is that China's trade surplus against the US did not



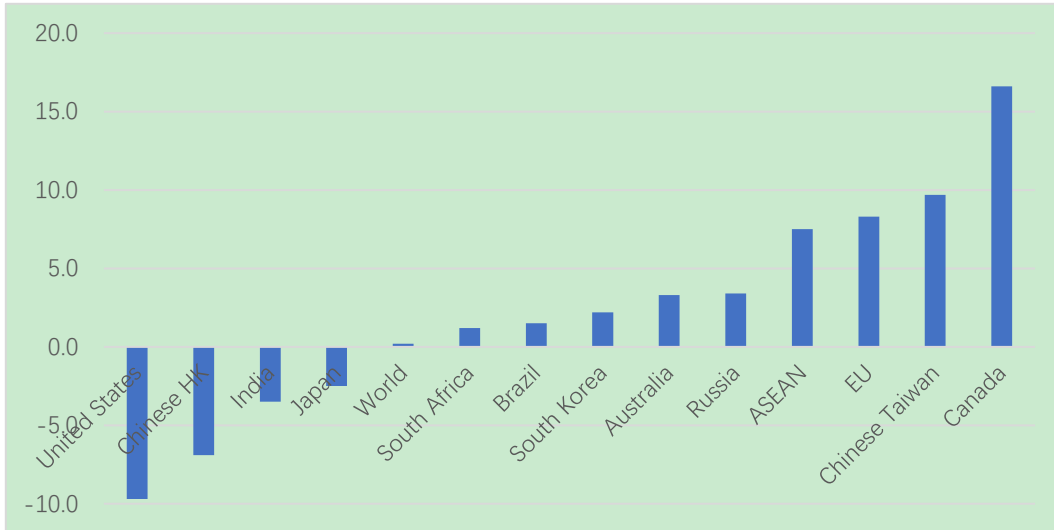
significantly narrow as the US had expected. The numbers show that the amount China imported from the US fell more quickly than the amount it exported to the US. Therefore, China's trade surplus has expanded 4.0 percent from a year ago.

The trade friction has made an important impact on both countries. For China, the global economic uncertainty brought by the trade friction put pressure on China's trade environment.

Chinese exports in the first quarter only mildly increased. China imported less not only from the US but also from other economies in the upstream industrial chain. Meanwhile, China's imports from countries with abundant resources and energy such as Canada, Brazil, Australia, New Zealand and Russia rose.

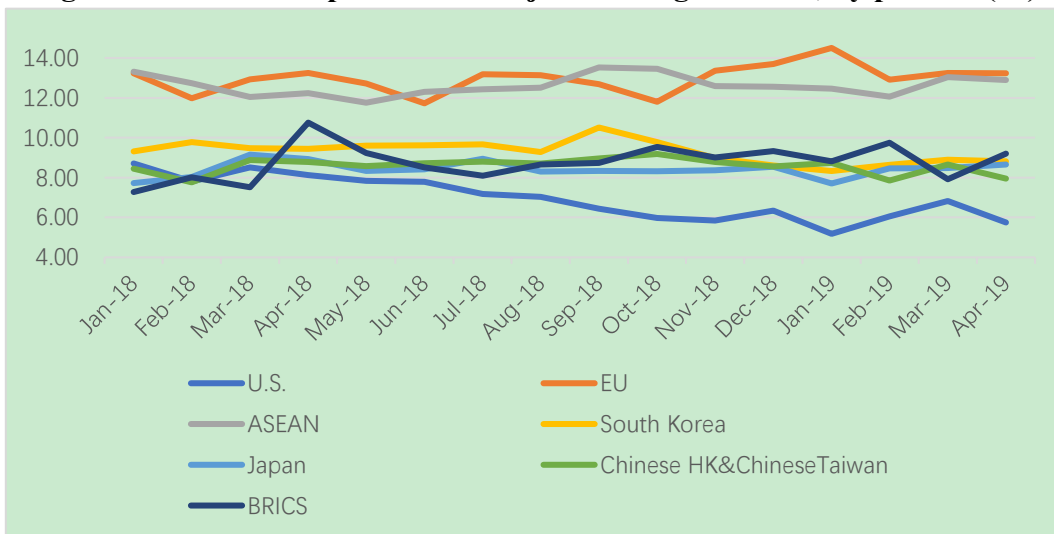


Figure 1: China’s Exports to Major Trading Partners in the First Four Months of 2019(growth rate ,%)



Source: General Administration of Customs, China, <http://english.customs.gov.cn/>.

Figure 2 : China’s Imports from Major Trading Partners, by percent (%)



Source: General Administration of Customs, China, <http://english.customs.gov.cn/>.

The trade structure has been affected as there has been impact on some export industries in China. Exports of a total of 20 types of commodities (excluding artwork and special trade goods) from China to the US have shown

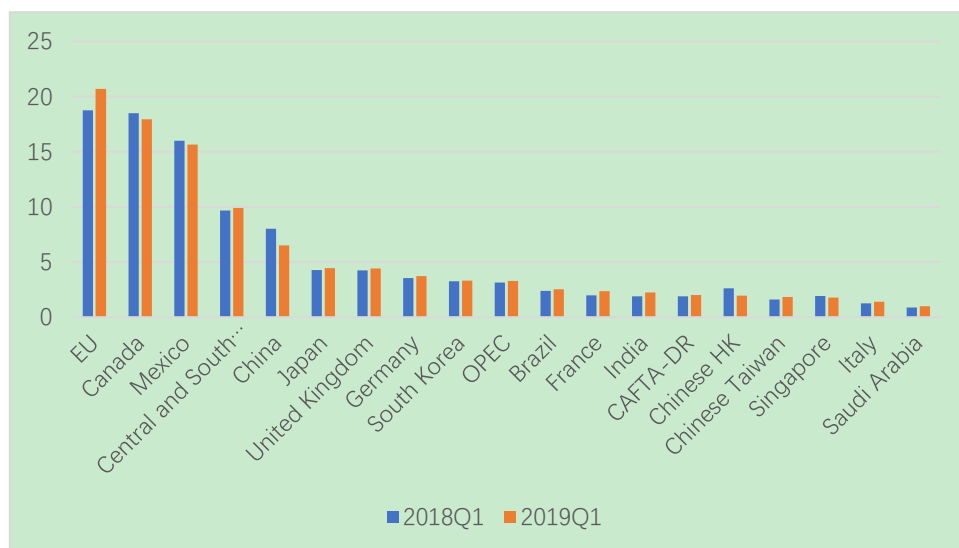


dips. Products such as electromechanical equipment, transportation equipment, base metal, minerals and timber products took the biggest hit.

The trade friction had a negative influence on the US as well.

The trade diversion effect is gradually taking place. The US has exported more products to the EU, Canada and Mexico while lowering its dependence on the Chinese market. A total of 6.5 percent of US exports went to the Chinese market in the first quarter of this year. The number was 8.02 percent in the same period last year.

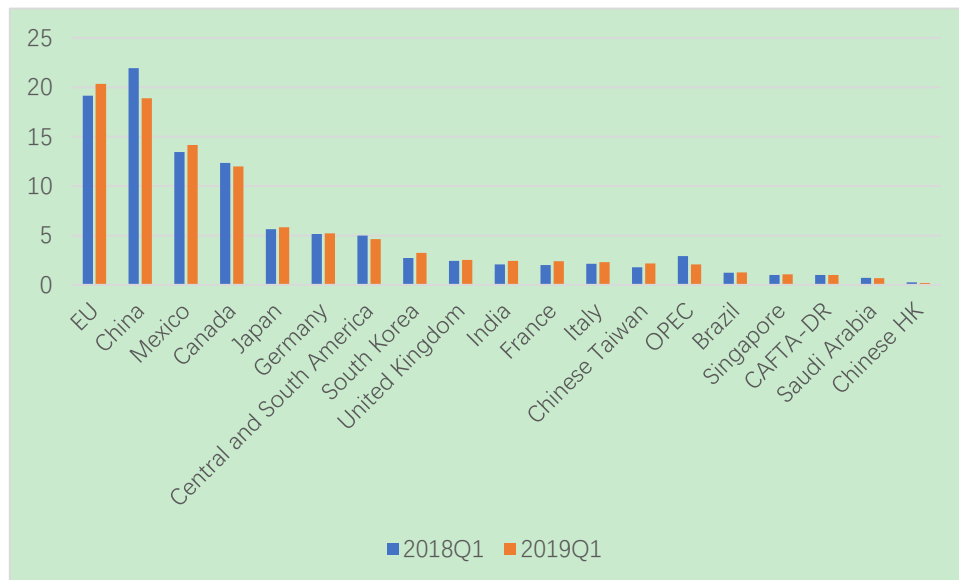
**Figure 3 : U.S. Exports to Selected Countries and Areas, by percent (%)**



Source: U.S. Bureau of Economic Analysis, <https://www.bea.gov/>.



**Figure 4 :U.S. Imports from Selected Trading Partners, by percent (%)**



Source: U.S. Bureau of Economic Analysis, <https://www.bea.gov/>.

Fewer Chinese products have been exported to the US as well. In the first quarter of this year, the US reduced furniture, refrigerator and tire imports from China and substituted them with goods from Vietnam, South Korea, Mexico and China's island of Taiwan.

Also, as uncertainties loomed amid tariff hikes, some related US industries were afflicted, such as plants, minerals and precious metal in the first quarter.

The trade friction has significantly lifted the price of intermediate products



and finished products for the US side. The supply chain networks have experienced dramatic changes. US tariffs imposed on other countries and the tariffs imposed on the US by other countries pushed the Producer Price Index up by 1 percentage point. Considering the fixed costs of supply chains, reconstructing the global value chain will bring huge costs to US and Chinese companies.

China-US trade frictions could drag on, and China has to prepare for it. One option is to improve economic relations with the **Belt and Road** Initiative (BRI) countries. The export and import volume in the first quarter between China and the BRI countries increased 7.8 percent, 4.1 percentage points higher than China's overall foreign trade increase. China needs to take this opportunity to diversify its market.



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