

China's Sustainable Trade Strategy: An overview

Guoqiang Long

Senior Fellow and Deputy Director-General

Department of Foreign Economic Relations

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State Council of People's Republic of China

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Opinions expressed in this paper are those of the author and should not be attributed to the institute to which the author belongs.

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International Institute for Sustainable Development
161 Portage Avenue East, 6th Floor
Winnipeg, Manitoba
Canada R3B 0Y4
Tel: +1 (204) 958-7700
Fax: +1 (204) 958-7710
Email: info@iisd.ca
Website: www.iisd.org

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Introduction

China's emergence as a big player in world trade is a significant development in the global trade system. China introduced its trade reform policy at the end of the 1970s when China ranked 32nd among nations in global trade, due to China's "Import Substitution" strategy. Thirty years later, China became the world's largest exporter.

China's fast trade development is attributed to its implementation of a strategy and policy featuring "active absorption of foreign direct investments and encouragement of foreign trade development" for the sake of coping with global economic integration and international industrial relocation. This strategy has accomplished immense results; however, it faces growing challenges. The swift expansion of China's economy has given rise to increasingly severe problems regarding resources, energy and the environment. Globally, the fast growth of China's trade volume has triggered an increasing number of trade frictions between China and other countries and caused relations between China and other countries to become more complicated.

Under such new circumstances and in lieu of recent national changes and relations with the rest of the world, China must implement a sustainable trade strategy. In this paper, the author analyzes three areas of a sustainable trade strategy. Section 1.0 is a review of the evolution of China's foreign trade, Section 2.0 analyzes the challenges that China's foreign trade now faces, and Section 3.0 discusses the overall train of thought and main content of a sustainable trade strategy.

1.0 Development of China's Foreign Trade

1.1 Review and Status Quo of Foreign Trade

1.1.1 Fast Growth of China's Foreign Trade

China introduced its trade reforms in 1978 and has endeavoured to increase its export volumes by ushering in export-oriented, foreign-invested enterprises. Meanwhile, China reformed its national economic system and enhanced the competitiveness of manufacturing industry exports. Thus, China's foreign trade volume has grown rapidly. For example, China's total import and export value grew to US\$2,207.22 billion in 2009 from only US\$20.60 billion in 1978. In 31 years China's foreign trade value has increased 106-fold and posted an average yearly growth rate of 16.3 per cent. Accordingly, as the Chinese economy opens up, the degree of China's economic dependence upon foreign trade has reached 44.9 per cent.¹

The constantly increasing competitiveness of China's exports also has manifested itself in the marked change in China's balance of foreign trade. Despite China's fast economic growth, which has helped increase import volumes, China's foreign trade has recorded a favourable balance since 1994. Many researchers feel China is repeating the history of the United States, Germany and Japan, featuring "a favourable trade balance for years during a period of time when the manufacturing industry's competitiveness is becoming stronger at a fast pace"; researchers also note that China will maintain a favourable trade balance for a number of years.²

¹ China's dependence upon foreign trade reached 66.2 per cent in 2007 and then dropped due to the global financial crises and subsequent appreciation of Chinese currency.

² In 93 of the 97 years from 1874 through 1970, the United States recorded a favourable trade balance; Germany has continuously recorded a favourable balance of trade throughout the 54 years from 1952 to 2005. Japan has maintained a favourable trade balance since 1981; see W. Zixian and Y. Zhengwei, 2006, "Reasons of Formation, Evolution Trend of and Countermeasures for China's Favorable Balance of Foreign Trade," Issue 17, Political Research Office of the Ministry of Commerce, 18 September.

Table 1: China's overall import and export values from 1978 to 2009.

Year	Import/Export		Export		Import		Balance
	Billion US\$	Y to Y%	Billion US\$	Y to Y%	Billion US\$	Y to Y%	Billion US\$
1978	20.64	39.41	9.75	28.39	10.89	51	-1.15
1979	29.33	42.13	13.65	40.1	15.68	43.9	-2.02
1980	37.82	28.94	18.27	33.83	19.58	24.93	-1.31
1981	44.02	16.39	22.01	20.44	22.02	12.42	-0.01
1982	41.61	-5.49	22.32	1.43	19.29	-12.4	3.04
1983	43.62	4.83	22.23	-0.43	21.39	10.92	0.84
1984	53.55	22.77	26.14	17.61	27.41	28.14	-1.27
1985	69.60	29.98	27.35	4.63	42.25	54.15	-14.90
1986	73.85	6.1	30.94	13.13	42.90	1.54	-11.96
1987	82.65	11.93	39.44	27.45	43.22	0.73	-3.78
1988	102.78	24.36	47.52	20.49	55.27	27.89	-7.75
1989	111.68	8.65	52.54	10.57	59.14	7.01	-6.60
1990	115.44	3.37	62.09	18.18	53.35	-9.8	8.75
1991	135.70	17.56	71.91	15.81	63.79	19.58	8.12
1992	165.53	21.98	84.94	18.12	80.59	26.33	4.36
1993	195.70	18.23	91.74	8.01	103.96	29.01	-12.22
1994	236.62	20.91	121.01	31.9	115.61	11.21	5.39
1995	280.86	18.7	148.78	22.95	132.08	14.25	16.70
1996	289.88	3.21	151.05	1.52	138.83	5.11	12.22
1997	325.16	12.17	182.79	21.02	142.37	2.55	40.42
1998	323.95	-0.37	183.71	0.5	140.24	-1.5	43.48
1999	360.63	11.32	194.93	6.11	165.70	18.16	29.23
2000	474.30	31.52	249.20	27.84	225.09	35.85	24.11
2001	509.65	7.45	266.10	6.78	243.55	8.2	22.55
2002	620.77	21.8	325.60	22.36	295.17	21.19	30.43
2003	850.99	37.09	438.23	34.59	412.76	39.84	25.47
2004	1154.55	35.67	593.33	35.39	561.23	35.97	32.10
2005	1422.12	23.17	762.00	28.43	660.12	17.62	101.88
2006	1760.69	23.81	968.97	27.18	791.61	19.92	177.46
2007	2174.07	23.5	1218.12	25.7	955.95	20.8	262.17
2008	2561.63	17.83	1428.55	17.27	1133.09	18.53	295.46
2009	2207.22	-13.84	1201.66	-15.88	1005.56	-11.26	196.1

Source: China Custom Statistics, various years.

1.1.2 Structure of Foreign Trade Has Constantly Improved

From 1978 to 2009, the ratio of primary commodities in China's exports fell to 5.3 per cent from 54 per cent and the percentage of manufactured products grew to 94.7 per cent from 46 per cent. In 2006, China ranked first place globally in terms of production volumes of over 170 varieties of products and also first place globally in terms of the export volumes of 774 varieties of products. Thus, China has turned from an exporter of primary products into a major exporter of manufactured products. Among other things, the percentage corresponding to electromechanical products in China's total export commodities has reached 59.3 per cent and the percentage corresponding to new and high-tech products is 31.4 per cent (year 2009), almost the same as the average levels recorded in OECD (Organisation for Economic Co-operation and Development) countries.

The mix of imported commodities has undergone changes, and the percentage taken up by primary commodities has increased from year to year, reaching 28.8 per cent in 2009. With regard to the imported manufactured products, the percentages occupied by electromechanical products and by new/high-tech products have grown year to year. An overwhelming majority of these imports are industrial equipment and important component parts. In fact, foreign trade has given a stimulus to China's pursuit of industrialization and advancement of its industrial technologies.

Table 2: The structure of China's international trade (per cent).

Year	Primary goods		Manufactured goods					
			Total		Machinery and electric goods		High- and new-tech goods	
	Export	Import	Export	Import	Export	Import	Export	Import
1985	50.5	12.4	49.5	87.6	6.1	43.6		
1990	25.6	18.5	74.4	81.5	17.9	40.2		
1995	14.4	18.5	85.6	81.5	29.5	44.8	6.8	16.5
1998	11.2	16.4	88.8	83.6	36.2	45.6	11	20.8
1999	10.2	16.2	89.8	83.8	39.5	46.8	12.7	22.7
2000	10.2	20.8	89.8	79.2	42.3	45.7	14.9	23.3
2001	9.9	18.8	90.1	81.2	44.6	49.5	17.5	26.3
2002	8.7	16.7	91.3	83.3	48.2	52.7	20.8	28.1
2003	7.9	17.6	92.1	82.4	51.9	54.5	25.2	28.9
2004	6.8	20.9	93.2	79.1	54.5	53.8	27.9	28.8
2005	6.4	22.4	93.6	77.6	56	53.1	28.6	30.0
2006	5.5	23.6	94.5	76.4	56.7	54	29.1	31.2
2007	5.1	25.4	94.9	74.6	57.6	52.2	28.6	30
2008	5.4	32.0	94.6	68.0	57.6	47.5	29.1	30.2
2009	5.3	28.8	94.7	71.2	59.3	48.9	31.4	30.8

Source: China Custom Statistics, various years.

1.1.3 Regional Structure of China's Foreign Trade

Nearly 80 per cent of China's total foreign trade has been with its top 10 trading partners (see Table 3). China's major trading partners—for example, Japan, South Korea, ASEAN and Taiwan Province—account for about 42.4 per cent of China's imports. The United States and European Union take 38 per cent of China's exports. A high percentage of China's mainland exports to Hong Kong have targeted the Occidental market. The regional structure of China's exports is the result of the relocation of industrial facilities in the production network of East Asia—investors from Japan, South Korea and Taiwan have relocated their processing and assembling lines for manufactured products into China, boosting their upstream products to be exported to China and re-exported to the Occident. Such a structure is bound to incur an imbalance in bilateral trade between China and its major trading partners. Specifically, China has a trade deficit with most East Asian economies and a favourable trade balance with the Occident.

Table 3: China's top 10 trading partners, 2009.

Rank	Export		Import		Import/Export	
	Country	%	Country	%	Country	%
1	EU	19.7	Japan	13.0	EU	16.5
2	US	18.4	EU	12.7	US	13.5
3	HK SAR	13.8	ASEAN	10.6	Japan	10.4
4	ASEAN	8.8	South Korea	10.2	ASEAN	9.7
5	Japan	8.1	Taiwan Province	8.5	HK SAR	7.9
6	South Korea	4.5	US	7.7	South Korea	7.1
7	India	2.5	Australia	3.9	Taiwan Province	4.8
8	Australia	1.7	Brazil	2.8	Australia	2.7
9	Taiwan Province	1.7	Saudi Arabia	2.3	India	2.0
10	UAE	1.6	Russia	2.1	Brazil	1.9
Total		80.8		74.0		76.5

Source: China Custom Statistics, 2009.

1.1.4 China's Position in the World Trade System Has Greatly Improved

With the fast growth in total value of China's foreign trade, the country has rapidly moved up on the list of the world trading powers to be the biggest exporter and the 2nd biggest importer, up from 32nd place in 1978. World Trade Organization (WTO) statistics show that in 2009 China's export value was 9.6 per cent of the world's total and its import value was 7.3 per cent of the world's total.

Table 4: Position of China in the global trade system, 1978 to 2008.

Year	Import/export (billion US\$)	World ratio (%)	World ranking
1978	20.6	2.9	32
1981	44.0	1.1	22
1985	69.6	1.8	10
1990	115.4	1.6	15
1995	280.9	2.7	11
1998	324.0	2.9	11
1999	360.6	3.1	9
2000	474.3	3.6	8
2001	509.7	4	6
2002	620.8	4.7	6
2003	851.2	5.6	4
2004	1154.8	6.2	3
2005	1422.1	6.7	3
2006	1760.4	7.2	3
2007	2176.2	7.7	3
2008	2563.3	7.9	3
2009	2207.2	8.8	2

Source: Statistics Database, WTO.

China is becoming more important to its trade partners. In 1978 China had only about 40 trading partners, but by 2007 it had more than 220 trading partners (six trading partners have each recorded a sum of bilateral trade with China in excess of US\$100 billion). WTO statistics show that five economies have considered China their top trading partner, while 28 others considered China one of their top three trading partners and 56 economies considered China one of their top five trading partners.

1.2 Export-Oriented Trade Strategy Drives China's Fast Foreign Trade Growth

Before the late 1970s, China implemented an “import substitution” strategy and its foreign trade developed rather slowly. After adoption of the trade reform policy, China opened its labour-intensive sectors—ahead of other sectors—to the outside world, encouraged export-oriented foreign investments in its territory and adopted export-encouraging foreign exchange and taxation policies. These changes allowed China to make full use of its competitive edge including a well-built industrial foundation, a well-developed infrastructure, and a cheap and flexible labour market, creating one of the world's most important processing and production bases.

1.2.1 Formation of the Export-Oriented Strategy

Prior to adoption of its trade reform policy, China implemented the import substitution development strategy, which effectively applied various economic resources to boost the country's pursuit of industrialization through the planned economy system. By the 1970s, China had built a relatively complete industrial system; however, the industrial system formed under the "import substitution" strategy was poorly competitive in the global arena. Therefore, shortly after adoption of the trade reform policy, China was, like most other developing countries, suffering not only a savings gap, but also a foreign exchange gap, summarized by Hollis Chenery (the former World Bank's chief economist from 1972 to 1982) as the "two-gap" model.³ Inspired by the successful experience of certain economies in East Asia with respect to export orientation, China began to employ an export-oriented strategy in its labour intensive industries, while continuing import substitution in capital and technology intensive industries. China's key policies were:

- to attract export-oriented foreign investors; and
- to increase international competitiveness of domestic exports.

1.2.2 Policy That Attracts Export-Oriented Foreign Investors

(1) Establishment of Special Economic Zones and other special function zones. Initially, when China opened the country to foreign investors, neither its hardware (principally infrastructure facilities) nor its software (policies, laws, governmental administration and services, among others) could meet the requirements of foreign investors. Therefore, China had to use the successful experience of other countries in building export processing zones. Since 1980, China has set up Special Economic Zones in Shenzhen, Zhuhai, Shantou and Xiamen to create an investment climate that would attract foreign investors. Concrete policies included:

- establishing a full range of infrastructure facilities;
- applying preferential taxation policies toward foreign investors, including exempting their imported equipment from tariffs and reducing or exempting their corporate income taxes; and
- identifying foreign invested projects and granting incentives to those export-oriented projects (putting forward performance requirements on foreign invested projects mainly related to domestic contents, balance of foreign exchange and export ratio, along with a 50 per cent reduction in corporate income taxes payable by export-oriented enterprises whose export values exceed 70 per cent of their respective output values).

³ H. Chenery and M. Bruno, 1962, "Development Alternatives in an Open Economy: The Case of Israel," *Economic Journal* 72: 79-103.

Based on its preliminary success in building special economic zones, in 1984 China established Economic and Technological Development Zones in 14 coastal cities and implemented policies similar to those applied to Special Economic Zones. Then China built up New- and High-Technology Industry Development Zones, Bonded Zones, Export Processing Zones and numerous special function zones of other types with virtually identical policies. By doing so, China created an investment climate attractive to foreign investors. China successfully combined its competitive edge of cheap land and labour with the competitive edge of foreign investors of technology, management and international marketing networks.

Special function zones have now become important bases for the development of China's foreign trade. In 2009 the total export value recorded by these special function zones was 33.1 per cent of the country's aggregate export value, while the total import value posted by these special function zones was 37.1 per cent of China's aggregate import value.

Table 5: Roles of Special Economy Zones in China's foreign trade, 2009.

	Import and Export		Export		Import	
	Billion US\$	Ratio %	Billion US\$	Ratio %	Billion US\$	Ratio %
Special Economic Zones	186.25	8.4	104.18	8.7	82.07	8.2
Economic and Technology Development Zones	229.06	10.4	108.35	9.0	120.71	12.0
New- and High- Tech Industry Development Zones	79.96	3.6	42.42	3.5	37.54	3.7
Bonded Zones	114.43	5.2	37.14	3.1	77.29	7.7
Export Processing Zones	151.38	6.9	101.44	8.4	49.94	5.0
Bonded Logistic Zones	9.52	0.4	3.87	0.3	5.65	0.6
Total	770.60	34.9	397.40	33.1	373.20	37.1

Source: China Custom Statistics, 2009.

(2) Implementation of the processing trade policy. When China implemented its trade reform policy, those players in labour-intensive industries in Japan and other newly industrialized economies in East Asia were seeking a new place to relocate their labour-intensive production facilities (due to the sharp increases in their domestic production costs). These investment projects all feature huge import and re-export volumes/values because the raw materials and component parts have to be imported from their countries or other economies, and their products have to be re-exported. To meet the needs of these foreign invested projects, the Chinese government implemented the processing trade policy, under which those materials and parts imported by enterprises for the sake of processing and to be re-exported out of China are exempted both from

tariffs and import related taxes (mainly the Value Added Tax, VAT). This policy has eliminated the impediment wielded by China's high tariffs and VAT against using imported materials and parts. As the processing trade spreads along China's industrial value-added link, custom houses and commodity inspection and quarantine authorities are improving their supervisory practices and offering much more convenience with respect to customs clearance and carrying forward of goods across multiple customs, enabling the processing trade to spread throughout the entire country. So far, processing trade has played an important role in China's foreign trade.

Table 6: Role of processing trade and foreign invested enterprises in China's foreign trade, 2009.

		Export		Import	
		Billions US\$	Ratio %	Billions US\$	Ratio %
Total		1201.66	100	1005.56	100
Mode of trade	Ordinary trade	586.98	48.8	533.87	53.1
	Processing trade	529.83	44.1	322.34	32.1
	Others	84.85	7.1	149.35	14.9
Type of enterprises	State-owned enterprises	190.99	15.9	288.47	28.7
	Foreign direct investment	672.23	55.9	545.21	54.2
	Others	338.44	28.2	171.88	17.1

Source: China Custom Statistics, 2009.

Foreign invested enterprises now play a dominant role in China's export scene. In 2009, foreign investors contributed 55.9 per cent and 54.2 per cent of the country's aggregate export and import values, respectively. Processing trade is a major mode in which foreign invested enterprises conduct foreign trade. In the first half of 2006, up to 74.7 per cent of the total export value and 54.9 per cent of the total import value of foreign invested enterprises hailed from the processing trade. Of these processing trade exports, 81.3 per cent stemmed from foreign invested enterprises, which indicates the importance of the processing trade policy in attracting foreign investors to carry out export activities in China.

1.2.3 Export Promotion Policies

The Chinese government has applied export encouragement policies to domestic enterprises. Foreign investors are also entitled to enjoy these policies. To be specific, these policies include:

(1) Implementation of an exchange rate system conducive to exports. Under the import substitution strategy, in order to bring down the costs of industrialization, China—which was then adopting a planned economy system—over-estimated the exchange rates of China's renminbi

(RMB) externally, while keeping down the prices of agricultural products and enhancing the prices of industrial products internally. Since the 1980s, however, to encourage exports, the exchange rate of RMB against the US\$ began to depreciate, from about 1:1.7 in 1981 to 1:8.7 by 1994, although it then began to rise slowly and is now at about 1:6.8.

A dual exchange rate system was implemented to encourage exports in the mid-1980s. The Chinese government allowed exporters to retain a portion of their earned foreign exchange and sell their foreign exchange at exchange rates higher than the official rates on foreign exchange swap markets, where the exchange rates were determined by the market rather than by the government. This is a sort of encouragement granted to exporting enterprises. Import substitution sectors were allowed to import equipment and technologies at officially stipulated exchange rates that were artificially over-valued to reduce their import costs. In 1994, China implemented a reform to its foreign exchange system, cancelled the foreign exchange swap market and introduced a single, manageable floating exchange rate system.

(2) Tax rebating for exports. Pursuant to the WTO rules, export products can enter overseas markets at indirect tax-free prices. China started to implement its policy of indirect tax rebating for export in 1985. Its initial practice was to refund Product Tax imposed upon export products to exporting enterprises. After the reform of the taxation system in 1994, China eliminated Product Tax and imposed VAT and excise taxes; export tax rebates thus changed to VAT and excise taxes refunds that imposed upon export products. This allowed Chinese exporters to compete on an equal basis with competitors from other countries in the world market. But as a result of the rather fast growth of China's export volume, the amount of export rebates grew at a rapid pace, generating considerable pressure on the competent Chinese finance authority. Meanwhile, in recent years, China's favourable balance of foreign trade has been growing at an excessively fast rate. Therefore, the Chinese government gradually lowered the export rebate rates for multiple commodities.⁴ This caused a significant drop in tax rebates for export commodities and resulted in many Chinese companies exporting products at prices that contained the indirect taxes.

(3) Liberalization of foreign trade rights. Under the planned economy and the import substitution strategy, the government tightly controlled enterprises' rights to engage in foreign trade. When China introduced its trade reform policy, only a dozen foreign trade companies were allowed to engage in foreign trade. After the trade reforms swept over the country, apart from allowing foreign invested enterprises to engage in foreign trade on their own, the Chinese government allowed a growing number of production-oriented enterprises to engage in foreign trade (specifically, to export their products directly). After China's accession into WTO, it made a radical reform of its trade system, changing the former examination and approval system of trade into a registration

⁴ For example, on 1 July 2007, the Chinese government began to cancel or lower the export rebate rates of 2,831 products, occupying about 37 per cent of the total products specified in the customs nomenclature.

system, under which any enterprise can engage itself in international trade. To date dozens of thousands of enterprises have registered with Chinese customs to engage in foreign trade. Enterprises are allowed to have direct access to international markets and to make prompt responses to the latest changes arising in those markets, allowing their products to be more competitive.

(4) Export promotion and trade facilitation. The Chinese government has always attached great importance to export promotion work. When the planned economy system was being adopted, the Chinese government launched export fairs and other activities to promote exports. As of the time of this writing in 2009, Guangzhou Export Commodity Fair, the world's biggest trade fair, has been held 106 times and has played a considerable role in export promotion. As a result of China's export promotion policies, local governments also have made considerable efforts to promote export. To date the country has had more than 10 export fairs (such as East China Trade Fairs in Shanghai; Zhejiang Trade & Investment Fairs in Ningbo, Urumqi; Trade & Investment Fairs in Xinjiang, among others). After China became a member of the WTO, the Chinese government put increasing importance on export promotion. A Trade Promotion Bureau has been established, which is affiliated with the Ministry of Commerce, to promote foreign trade.

As a part of the effort to ameliorate the investment climate, the customs and commodity inspection and quarantine authorities of the Chinese government have also been devoted to simplifying the customs clearance procedures and increasing the speed of customs clearance. Shanghai has taken the lead in reforming the customs clearance procedures by ushering in a new risk control concept, electronic customs declaration procedures and a more streamlined inspection flow, which have helped increase the speed of customs clearance. Shanghai's procedures were disseminated to the rest of the country to enhance the country's overall customs clearance process. The value of China's processing trade exports now represents half of the country's total export value. This has resulted from the government's consistent efforts to implement methods to enhance the efficiency and management skills in the processing trade.

2.0 Challenges to the Sustainable Development of China's Economy and Foreign Trade

2.1 The Sustainable Development of China's Economy is Faced with Huge Challenges

In the past 31 years, China's economy has continued to grow at an average rate of about 10 per cent per year and its GDP increased to US\$4.91 trillion by 2009 (compared to US\$364.5 billion in 1978), ranking China third globally. Based on its purchasing power parity, China is ranked second globally behind the United States.

China is facing increasing challenges, however, including imbalances of economic versus social development, imbalances of regional development, imbalances of urban versus rural development, imbalances of economic versus environment and imbalances of domestic versus foreign development.

When it comes to sustainable development of its future economy, China faces increasingly heavy pressure regarding its environment and resources. On the one hand, China suffers a shortage of natural resources; its per capita possession of natural resources is far below the world's average. For example, the per capita levels of arable land and fresh water (the prerequisite natural resources for subsistence) in China are only one-third and one-quarter of the world's averages. For important mineral resources, such as petroleum, natural gas, coal, iron ore, copper and aluminum (among others), the per capita reserves in China are merely 11 per cent, 4.5 per cent, 79 per cent, 42 per cent, 18 per cent and 7.3 per cent, respectively, of the world's averages.⁵

On the other hand, because of the formerly extensive economic growth and backward technological skills, China has not utilized its resources and energy sources in an efficient manner and is now suffering a growing environmental pressure. For instance, the total energy consumption by each ton of ethylene in 2000 was 1,212 kg of standard coal in China, compared to 714 kg in Japan. The energy consumption by each kWh of thermal power was 385 g standard coal in China, compared to 314 g and 376 g in Japan and the United States, respectively. The energy consumption by each ton of steel was 781 kg standard coal in China compared to 646 kg, 721 kg and 735 kg in Japan, the United Kingdom and France, respectively. China's ratio of resources re-utilization is also on the relatively low side. For example, China's total recovery ratio of mineral resources is 30 per cent, 20 per cent lower than the advanced level recorded by other countries. China's overall timber utilization ratio is 60 per cent compared to upwards of 80 per cent for developed countries. China also has a

⁵ M. Kai, 2004, "Strike up And Follow Through a Scientific Concept of Development and Facilitate a Radical Transformation of The Mode of Economic Growth," W. Mengkui (Ed.), *Sustainable Development of China in An All-sided And Well-coordinated Way*, The People's Press, August.

high pollutant discharge rate. For example, the carbon dioxide discharge volume per unit of China's GDP (fixed price of US PPP⁶ in 1995) is 0.62 kg, compared to much lower levels in developed countries. And the organic sewage discharge volume per unit of China's GDP is 0.5 kg, about two to three times that of other countries.⁷ Although the efficiency of usage of natural resources and energy has rapidly increased under the effort of the Chinese government, there is still a big gap in comparison with the advanced economies.

International factors have played a double role in China's sustainable development. On the one hand, China imports a huge volume of resources and energy sources from abroad to mitigate domestic shortages. On the other hand, international factors have also generated more harsh challenges for China's resources and environment. Economic globalization and the world's industrial restructuring have led to the relocation into China of industries that consume a huge volume of energy and resources. As a vast number of "Made-in-China" products are launched into the international market, China has also exported a huge quantity of energy sources and resources. For instance, many countries have stopped the production or reduced the production output of coke, but China's coke exports grew to 14.5 million tons in 2006 from 1.08 million tons in 1991. In addition, in 2006 China exported over 25 million tons (net) of coal. Meanwhile, China has also exported a vast quantity of energy sources and resources. In 2006, China's net export volumes of crude steel, un-forged aluminum, and colour televisions and whole sets of bulk parts were 34.34 million tons, 700,000 tons and 104 million sets, respectively. The net export value of China's electromechanical products was US\$121.7 billion. These exports required the consumption of energy sources and resources. For example, a ton of aluminum consumes 15,000 kWh of electricity and a net export volume of 700,000 tons of aluminum is equal to exporting over 10 billion kWh electricity. Therefore, a considerable portion of China's additional consumption of energy sources and resources is a "substitution" for other countries' consumption of energy sources and resources, and contributes to the world's supply of energy sources and resources.⁸ According to the latest report of the British New Economic Foundation, each article made in China and exported to the U.K. caused a waste gas discharge volume one-third greater than that incurred by the same article if it were made in the U.K. In reality, the Occident's overwhelming dependence on China in manufacturing and production work is tantamount to transfer of their environmental pressures onto China's shoulders. Some American researchers have pointed out that 14 per cent of China's waste gas has been incurred by those goods made in China and exported to the U.S.⁹ Rough statistics

⁶ Purchasing power parity.

⁷ Z. Junkuo et al., 2005, "Transformation of the Mode of Economic Growth and Pursuit of a Path of New Type Industrialization," W. Mengkui (Ed.), *Important Issues Regarding China's Long-term and Mid-term Developments from 2006 to 2020*, China Development Press.

⁸ M. Kai, 2007, "Transformation of the Mode of Economic Growth for Better and Quicker Development—A Speech on 2007 China Development Summit Forum," 18 March.

⁹ The latest report of a British Research Organ, 2007, "Western Countries Reply on China-made Products and Relocate Their Waste Gases into China in a Disguised Way," published in Singaporean newspaper *Lianhe Zaobao*, 8 October, http://zaobao.com/zg/zg071008_506_1.html.

suggest that the volume of “foreign wastes” imported by China has grown to 17.5 million tons in 2000, from 990,000 tons in 1990. These wastes have heavily jeopardized China’s environment.¹⁰

2.2 Challenges to Development of China’s Foreign Trade

2.2.1 China’s External Environment Has Been Worsening Due to a Rising Trade Imbalance and Trade Frictions

With the fast development of China’s foreign trade, the development of China’s trade faces new problems. First, the imbalance in terms of bilateral trade between China and its principal trading partners has been getting worse. Most of China’s peripheral economies have recorded a favourable balance of trade with China, while China’s favourable balance of trade with its major trading partners (such as the U.S. and E.U.) has been increasing. As per the American statistics, China’s favourable balance of trade with the U.S. reached US\$265 billion in 2007. Although it is a result of “triangle trade” among China, other East Asian economies and the U.S., this trade imbalance has become a salient problem affecting the bilateral trade relation.

Second, China has suffered a growing number of trade frictions with its trading partners. According to WTO statistics, from 1995 to 2008 the total number of anti-dumping actions lodged by foreign parties against Chinese parties was 677, 19.8 per cent of the world’s total number of anti-dumping actions. In reality, the number of those cases regarding anti-dumping and anti-subsidization against China’s exports, and various trade frictions between China and other countries, have increased rapidly. Since 1995, China has remained the world’s number one target country against which anti-dumping cases were lodged. The average number of these cases per annum grew from 6.5 in the 1980s to 31.8 in the first half of the 1990s, and to 37.6 in the latter 1990s (1996–2000). In addition, the average number of cases per annum has exceeded 50 since China became a member of the WTO. In 2005 and 2006, 27.9 per cent and 35.2 per cent, respectively, of anti-dumping cases in the world were lodged against China, indicating a marked increase. In 2006, 25 countries and territories initiated 86 investigations involving China, which featured “anti-dumping, anti-subsidization, safeguard measures and special safeguard measures.” The number of investigations grew by 37 per cent on a year-over-year basis, involving a total of US\$2.05 billion, which was almost equal to the sum recorded in 2005. Among others, there were 63 anti-dumping actions, involving US\$1.42 billion; two anti-subsidization actions, involving US\$120 million; 16 actions regarding safeguard measures, involving a total sum of US\$440 million; and five investigations into special safeguard measures, involving US\$60 million. The anti-dumping actions lodged by the E.U. against China-made leather shoes involving US\$730 million have affected the employment of 70,000 persons in China. On top of that, some developing countries have followed the lead of developed countries to

¹⁰ L. Juli, 2006, “Influence Wielded by International Trade on China’s Environmental Protection and Countermeasures,” *Business Times*, Issue 22.

take various types of trade safeguard measures against China's exports. Up to 71 per cent of all actions against China (for anti-dumping, anti-subsidization, safeguard measures and special safeguard measures) in 2006 were lodged by such developing countries as India and Turkey.¹¹ The global financial crises greatly triggered extra incentives of usage of safeguard measures. According to the data of the Ministry of Commerce of China, during the first eight months of 2009, there were 79 safeguard cases against Chinese export by 17 countries/regions, affecting US\$10 billion; these increased by 16.2 per cent and 121.2 per cent, respectively, during the same period last year.¹² In addition, the adverse influence wielded by trade frictions has spread into other domains. For example, some countries have exercised pressure on China's foreign exchange policy and spawned different versions of a "China Threat Theory."

China has encountered these trade frictions for three reasons:

- The competition between Chinese enterprises and their foreign counterparts has grown increasingly intense due to the fast growth of China's total export volume and value;
- The protocol surrounding China's accession into the WTO contained provisions disadvantageous to China, such as "non-market economy" and "specific safeguard measures;" and
- In the global industrial value chain, China remains in the labour-intensive link; its exports have relatively low value added and are priced at lower levels.

Third, China is facing increasing sentimental pressure from the international communities. China's emergence as a global power has been brought, and will continue to bring, complicated reaction from the rest of the world. The sentimental reactions, including the so-called China Threat, Responsible Stakeholder, causes China to face a more complicated and difficult external environment.

Finally, the global warming issue will also place very big pressure on China to upgrade its industrial structure, technologies and trade mix.

2.2.2 Exports Have Low Value Added and Upgrading Will Face Many Challenges

Although up to 31 per cent of China's exports are new and high technology products, it does not mean that China's exports have relatively high value added. Due to the formation of a global production value chain, China managed to move out of the "final assembling" link, with relatively

¹¹ Press Office of the Ministry of Commerce of China (MOFCOM), Year-end Special Report, "China Copes Proactively with Trade Frictions in an Imperturbable Manner."

¹² Fair Trade Bureau of MOFCOM indicates safeguard measures affects 10 billion USD export in the first 8 months, <http://gpj.mofcom.gov.cn/aarticle/subject/mymcyd/subjectdd/200909/20090906504018.html>.

low value added, by attracting foreign investments, and entered into the international “division of labour” network. Such a strategy has created tens of millions of job opportunities for Chinese workers and allowed China to redirect its labour force to produce finished products for export into the international market, earning a precious foreign exchange. Lacking intellectual property rights (IPRs) and world class brands, however, this strategy bears a shortcoming—China’s exports possess rather low value added. Citing the processing trade as an example, the value-added rate in China was only 37 per cent in 2006 and in some extreme cases the value-added rate of exports was below 10 per cent.¹³

The ultimate solution for reduction of trade frictions is to upgrade the structure of exports. Therefore, this is an important task under China’s reform policy; however, performance of the task suffers from many restrictions, especially IPR restrictions.

First, technical barriers to trade (TBT) have heavily restricted China’s exports. By relying on their sophisticated technologies, developed countries have continued to heighten their technical barriers. In recent years, the E.U. has put into force various programs including Energy-using Products; Restriction of Certain Hazardous Substances; Waste Electrical and Electronic Equipment; and Registration, Evaluation and Authorization of Chemicals, among others. These programs have heavily affected the production costs and trade opportunities of other countries (especially developing countries), although they were implemented to save energy and protect the environment. Additionally, Japan promulgated a “Positive List System,” which sets down rigorous technical standards to restrict the import of agricultural products and constitutes substantive technical barriers. Developed countries have intentionally set out to protect their home markets by use of such technical barriers as standards, authentication and procedures, which have been a new impediment against developing countries’ export endeavours. According to the WTO, the number of TBTs and Sanitary and Phytosanitary Measures (SPSs) reported by its members has grown to 990 and 1,155, respectively, in 2006, and from 571 and 612, respectively, in 2002, an annual growth rate of 21.7 per cent and 24.9 per cent, respectively. According to the findings of some surveys by the Chinese Ministry of Commerce, in 2005 15.13 per cent of exporting enterprises in China were affected by TBT/SPS taken by foreign countries. Among the 22 major product categories, 18 have suffered direct losses due to foreign countries’ implementation of TBT, valued at US\$69.1 billion and representing 9.07 per cent of China’s total export value for 2005. In addition, Chinese enterprises spent US\$21.7 billion more in production costs to cope with TBT taken by foreign countries, which amounted to about 2.85 per cent of China’s total export value in 2005. In addition,

¹³ Reportedly, a Chinese-made Logitech mouse is sold for US\$40 in the U.S. However, the value added for this mouse in China’s assembling link is only US\$3. “As China surges on, it also proves a buttress to American strength—Beijing feeds a Giant Appetite in U.S. for low-cost goods and borrowed capital,” A. Higgins, *Wall Street Journal*, 30 January 2004.

loss of export trade opportunities due to TBT by foreign countries against Chinese enterprises have amounted to US\$147 billion, about 19.29 per cent of the country's total export value in 2005.¹⁴

Second, China's upgrading of its exports has resulted in restrictions by enterprises in developed countries and IPRs. Multinationals are holding more than 85 per cent of the world's patents. They utilize their IPRs to seek economic benefits and also restrict their competitors. WTO's Agreement on Trade-Related Intellectual Property Rights has clarified the responsibilities of member nations for protection of IPRs in the international trade realm. Furthermore, the emerging trend of patent standardization¹⁵ has put enterprises within developing countries in a severe plight. As more and more products China exports feature increasingly sophisticated technologies, their producers and manufacturers have become increasingly aware of the restrictions wielded by IPRs. For example, regarding DVD players that China exports, the patent royalties paid by Chinese DVD player manufacturers to multinationals have exceeded one-third of the price of their DVD players. Therefore, Chinese manufacturers tend not to use their own brand names on the DVD players they export. In addition, China's exports are also restricted by those IPR laws formulated by its trading partners. For example, China receives the largest number of "super 301 clause" investigations and the "337" investigations initiated by the United States.

2.2.3 The Degree of China's Dependence on External Resources and Energy Sources Has Been Rising Rapidly

China suffers a shortage in terms of per capita possession of resources and does not have sufficient reserves of major mineral resources and thus must rely on the world market. For example, after 1993 when China became a petroleum net importer, the volume of petroleum imported by China has climbed each year. Crude oil imported by China increased from 59.7 billion tons to 199 million tons from 2000 to 2009, with import dependence of 24.8 per cent to 51.3 per cent of its petroleum consumption.¹⁶ It is estimated that by 2020, China's volume of petroleum consumption will be 450 to 540 million tons, the world's largest petroleum importer. By 2020, China's dependence on imported petroleum is likely to come close to 60 per cent of its consumption.¹⁷ Such an excessive dependence on overseas resources will, without doubt, result in a resources security problem. To cope with such a possibility, China needs to increase its strategic reserves of resources, step up its efforts in investments abroad, and construct safe transportation channels, among others.

¹⁴ Principle of the Department of WTO Affairs under the Ministry of Commerce answers questions raised by news reporters, "Report 2005 upon A Survey into The Influence Wielded by Foreign Technical Trade Measures upon China's Foreign Trade," <http://www.mofcom.gov.cn/aarticle/a/200612/20061204136582.html>.

¹⁵ Patent standardization means patents with private rights becoming international or national standards.

¹⁶ Oil Import Dependence Surges Alert Line, *China Daily*, 29 March 2010, <http://www.chinadaily.com.cn/hqcj/zxqxb/2010-03-29/86611.html>.

¹⁷ F. Fei, 2003, "Basic Conception of The National Strategy of Energy Sources," DRC Working paper.

The vehement fluctuations of resource prices in the world market have impacted China. China has become a major importer of some important resources; however, China's say, with respect to the pricing of these resources in the world market, has not been augmented as a consequence of its huge demands for these resources. Because many Chinese companies have not signed long-term purchasing agreements and failed to make full use of the futures market, most Chinese importers have to accept the international spot market prices and suffer a huge impact wielded by the sharp price fluctuations. From 2002 to 2006, the world market saw the prices for crude oil, natural gas, coal and metals rise by about 160 per cent, 130 per cent, 100 per cent and 130 per cent, respectively. From 2002 to 2006, Chinese importers had to pay about US\$60.7 billion more each year, owing to the price increases for seven energy sources (crude oil, refined oil products, iron ore, aluminum oxide, copper mine, natural rubber and logs).

3.0 Strategy of Sustainable Foreign Trade

Faced with increasingly inadequate energy sources and resources, and also an increasingly heavy pressure upon the country's natural environment, the Chinese government has become keenly aware of the necessity of transforming the mode of China's economic development. In recent years, the Chinese government put forward a Scientific Concept of Development under which it is necessary to plan out the relations among economy, society, population, resources and environment as a whole; construct a resource-saving, environment-friendly and innovative country; and allow the country to develop in a well-coordinated, sustainable way. Under guidance by the Scientific Concept of Development, it is required to transform the growth mode of foreign trade and implement a strategy of sustainable foreign trade.

3.1 Relationship between International Trade and Sustainable Development

At the Development and Environment Conference held in Stockholm in 1972, for the first time the environment became a global concern. Since then, this issue has drawn more and more attention from the global community. In 1987, the World Commission for Environment and Development (WCED) put forward the study report "Our Common Future," in which the concept of "sustainable development" was officially proposed and defined as "a capability to not only meet the needs of contemporary people, without damage upon satisfaction of the needs of their offspring... but also meet the demand of contemporary people for development, on the premise of causing no damage on the life system on the earth" (WCED, 1987). The Montreal Protocol was concluded in 1987 and the Basel Convention in 1989. At the UN Conference on Environment and Development (namely the Rio Conference) held in 1992, the UN Framework Convention on Climate Change, the Convention on Biological Diversity, the Statement of Forest Principles, and the Rio Political Declaration were concluded. In 1997, the Kyoto Protocol was concluded. In September 2002, the World Summit Conference on Sustainable Development was held in Johannesburg, South Africa. The Copenhagen Climate Change Conference was held in December 2009. In brief, the international community has made constant efforts to improve environmental protection.

The relationship between international trade and environment is rather complicated and has become an important research domain in recent years and in which domestic and foreign scholars have conducted a lot of research. On the one hand, international trade has a certain adverse bearing on the environment. Enterprises in developed countries relocate their pollution-incurring facilities to developing countries where environmental standards are not as strict, have their products made in those developing countries and sell them back in their home countries. As a result, developing countries have seen a greater increase in environmental pollution. International trade gives a boost to expansion of the production scale and pushes the production scale close to, or even beyond, the

bearing capacity of the environment, which puts increased pressure on the environment. Developed countries export some wastes and production remnants to developing countries.

On the other hand, international trade can also improve the environment. Trade development is conducive to the enhancement of the level of economic development. In a period of time when incomes remain at a relatively low level, an increase in income levels may be disadvantageous to the environment. However, when incomes reach a certain level, citizens will gain a better awareness of the environment and also possess stronger abilities to protect the environment, as Kuznets Curve has described. International trade is conducive to disseminating advanced technologies and equipment, enhancing the utilization efficiency of resources and energy sources on the whole, thus lessening the pressure on the environment. As for the overall influence wielded by trade upon the environment, different case studies have resulted in different conclusions.¹⁸ Statistically, for most industries, the ongoing international trade has had a relatively small influence on environment directly. This is mainly because only a small number of environment-sensitive products are deemed objects of trade; however, these products are gradually increasing in number. Moreover, in certain circumstances, these products will generate a visible direct influence on the environment.¹⁹

To the contrary, environmental regulations have generated a far greater influence toward international trade. It is worth noting that many countries have begun to utilize environmental regulations intentionally to protect their home markets. Main implementation means of green trade barriers include:

- Green tariffs and market access – developed countries often, in the name of environmental protection, impose import surcharges on imported commodities that affect the ecological balance and pollute the environment, restrict or prohibit the import of these commodities or exercise trade sanctions.
- Green health quarantine system – to prevent people, plants and animals from pollutants, toxins, microorganisms and additives, many countries, to different extents, have set down their respective health quarantine indicators.
- Green packaging system – green packages refer to those packages that do no harm to the ecological environment and human health, cause no pollution of the environment, can be cycled and reused and can boost sustainable development. Therefore, green packaging is popular in most developed countries.
- Green technical standards – strict compulsory technological standards are formulated to restrict the import of foreign commodities.

¹⁸ X. Shichun, 2006, “Status Quo and Perspective of Study into Issues of Trade and Environment,” *International Trade Issue*, July.

¹⁹ L. Boxi, 2002, “Intramural Conflicts and Fusion between Environment and International Trade,” May 17.

- Green environment mark – alternatively termed “environment mark” or “eco-mark,” this appears as a graph on products or packages. It indicates that the product not only meets a quality standard, but also satisfies environmental protection requirements for its production, use, consumption and disposal, without doing any harm to the ecological environment or human health. An exporting enterprise must file an application and gain an approval prior to receipt of a “green pass” (namely the “green environment mark”).

3.2 China’s Strategy of Sustainable Trade

3.2.1 Overall Train of Thought for the Strategy of Sustainable Development of Foreign Trade

China’s economy and trade development have both embraced a new strategy. In the future, China has to adjust its economic development strategy according to its Scientific Concept of Development. The key words of the new guidance for future development include: people first, innovation, balanced and sustainable development, and social harmony, among others. China will shift into an intensive development mode from its former extensive development mode.

Correspondingly, the trade strategy also needs to shift from export-oriented to a sustainable strategy. The strategy of sustainable foreign trade constitutes an important component of the strategy of well-coordinated and sustainable economic development, and also complements the latter. On the one hand, the implementation of the strategy of sustainable foreign trade helps realize sustainable economic development. On the other hand, the strategy of sustainable foreign trade relies on the transformation of the mode of economic development and also depends on the upgrading of China’s industrial mix.

The three pillars for sustainable trade strategy are economic sustainability, social sustainability and environmental sustainability.

As the tide of economic globalization sweeps over more parts of the Earth and with the formation of a production value chain in the world, different countries have taken different positions in the international “division of labour” scene. As a developing country, China has, in the past three decades, succeeded in involving itself in the world’s production network by means of attracting foreign investments and developing processing trade. But China has always remained on a low side in the world’s production value chain. The key to implementing the strategy of sustainable foreign trade is to enhance China’s position in the international “division of labour” scene, from labour intensive activities to technology intensive and information intensive activities.

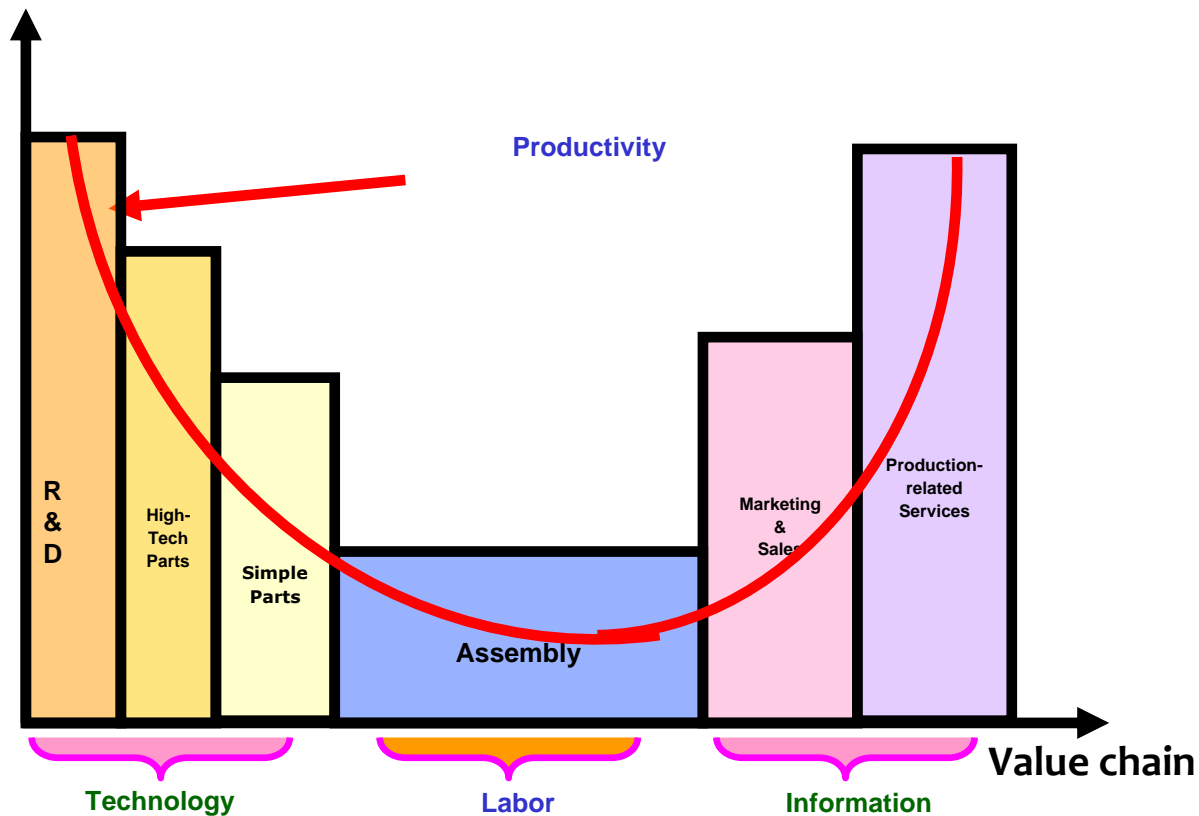


Figure 1: The global industrial value chain and enhancement of China's position in the global "division of labour" scene.

To reach the goal of economic sustainability, China will:

- increase export value added by means of innovation;
- prolong the service value-added link of export products;
- enhance international competitiveness of service sectors and develop trade in service;
- increase China's own IPRs, world-class brands and international marketing networks by means of China's trans-national corporations; and
- play an active role in multilateral and regional systems to create a better external environment.

Trade development also has very deep social implications in China. China's exports are mainly labour intensive products. Several tens of millions migrant labourers work in the export sector, with incomes among the lowest in China. Therefore, exports have played important roles in the construction of social harmony, in terms of creating non-agricultural jobs, increasing income for

migrant workers and reducing income inequality. To realize social sustainability, the sustainable trade strategy needs to:

- continue development of labour intensive exports;
- increase the productivity of the export sector for labour intensive products, which will increase the wage level of workers;
- enhance protection of labour rights;
- extend the production value chain of the export sector to inland areas to promote development; and
- enhance international competitiveness of inland manufacturing sectors.

To save energy, reduce resource consumption and protect the environment, the changes needed include:

- adjust the industrial mix, by means of developing those industries that consume less energy and are more environment-friendly, including development of the service sectors and energy-saving and environment-friendly industries;
- rely on the advancement of technologies, adopt more sophisticated technologies, reduce energy and material consumption and mitigate the pressure on the environment;
- enhance the level of managerial skills;
- consummate the institution systems, policies and mechanisms;
- establish an environmental friendly culture; and
- make full use of the roles of non-government organizations and consumers.

For these latter six changes, international trade can play a contributing role to different extents. Therefore, implementation of a strategy of sustainable foreign trade is required.

To reach the goal of environmental sustainability, the strategy of sustainable foreign trade is intended, under guidance by the theory of sustainable development, to:

- constantly optimize the import and export mix of those commodities whose production and manufacture are strongly based on the availability of environmental resources;
- reduce the export volumes of those products guzzling energy or incurring heavy pollution or being resource-based;
- increase the import volumes of resource-based commodities, environment-friendly technologies and equipment; and
- prevent those environment-sensitive products from being imported into China, as well as reforming the regulations, pricing and management for sustainable development.

3.2.2 Focal Tasks under the Strategy of Sustainable Foreign Trade

(1) **Upgrading manufacture sectors.** The task is to increase the technological values of export products, which means prolonging the value-added link of export products in China and also enhancing the value added of technologies. To realize this objective, on the one hand, it is necessary to continually encourage foreign invested enterprises to relocate more of their research and development facilities (together with more sophisticated technologies in their possession) into China and enhance the spilling-over effects in China. On the other hand, domestic enterprises must be encouraged to make full use of the opportunities arising as a consequence of economic globalization, carry out technical innovation activities worldwide, and support and boost the export of those commodities with their own IPRs.

(2) **Prolonging the service and service value-added link of export products.** At the moment, the value chain of products from processing trade in China have converged on the labour intensive assembling link and have a too-short service value-added link. The final selling prices of China's exported commodities are often a few times or even over 10 times the freight on board prices. To prolong the service value-added chain of export products, it is necessary to do the following:

- create a better investment climate, attracting multinationals to relocate their regional headquarters to China and carry out managerial activities with high value added in China;
- open the service industry to the outside on a larger scale and enhance the level of service skills; and
- assist domestic enterprises in establishing world-class brands and international marketing networks and sharing the value added out of the service link.

(3) **Enhancing international competitiveness of service sectors.** In sharp contrast to the rapidly increasing competitiveness of trade in goods and the lingering favourable balance of trade, China's trade in service has lagged behind. In reality, China's trade in service has registered a long-term adverse balance. In 2009, China ranked fifth in the world for export value of trade in service, which totalled US\$128.7 billion (3.9 per cent of the world market); China ranked fourth in the world for import value, which totalled US\$157.5 billion (5.1 per cent of the world market), and China's trade deficit in service amounted to US\$28.8 billion. To increase the export value of trade in service it is necessary to:

- attach overwhelming importance to the development of trade in service and provide a better legal and policy-related environment for the development of trade in service;
- open the trade in service to the outside on a larger scale and usher in advanced service modes, management practices and talents; and
- seize significant opportunities arising from the offshore service outsourcing and confer generous support to export through service outsourcing.

(4) Improving the structure of those import and export commodities. The first task is to reduce the export volumes of those products guzzling energy, incurring heavy pollution or being resource-based. In 2006, China's total export value of those products guzzling energy, incurring heavy pollution or being resource-based was US\$88.2 billion, causing the country to suffer a severe shortage of energy sources and a worse environmental pollution plight.²⁰ Since 2005, the Chinese government has adopted several policies and measures (including reduction or cancellation of export VAT rebates, imposition of export taxes, prohibition of processing trade and reduction of the total export volume) and reduced the export volumes of those products guzzling energy, incurring heavy pollution or being resource-based. In the future, the Chinese government needs to step up its efforts in implementing the aforesaid policies and measures.

Second, efforts must be made to:

- ensure the supply of energy sources and resources from abroad;
- increase the investments in overseas exploration and development of energy sources and resources;
- improve the economic, trading, political and diplomatic relations between China and countries exporting energy sources and resources;
- sign long-term supply agreements with these countries to ensure the supply of energy sources and resources;
- reduce the impact upon China incurred by fluctuations of spot market prices; and
- construct safe international transportation channels.

Third, it is advisable to increase the import volumes of advanced technologies and equipment, particularly those environment-friendly technologies and equipment and to increase the utilization efficiency of energy sources and resources.

Fourth, it is necessary to strictly restrict the import of environment-sensitive commodities (such as production and domestic wastes and waste-type resources, among others) and restrict the import of

²⁰ W. Shouwen, 2007, "Transformation of The Growth Mode of Foreign Trade, and Facilitation of Trade Development in a Balanced Way," *International Trade*, Issue 7.

those consumer goods that are not beneficial to resources and the natural environment (such as automobiles with a high emission capacity).

(5) Consummating the system and mechanism for the strategy of sustainable trade. First, it is necessary to take an active part in multilateral and regional negotiations on trade rules and to maintain a freer, more stable and transparent multilateral trade system. Second, it is advisable to consummate the environmental laws and regulations, as well as the enforcement of these laws and regulations, and to mobilize production and manufacturing enterprises to take control of their respective environmental costs. Third, efforts must be made to facilitate the rationalization of prices for energy sources, resources and land, and increase the resource taxes. Fourth, it is essential to radically cancel the VAT rebating to export of those products guzzling energy or incurring heavy pollution or being resource-based and to study the possibility of imposing environment taxes on exports. Fifth, it is also suggested to consummate those management systems overseeing import of environment-sensitive products including environment taxes on imports, prohibition of exports, inspection and quarantine, environmental standards, environmental certification, and environmental mark. Sixth, it is required to step up the efforts regarding protection of IPRs.

(6) Fostering up Chinese multinationals. Fostering up a galaxy of Chinese multinationals is a means of enhancing China's position in the international "division of labour" scene and of increasing the number of China's own IPRs, world-class brands and international marketing networks. China has entered a new stage of investing abroad and must learn from the proven experience of other countries in this respect, taking into account its own circumstances and encouraging and supporting the emergence of its own multinationals.