

Seminar Report

National Economic Research Institute (NERI)

January 12, 2006
Presidential Plaza, Beijing, China

As part of the research project *Trade, Development and Poverty Reduction (TDP)*, a seminar was organised on January 12, 2006, in Beijing, China. Participants from government agencies, corporate sectors, and academic research institutions attended the event. The working language of the seminar was Chinese as the target audience of policy recommendations was policy-makers and practitioners from China.

Two presentations were made at the seminar: one on trade and poverty issue, by Dr He Yin, research associate of NERI-China and assistant professor at China Center for Economic Research (CCER), Beijing University; and the other, on the competitiveness and complementarity between China and other Asian countries, by Dr Yao Zhizhong, research associate of NERI-China and research fellow at Institute of World Economy and Politics (IWEP), Chinese Academy of Social Sciences (CASS).

Presentation I:

The first presentation discussed the trade-poverty issue in general, and focused on two parts: Part-I & Part-II.

Part-I presented an overview of the economic reforms in China, and the relationship between trade and growth, and between trade and income distribution. Through this section of the presentation, Dr He Yin highlighted: (1) that trade

openness has been an important determinant of growth; and (2) the growth associated with trade liberalisation is as pro-poor as growth in general.

Part-II mainly addressed the trade policies of China. The major conclusion was that trade has played an important role in China's growth over the past twenty years; and economic growth has significantly improved the income level of Chinese people, thus reducing the population living in absolute poverty.

In addition to the trade-poverty situation, Dr He Yin also briefed the participants about the case studies related to the project, conducted on two sectors, i.e. the electronic manufacturing sector, the one benefited from trade, and agriculture, the other that has not.

The electronic sector, taking off from the mid 1990's, has become one of the most competitive sectors in the world, due to abundant low-cost labour, favourable export-promoting trade policies, and complete supply chain. Total exports in China registered an annual growth rate of 16 percent between 1995 and 2004, while the annual growth rate of exports of its electronic industry was 25 percent over the same period. Chinese workers in most of the electronic production bases enjoy a good living and their average wage increased substantially over the last ten years. The export-promoting trade policies in the electronic industry carried out by the government have been the most important factor driving the industry to boom in China for the past 10 years. The boom of this sector has not only contributed to the gross domestic product (GDP) growth in China but also helped the construction and development in the local areas. Most importantly, the development of electronic sector partly helps resolve the problem of the living of laid-off workers and rural surplus labour, and alleviates the pressure of employment for low educated technical school graduates.

Meanwhile, agriculture, including the living standard of farmers has also achieved dramatic improvement. The production capacity of most of the agricultural

products increased substantially, and total production value of agricultural products tripled between 1989 and 2003. The per capita net income of the rural households grew steadily. However, the gap between the per capita income of the rural households and those of urban areas has widened during the past 20 years. The agriculture production in China is still largely handmade with low level of modern technology. The liberalisation has brought about tremendous improvement in the Chinese economy as well as the living standards of people in general. However, because of the segmentation from the world market, the rural areas and farmers in China did not get much direct benefit from continued increase of international trade. Although farmers have no problem making a living with grains and agricultural by-products, the monetary income of rural households remain at a low level.

A comparison of growth in electronic industry to that in agricultural sector, including the improvement of rural areas and households in China show a relatively unsatisfactory scenario. International trade failed to provide the desired direct benefits to the agriculture sector. The overall development and income increasing effects from international trade have spilled over the rural areas to some extent through the migration of rural surplus labour into cities, especially in trade-oriented industries and regions. As a result, the infrastructure in rural areas has been enormously upgraded, public services have become more accessible, and the living standards of rural residence have greatly improved.

Presentation II:

The second presentation by Dr Yao Zhizhong addressed the competitiveness and complementarity between China and her neighbouring countries, aiming at promoting freer trade in the region and facilitating the formation of regional free trade agreements (FTAs). It is an extended research programme by NERI and explains how the factor endowments, the distribution of domestic industries, Revealed Comparative

Advantage Index (RCA), Competitiveness-Complementarities Index (CCI) and Competitive Stress Index (CSI) are used for analysing this project.

Dr Yao explains the significant differences of factor endowments between Chinese Mainland and those of her neighbours. Economies such as Hong Kong, Taiwan, Japan and South Korea belong to one type, whose physical capital and human capital, and research and development (R&D) are more abundant, whereas labour and land are less compared to that of Mainland China. The economies in South Asia show the opposite features and the Association of South East Asian Nations (ASEAN) is characterised by something in between.

The distribution of domestic industries and the analyses based on RCA show that the differences of factor endowment cannot completely explain the differences of industrial structure, especially the degree of competitiveness-complementarity between China and her neighbouring countries.

The CCIs show that the degree of complementarities between China and her neighbours is higher than the degree of competitiveness between them. Moreover, the CSIs show that there are asymmetric competitive stresses between China and her neighbours. The competitive stress of China and Japan to other economies is higher than that of other economies to China and Japan. In Asia, no economy makes serious competitive stress to China. In the American market, China has more competitive advantage than ASEAN, Japan and South Korea. Because of the asymmetric competitive stress, China may become the most influential economy in Asia, and hence may dominate the Asian economic cooperation.

Discussions at the seminar were centred on these two presentations. Participants took interest in the projects and inquire about the methodologies used, in addition to giving helpful suggestions.

List of Participants

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Prof Bi Jiyao	Deputy Director, Institute of Foreign Economic Studies, Academy of Macroeconomic Research, China Commission for Economic Development and Reform
Mr Zhang Shaogang	Deputy Director, Department of International Affairs, Ministry of Commerce
Prof Song Hong	Chief, Department of Foreign Trade Studies, Institute of World Economy and Politics, CASS
Prof Chai Yu	Chief, Department of Economic Studies, Institute of Asia Pacific Studies, CASS
Zhang Xiaoji	Department of Foreign Economic Studies, The State Council Development Research Centre
Long Guoqiang	Department of Foreign Economic Studies, The State Council Development Research Centre

Dr Yao Zhizhong	Associate Research Fellow, Institute of World Economy and Politics, CASS
Dr He Yin	Assistant Professor, China Centre for Economic Research, Beijing University
Dr Tang Min	Chief Economist, Asian Development Bank (ADB) Beijing Office
Mr Noriyuki Kasuya	Chief Representative, Japan Bank for International Cooperation, Beijing Office
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