

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**CHINA'S TERMS OF TRADE IN MANUFACTURES**

**1993–2000**

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**DISCUSSION PAPERS**

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# CHINA'S TERMS OF TRADE IN MANUFACTURES 1993–2000

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## PREFACE

In the late 1970s, Chinese economic policy underwent a dramatic change. The self-seclusion policy was abandoned and replaced by a policy of economic reform and opening to the outside world – a policy characterized by the promotion of foreign trade (particularly exports), the active utilization of foreign capital, the gradual opening of domestic markets and the introduction of competition. This policy not only successfully activated the Chinese economy and helped it to develop at an unprecedented speed, but also initiated the historic course of the integration of the Chinese economy into the world economy.

As the Chinese economy has become increasingly integrated into the international economy, its terms of foreign trade have also experienced critical changes. This paper examines terms of trade for China's manufactured goods over the period 1993–2000. For an in-depth and accurate understanding of the changes in terms, this study follows the internationally recognized method and divides China's manufactured goods into four categories: labour-/resource-intensive products, low-skill/low-tech/low-capital-intensive products, medium-skill/medium-tech/medium-capital-intensive products, and high-skill/high-tech/high-capital-intensive products. (Hereafter the latter three categories are referred to as low-tech products, medium-tech products and high-tech products.) Based on the aggregations, the import and export price indices are formulated by the Laspeyres aggregative formula  $P = \frac{\sum P_n \cdot Q_n}{\sum P_0 \cdot Q_0} \times 100$  per cent, and the terms of trade of Chinese manufactures are calculated as the ratio of the change in the price of the exported goods to that of the corresponding imported goods.

To facilitate comparison, the starting year, 1993, was originally to be used as the base period. However, the year 1995 was finally chosen as the base period in view of the major changes that have taken place in recent years in the structure of Chinese commodities for international trade, and which are reflected by vast differences in this structure before 1993 and after.

Chapter I of this paper presents comparative studies of the terms of trade for manufactures and classified manufactures between China and different partners. Chapter II explores the causes of changes in China's terms of trade over the period 1993–2000 by reviewing and comparing the development of China's import and export price indices and assessing the factors behind these developments. Finally, Chapter III outlines some proposals for improving China's terms of trade.

### **ABSTRACT**

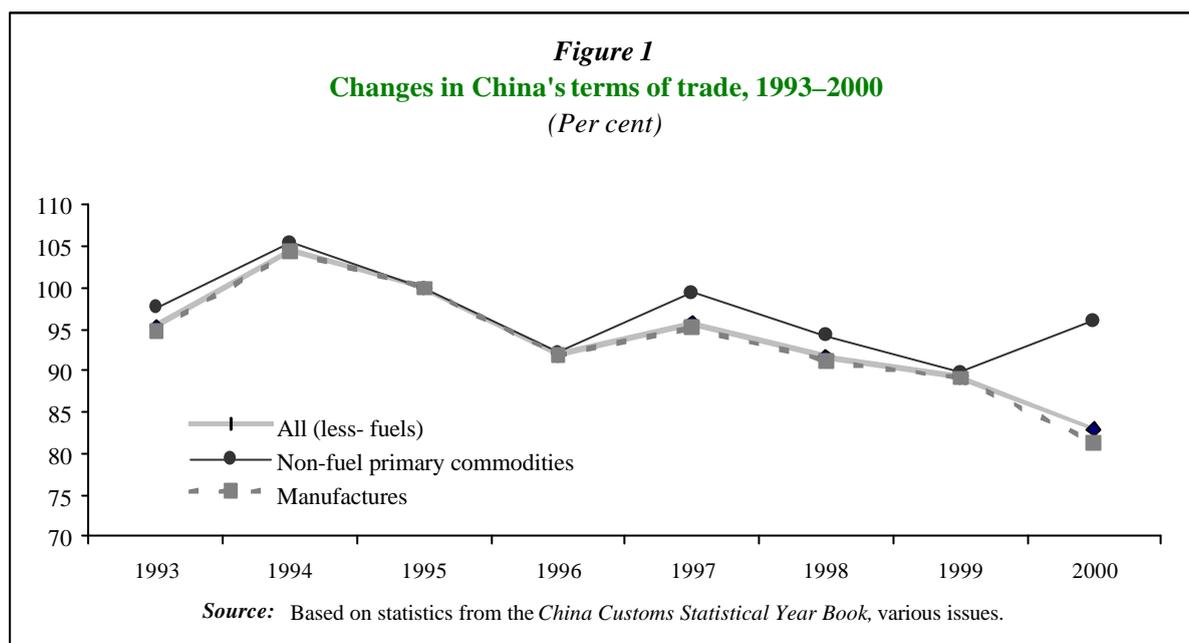
*Recent years have witnessed the rapid growth of China's imports and exports of manufactures, as well as critical changes in its terms of trade. This study compares trends in China's price indices for exports and imports between 1993 and 2000. It also examines the terms of trade for China's manufactures with respect to (i) different partner countries and country groups, including all developed countries, all developing countries, the European Union, the United States, Japan, the four first-tier East Asian NIEs, the ASEAN Four (Indonesia, Malaysia, the Philippines and Thailand) and other developing countries, and (ii) different product groups, including total exports and imports as well as various categories of manufactured products. The study attempts to explore and assess the factors that shaped the trends, and, based on the resulting conclusions, to make recommendations for developing countries seeking to improve their terms of trade for manufactures.*

### **I. TRENDS IN CHINA'S TERMS OF TRADE, 1993–2000**

Between 1993 and 2000, the index for China's general terms of trade (covering primary as well as manufactured goods) dropped by 13 per cent (figure 1 and table 1). A drop in the index for manufactured goods was the chief factor responsible for a reduction in the index for China's general terms of trade; during this period, the index for manufactured goods fell by 14 per cent. The index for non-fuel primary products decreased by 2 per cent. As a matter of fact, during most of the period between 1993 and 2000, the terms of trade for non-fuel primary and manufactured goods moved in tandem, whether up or down. But from 1999 onwards, the two parted ways, with terms of trade continuing to deteriorate for manufactured goods while improving for non-primary goods. However, this did not result in an overall improvement in terms of trade, since primary goods account for only a small portion of China's foreign trade and the improvement in terms was too modest.

In the period from 1993 to 2000, China's terms of trade experienced ups and downs, with the 1994 and 1997 being periods of slight improvements. Terms of trade for both non-fuel primary goods and manufactured goods improved in 1994, with a larger increase for the latter category. This development was caused mainly by the depreciation of the yuan arising from the significant reform of China's foreign exchange regime implemented in 1994, which strengthened the competitiveness of China's exports (manufactured goods in particular) and meanwhile effectively held back import growth and depressed import prices. However, the impact of this adjustment proved temporary and limited. Of the four classes of manufactured goods, low-tech products were more sensitive to the depreciation of the yuan than the other three, the prices of which resumed in 1995 the upward trends disrupted temporarily by the depreciation.

Terms of trade for both non-fuel primary goods and manufactured goods improved in 1997, with the former achieving the larger margin. This time the improvement in terms of trade came from the non-synchronized impacts of the Asian financial crisis on China's imports and exports, as import prices were more sensitive to the crisis and began dropping one year earlier than export prices, which still kept rising in 1997. As the Asian financial crisis continued, the negative effect on China's terms of trade became more and more apparent.



**Table 1**  
**Changes in China's terms of trade indices, 1993–2000**  
(Per cent)

Category	Import price	Export price	Terms of trade
All products	19	4.0	-13
Non-fuel primary products	6	4.0	-2
Manufactured goods	20	3.0	-14
Labour-/resource-intensive products	21	7.0	-11
Low-tech products	2	-0.5	-3
Medium-tech products	26	3.0	-18
High-tech products	17	-6.0	-20

*Source:* Based on statistics from the *Chinese Customs Statistical Year Book*, various issues.

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