

Seminar Report

Linkages between Trade, Development & Poverty Reduction

National Economic Research Institute
China Reform Foundation
September 1, 2007
Shenzhen, China

The seminar, in relation to the NERI-CUTS project *Linkages between Trade, Development & Poverty Reduction* was organized on September 1, 2007, in Shenzhen, Guangdong Province. As in previous years, the roundtable dialogue gathered some officials and economists from the government, corporate sectors, and academic research institutions. The purpose of the meetings was to share research findings of NERI among participants and have constructive discussions on trade-related issues.

Discussions around trade and development are from the Chinese perspective and are focused on particular issues within China which have caused worldwide concerns. Topics discussed were China's high trade surplus, excessive foreign exchange reserves, revaluation of the Chinese currency, gender and skill wage gap, and disparity in regional development and income.

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Issues discussed include the following:

◆ China's trade surplus and RMB revaluation:

In his overview, Dr. Fan Gang summarized the main reasons for the large increase in China's trade surplus. He explained that high trade surplus has been structural rather than exchange rate-rooted, since China neither has never commanded an overwhelming surplus with each of its main trading partners. China's trade surplus is only overwhelmingly with industrial economies.

Research findings show that trade surplus occurred only with Europe and North America (US and Canada together), but with all other continents, it was in deficit for 2005 and in 2001 too. The combined trade surplus with Europe and North America grew considerably between 2001-2005, while trade deficit within the rest of Asia rose in a similar proportion. One may, therefore, suspect that there have been structural factor-driven trade relations between these regions.

If RMB were undervalued in relation to the dollar and other major currencies, China should have seen an overwhelming trade surplus with virtually all of its major trade partners; if East Asian currencies were all undervalued to the dollar, the region should have seen its share in the U.S. trade deficit grow (again not true); currency valuation alone is not a decisive factor in current trade patterns amongst major international trading partners or blocs.

It is believed that further RMB revaluation would not significantly change the international trade system nor China's trade balance with the United States or with any other industrial powers, especially since the exchange rate regime continues to reform gradually.

◆ Surge in foreign exchange reserve:

As Prof. HE Liping explained, in the past two years, the majority of increases in foreign exchange (FX) reserve were accounted for by trade surplus and FDI inflow. This pattern appears to confirm that restraining capital inflows – especially foreign portfolio investment inflows – was the policy's intention, and that the desired effect emerged.. Two things also contributed to the surge: repatriation of funds by Chinese firms that launched IPOs in Hong Kong earlier and recapitalisation by foreign banks in China largely driven by new regulation.

The sharp increase in FX reserve poses serious challenges to monetary management. Though the overall policy stance has been restrictive toward foreign money inflow, the effectiveness of that policy has diminished. Moreover, other sources might continue to siphon foreign money flow into the domestic financial system. Under current economic and financial regimes, it is increasingly difficult for monetary and financial authorities to manage international money flow. The government may allow

RMB exchange rates to become more flexible, and will meanwhile try to put its sky-high FX reserves to alternative use.

The current situation of the continued huge trade surplus and fast increase in FX reserves has tended to prompt policymakers to take accelerated action in all of these areas: let RMB appreciate more quickly and by a larger margin, undertake further trade liberalisation, and decide on how to use (at least, partly) the FX reserves.

◆ Disparity in development and income:

Disparity in development and income has been the focus of NERI research. In relation to the TDP project, and based on household surveys, further studies have been conducted on the gender wage gap and the skill wage gap. Dr. HE Yin briefed the participants of the recent research findings, and explained the correlation between trade openness and gender / skill wage gaps.

She explained that the gender wage gap mainly came from increased import openness. When import openness increases, the gender wage gap significantly widens for people with a lower education (i.e. no more than 12 years of education). However, it exhibits the opposite trend for people with higher education (i.e. technical school graduates and college graduates, etc.). As a comparison, though, the increase in export openness has no significant impact on the gender wage gap for people with low education, although it narrows the gender wage gap for people receiving better education, just similar to the trend of increase in import openness.

List of Participants

1. Prof./Dr. FAN Gang Director, National Economic Research Institute
China Reform Foundation
2. Mr. LIU He Deputy Director, General Affairs Office
Financial & Economic Work Directorate
CPC Central Committee
3. Dr. TANG Min Deputy Secretary-General,
China Development Research Foundation
4. Prof./Dr. YI Gang Assistant to the Governor
People's Bank of China
5. WU Xiaoling (F) Vice Governor
People's Bank of China
6. Prof./Dr. CHEN Dongqi Vice President, Academy of Macroeconomic Studies
State Development and Reform Commission
7. Prof./Dr. HE Liping Head, Department of Finance
School of Economics and Public Administration
Beijing Normal University
8. Prof./Dr. XIA Bin Director, Institute of Finance
Development Research Center, State Council
9. Mr. XU Shanda Deputy Director-General
State Administration of Taxation
10. Dr. WANG Xiaolu Deputy Director, National Economic Research Institute
China Reform Foundation
11. Dr. HE Yin (F) Assistant Professor, China Center for Economic
Research, Beijing University
12. Dr. ZHANG Xiaojing Chief, Division of Macroeconomic Studies
Institute of Economics
Chinese Academy of Social Sciences

13. Mr. YU Genqian Analyst & Researcher
National Statistics Bureau
14. ZHU Saini (F) Director of International Programs
National Economic Research Institute
15. LIU Peng Research Associate
National Economic Research Institute/
Peking University
16. Mr. WANG Wenqin Division Chief,
State Administration of Taxation
17. LI Aili (F) Executive Secretary,
National Economic Research Institute

Agenda for the Seminar

Linkages between Trade, Development and Poverty Reduction

<u>9:00-9:30</u>	Registration
<u>9:30-10:00</u>	Topic: An overview of China's economy, and major issues of concerns Speaker: Dr./Prof. FAN Gang, Director, National Economic Research Institute
<u>10:00-10:45</u>	Questions and discussions
<u>10:45-11:00</u>	Coffee/tea break
<u>11:00-11:30</u>	Topic: High trade surplus and surge in foreign exchange reserves Speaker: Prof./Dr. HE Liping, Head Department of Finance, Beijing Normal University
<u>11:30-12:15</u>	Questions and discussions
<u>12:15-13:45</u>	Luncheon
<u>14:00-14:30</u>	Topic: Trade and Development: The Case of China Speaker: Dr. HE Yin, China Center for Economic Research, Beijing University
<u>14:30-15:15</u>	Questions and discussions
<u>15:15-15:30</u>	Tea/Coffee break
<u>15:30-16:15</u>	Continued discussions and closing session Discussants: Dr. XIA Bin, Director Inst. of Finance Development Research Center, State Council

Mr. LIU He, Deputy Director
General Affairs Office
Financial and Economic Work Directorate
CPC Central Committee

Dr. YI Gang, Assistant to the Governor
People's Bank of China

Dr. WU Xiaoling
Vice Governor, People's Bank of China

16:15-16:30

Closing remarks: Dr. Fan Gang, Director,
National Economic Research Institute