28. China's foreign trade: Reform, performance and contribution to economic growth

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Over the past four decades, China has successfully transformed from a nearly closed state into a fully integrated international economy and has become an active participant in global markets. In particular, since China's accession to the World Trade Organization (WTO), its foreign trade has achieved rapid growth and transformation. Integration into international production networks and global value chains has seen China evolve into a global manufacturing and trade centre, contributing to its rapid economic growth.

This chapter briefly reviews China's foreign trade policy transformation since 1978, and then examines the performance of China's trade and its impact on economic growth.

The reform of China's foreign trade system: Historical survey

Prior to adopting the open-door policy in 1978, China pursued an inward-looking development strategy, which utilised import-substitution industrialisation. This led to a development pattern common in developing countries in the 1950s. China's policy was extremely restrictive towards foreign economic relations. Imports only made up for shortages in domestic production of essential raw materials and capital goods. Exports were only a means to provide foreign exchange for imports. As a result, China failed to make full use of foreign trade to accelerate economic development.

In December 1978, foreign trade reform was launched as an integral part of economic reform. China has since developed from an autarchic, inward-looking state into one of the major players in the international market. Moreover, China's approach to trade reform has been consistent with its overall approach to the transformation of the economy: gradual changes, dualistic in nature, with parallel pricing, a focus on administrative decentralisation and retention of ultimate control at the centre. Looking back, trade reform and liberalisation fall into three distinct episodes: the administrative decentralisation of trade planning to lower levels of government, together with increased exports through improvements in economic

incentives, from 1978 to 1991; the first real moves towards trade liberalisation, from 1992 to 2000; and comprehensive liberalisation and rapid integration with global trade since accession to the WTO in 2001.

The initial stage (1978–91)

Reforms in the first period included administrative decentralisation of trade planning, foreign exchange retention, the foreign trade contract responsibility system, adoption of a more realistic exchange rate and other measures that reduced the bias against exports. The fundamental objective of these reforms was to raise the role of exports in China's economic development.

One of the first steps was to decentralise the authority to engage in foreign trade. To arouse the enthusiasm of localities and industrial departments towards exports, the central government gave them greater powers of export administration. The national foreign trade corporations (FTCs) lost their monopolistic powers and their provincial branches were allowed to become independent financial and operational bodies. Each province was permitted to create its own trade agencies and corporations to engage in direct trading of its products. In July 1979, regulations for foreign investment were promulgated and foreign-funded enterprises were given authority to import raw materials and capital goods for their production. These enterprises were also authorised to export their own products directly. A number of special economic zones, 29 provinces, autonomous regions and municipalities, and the cities of Guangzhou, Dalian, Wuhan, Xian, Shenyang, Harbin, Chongqing, Qingdao and Hainan Island were also permitted to open up ports to engage in foreign trade.

As a result, the number of export trade companies increased from 12 in 1978 to about 1,200 in 1986, reaching a peak of 5,075 in 1988. This initially generated competition for export supply, and created the preconditions for later liberalisation. However, the state still controlled trade through various administrative devices.

There was also a reduction in the scope of foreign trade planning and the introduction of a two-tier system for the management and administration of foreign trade. Exclusive mandatory and advisory planning was replaced with combined mandatory and advisory planning. The export plan covered 100 per cent of exports in 1978; this fell to 45 per cent in 1988 and 15 per cent by the end of 1991. Imports covered by the plan similarly fell to about 15 per cent of the total in 1992 (Lardy 1992; World Bank 1993). From 1985 to 1989, reform reduced administrative controls and gradually removed the government from trade management. For example, import licences were introduced to replace direct planning controls on trade.

China also introduced several measures to promote exports, including the dual exchange rate, the foreign trade contract responsibility system and export rebates.

China's trade regime in the early 1990s could be described as a 'protected export promotion system' (Koves and Marer 1991). It simultaneously sought to promote exports via incentives, while offering significant domestic protection. This system had played an important role in South Korea's export-led strategy. China's import regime has remained highly protective. In 1992, China's unweighted average nominal tariff rate was 43.1 per cent, which was relatively high by international standards—the third highest among large developing countries, after India and Pakistan.

The second stage (1992–2000)

China signed a memorandum of understanding with the United States in October 1991, giving commitments to reduce quantitative import restrictions and tariffs.

On 1 January 1992, import tariffs were reduced on 225 products, from an average rate of 45 per cent to 30 per cent. In addition, China abolished import surcharges of between 20 and 80 per cent on 14 products, in April 1992. In December of that year, it lowered tariffs by an average of 7.3 per cent on an additional 3,371 items. Effective on 1 January 1994, China reduced tariffs on 2,818 items by an average of 8.8 per cent. Tariffs on more than 200 agricultural and industrial items were reduced by an average of 50 per cent, with none less than 35 per cent.

Then president Jiang Zemin announced at the Asia-Pacific Economic Cooperation (APEC) summit in Osaka in November 1995 that China would adopt a new round of tariff reduction in 1996, lowering the unweighted average tariff on 4,000 items, from 35.9 per cent to about 23 per cent.

By 1992, there were 1,247 items covered by import licensing, import quotas and other measures, accounting for 17.5 per cent of the total. Of these, about 12 per cent of imports were covered by import licensing and 5.7 per cent by other quantitative forms of control. Since 1992, China has taken some important steps to gradually reduce its nontariff barriers. In its 1992 agreement with the United States, China pledged to eliminate 90 per cent of its nontariff barriers over time, reducing the number of quantitative restrictions (QRs) from 1,247 to 240 by the year 2000. In January 1993, it was officially announced that all import substitution lists would be abolished.

The third stage: Post-WTO accession

China's accession to the WTO in December 2001 was a milestone in the history of its reform and opening up. It marked recognition by the international community of China's market-oriented reform and the extension of international standards and rules in the Chinese market.

After joining the WTO, China has implemented its commitments in various ways.

Regulations and laws

A large number of laws and administrative regulations on trade have been reviewed and amended to remove inconsistencies with those of the WTO on national treatment. The foreign trade approval system for trade operations licensing has been abolished. All enterprises in China have rights to trade, except those covering a small number of products in which state monopolies remain: grain, cotton and other agricultural products, coal, metal minerals, crude oil and refined oil. These reforms and policy adjustments have significantly improved the transparency of the economic and trade laws, regulations and policies.

Tariffs

Tariff rates for all taxable items have been reduced. The average tariff rate for most favoured nations (MFNs) dropped from 15.6 per cent in 2001 to 9.7 per cent in 2005, and from 14.3 per cent to 8.9 per cent for manufactured goods. Tariff rates for automobiles and spare parts and textiles and clothing were reduced by almost half, while those for agricultural products fell from 23.2 per cent to 14.6 per cent. There is not much difference between the applied and bound tariff rates, making tariffs more predictable. In January 2005, the tariff rates for all information and technology products were reduced to zero from the pre-WTO accession level of 13.3 per cent under the Information Technology Agreement.

Nontariff barriers

After WTO accession, China began to phase out import licences and quotas and specific bidding requirements, all of which had been removed by 1 January 2005. Import licensing procedures have been simplified and transparency improved. New import licensing systems have been implemented since September 2005, and tariff quotas have been retained for only some agricultural products and chemical fertilisers.

Trade-related investment measures

For consistency with the Agreement on Trade-Related Investment Measures (TRIM), trade and foreign exchange balances, local content and export performance requirements in foreign capital laws and regulations have been cancelled.

Trade-related intellectual property rights

For consistency with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), China's copyright, trademark and patent laws were amended in 2001 to ensure national and MFN treatment for foreigners was consistent with the TRIPS agreement. Minimum law enforcement standards for the protection of intellectual property rights were set up.

Trade in services

China has undertaken a much broader commitment to the opening of service industries to WTO members than is the norm for developing countries. It has opened more than 100 of the 160-plus sectors and nine of the 12 main categories in the General Agreement on Trade in Services (GATS) list. China has made even greater changes in some industries with immense commercial significance, such as banking, securities, insurance, telecommunications, retail and distribution and professional services. By 2006, China had lifted local content, business scope and share proportion restrictions. For example, China has abolished the requirements relating to local content, export performance, technology transfer and research and development for those sectors in which it had made liberalisation commitments.

Since 2006, the liberalisation of import trade has been continued, but, in general, little progress has been made. The average implementation tariff rate has not been significantly reduced (Table 28.1).

Table 28.1 China's tariff structure, 2015

Products	Number of lines	Average (%)
Live animals and products	488	11.5
Vegetable products	511	14.1
Fats and oils	56	12.6
Prepared food, beverages and tobacco	306	17.4
Mineral products	201	3.0
Chemicals and products thereof	1,289	6.4
Plastics, rubber and articles thereof	274	9.2
Raw hides and skins, leather and its products	106	12.0
Wood and wood articles	208	4.4
Wood pulp, paper and paperboard	162	5.2
Textiles and textile articles	1,141	11.4
Footwear, headgear and so on	71	17.9
Articles of stone, plaster and cement	197	12.8
Precious stones and metals, pearls	90	10.0
Base metals and articles thereof	770	7.0
Machinery, electrical equipment and so on	1,512	7.9
Transport equipment	351	13.1
Precision equipment	335	9.4
Arms and ammunition	21	13.0
Works of art, etc	10	8.0
Miscellaneous manufactured articles	186	10.7
Total	8,285	9.5

Note: Calculations are based on MFN applied tariffs at the Harmonised System eight-digit tariff line level.
Source: WTO Secretariat (2016).

Trade disputes and friction between China and its main trading partners have become increasingly serious with the rapid growth of China's exports and since the collapse of global trade during the Global Financial Crisis (GFC) in 2008. Since 1995, more and more antidumping measures have been initiated against Chinese goods. By the end of 2016, China had been the subject of 866 antidumping measures—the highest number in the world. India has initiated the most antidumping measures against China, followed by the United States and the European Union (Figure 28.1).

Figure 28.1 Number of antidumping measures against China by trading partners, 1995–2016

Source: WTO (2018).

There are still some challenges for further reform of China's trade regime.

Liberalisation is still required for audiovisual products, books and other products, and for distribution of these products, as well as pharmaceuticals, crude oil and refined oil. Liberalisation is also required of direct selling and the participation of nonstate enterprises in some areas of state monopoly trading.

There are still various barriers to entry and commercial restrictions in service sectors such as banking, securities, insurance, telecommunications, transportation, postal and couriers. These include discriminatory minimum capital requirements, application restrictions for establishing branches, requirements for economic testing

and mandatory joint venture requirements; the nationalisation component is also still on the high side. The entry threshold for private and foreign-funded enterprises is still high.

For intellectual property rights, civil procedures and relief need to be improved. Light administrative penalties and high thresholds for criminal proceedings do not deter piracy and infringements. Law enforcement needs to be strengthened. Cooperation between executive departments is weak and there is still local protectionism and administrative corruption. The outcome is weak protection of online intellectual property products.

In government procurement, laws and regulations retain priority to state-owned enterprises (SOEs) and discriminate against foreign suppliers.

In industrial policy, SOEs receive various central and local government financial subsidies, other special subsidies, preferential and policy loans and investment and tax subsidies. These discriminate against imported goods and foreign enterprises. China's notification of subsidies to the WTO is not timely, accurate or comprehensive. Industrial policies for some sectors (such as automobiles and steel) constitute trade and investment barriers. The concept of 'national economic security' is blurred when antitrust law is used to implement industrial policies, and the treatment of administrative monopolies and SOEs is not clear.

In summary, the reform of China's trade system promoted domestic economic reform and accelerated growth in the role of markets. China's trade policy has been increasingly neutral and liberal. These changes have contributed to rapid trade expansion and economic growth in China.

The performance of China's trade

China's foreign trade has experienced 40 years of rapid development. The total value of imports and exports increased from US\$206 billion in 1978 to US\$4.1 trillion in 2017. Exports increased from US\$10 billion to US\$2.2 trillion, while imports increased from US\$11 billion to US\$1.8 trillion. From 1978 to 2017, the average annual growth rate of China's total foreign trade, at 14.1 per cent, was far higher than the global average. From China's accession to the WTO in 2001 to the GFC in 2008, China's value of trade increased annually. Since the slowdown in world trade growth, the growth rate of Chinese exports has also rapidly declined.

China's global ranking in the scale of foreign trade has risen from 32 in 1978 to number one. Figure 28.2 shows the evolution of the shares of total exports for China, the United States, Germany and Japan in the period 1995–2015. The proportion of

China's exports in global trade increased from less than 2 per cent in 1978 to about 13 per cent in 2015. China's share in global exports has fallen over the past two years, but, at 12 per cent, remains larger than any other country.

Figure 28.2 The evolution of China's share of world trade (per cent)

Source: Calculated from UN Comtrade database (comtrade.un.org).

In the past 40 years, great changes have taken place in the structure of China's trade. The leading exports changed from resource-based products to light textile products, and then gradually to mechanical and electrical products and then to high-tech products. The proportion of manufacturing products has increased from less than 50 per cent in the initial period of reform and opening-up to more than 90 per cent. Table 28.2 decomposes all manufacturing products into four categories—low technology, medium technology, high technology and others—for China and the world. The share of low-tech exports has always been above the world average, but declined rapidly after China's WTO accession. On the other hand, since accession, the proportion of high-tech products has risen sharply—to far above the world average.

The rapid transformation of China's export structure is closely related to the country's processing trade. Since the early 1990s, with the encouragement of the opening up of processing trade and the massive entry of foreign-invested enterprises, processing trade and the proportion of imports and exports have increased rapidly. In 1981, the total import and export value of processing trade was only US\$2.5 billion, as 5.7 per cent of the total Chinese import and export value. By 2007, the total value

of imports and exports in processing trade reached US\$986 billion (US\$618 billion for exports and US\$368 billion for imports, respectively). Electrical products made a large contribution to these figures.

Table 28.2 Structural change of exports by technology: China and the world (per cent)

		1985	1990	1995	2000	2005	2010	2016
Low-tech	China	17.0	40.2	46.4	41.2	15.9	29.3	30.9
	World	14.1	16.6	16.7	14.7	9.7	13.0	14.5
Medium-tech	China	4.9	20.8	18.9	19.6	23.0	24.0	24.5
	World	32.4	33.5	32.6	29.6	26.8	27.6	29.7
High-tech	China	2.1	5.3	13.0	22.4	41.0	34.9	32.6
	World	13.3	15.6	19.6	23.0	18.6	19.6	21.3
Others	China	76.1	31.6	21.1	16.1	19.9	11.4	11.3
	World	37.5	31.1	27.3	27.6	44.6	33.9	27.7

Source: Calculated from UN Comtrade database.

To better guide the transformation and upgrading of processing trade, in September 2006, the Ministry of Finance, the National Development and Reform Commission (NDRC), the Ministry of Commerce and other government agencies jointly issued the 'Regulations on Adjusting the Tax Refund Rates for Certain Products and Adding the Catalogue of Prohibited Products for Processing Trade'. This introduced significant changes and, with the reform of China's exchange rate system and the GFC, contributed to a decline in the share of China's processing trade in total trade (Figure 28.3).

Figure 28.3 The share of processing trade in China's exports (per cent)

Sources: NBS (various years [a], [b]).

There were great imbalances in the development of China's foreign trade in the early stages of reform and opening up, especially between the eastern, central and western regions of the country. The eastern region has always been at the centre of China's foreign trade development, and this advantage continues to deepen (Figure 28.4). After the GFC in 2008, the central and western regions' shares in total trade increased, while the eastern region's share declined. On the whole, however, although the shares of exports in the central and western regions have risen rapidly, the eastern region remains the core of China's foreign trade development.

Figure 28.4 The evolution of China's exports by region (per cent)

Note: The vertical axis on the left indicates the eastern region's share in exports, while the vertical axis on the right indicates the shares of the central and western regions.

Sources: NBS (various years [a], [b]).

China has gradually changed from having a narrow geographic focus for its trade into a global trading power. China once used Hong Kong heavily as a transit port, but increasingly smaller proportions of Chinese exports now go through that city (Figures 28.5a and 28.5b). The US share in China's total exports has risen sharply, while Japan's has experienced a sharp decline. After the reform and opening-up, China's export destinations became more diverse.

Figure 28.5a Market distribution of destinations for Chinese exports, 1995

Figure 28.5b Market distribution of destinations for Chinese exports, 2017

Sources: NBS (various years [a], [b]).

With China's accession to the WTO, the ownership structure of enterprises participating in foreign trade has undergone major changes. Before 1998, SOEs dominated China's export growth. After 1998, however, as China gradually began to reform the right to engage in foreign trade, private enterprises have become the most important for China's export growth (Figures 28.6a and 28.6b).

During the reform period, foreign-funded enterprises have been an increasingly important part of China's export growth, and their share in total trade rose from 31 per cent to 43 per cent—slightly lower than the export contribution of Chinese private firms.

Figure 28.6a Ownership structure of China's exports, 1995

Figure 28.6b Ownership structure of China's exports, 2017

Sources: NBS (various years [a], [b]).

The dominant feature of China's rapid export growth has been the use of abundant and relatively cheap labour as a source of comparative advantage. This had to change—and there are signs now that Chinese exports have been caught in a low-quality trap. Figure 28.7 uses the relative unit value method to differentiate high-quality and low-quality export goods. Specifically, the unit value of export product i is calculated at the product level, and the ratio of the two, $\gamma_i = UV_i / \bar{UV}_i$, is then calculated by taking the value of the global average export unit, $\bar{UV}_i$ (the trade-weighted geometric mean of the value of export units of all of that country's products), as a reference. According to the size of γ_i , the quality of export products is divided into two categories: 1) if $\gamma_i > 1$, the export quality of the country's product i is relatively high—higher than the world average—and is classified as a high-end product; 2) if $\gamma_i < 1$, the export quality of the country's product i is lower than the global average and is classified as a low-end product. Figure 28.7 shows the performance of Chinese exports in high and low-end markets. Most of China's exports are of low-quality goods to the global market, and the disproportionate presence of low-end products became increasingly obvious after China's accession to the WTO.

Figure 28.7 Evolution of relative prices and quality of export products in China

Source: Calculated from BACI database (www.cepii.fr/CEPII/en/bdd_modele/presentation.asp?id=1).

Impacts of trade on China's economic growth: Firm-level evaluation

Exports have several effects on economic growth. First, according to the traditional theory of comparative advantage, international trade will improve the allocation of resources in different industries through specialised production and inter-industry resource allocation, so as to raise per capita income. Second, Melitz (2003) has highlighted a new trade gain through intra-industry reallocation across firms. These reallocations towards more efficient firms mean trade may generate aggregate productivity gains.

In the initial period of reform and opening, the development of international trade prompted China to exploit its comparative advantages in labour-intensive products such as textiles and clothing, significantly changing China's industrial and trade structure and greatly improving its inter-industry resource allocation. With the development of its processing trade, China rapidly gained a dominant position in the labour-intensive phase of the global production division of labour and secured a huge market share in processing trade, which is dominated by mechanical and electrical products.

The rapid rise of export companies—especially private companies—has improved the efficiency of resource allocation among domestic enterprises. With the continuous opening up of investment and trade management rights, China has created a more competitive market economy. High-efficiency export companies have gradually taken a leading role in the market and squeezed out a large number of inefficient companies, thereby improving the dynamic efficiency of the market.

Exports increase productivity through selection and learning effects. To test the impact of exports on economic growth, we use the Chinese Industrial Enterprise Database for 1998–2007.¹ The econometric model is introduced as follows (Equation 28.1).

Equation 28.1

$$\ln \left(\frac{Vadd_{it}}{Vadd_{i,t-1}} \right) = \alpha + \beta Export_{it} + \gamma_i + \gamma_t + \mu_{it}$$

¹ There are two reasons we adopt this database: first, the firm-level data that can be used to calculate productivity are limited to this period; second, this period coincides with China's accession to the WTO. China's trade system has since undergone profound changes and trade liberalisation has also advanced rapidly, making it appropriate to examine the impact of trade on economic growth based on the database for this period.

In Equation 28.1, $Vadd_{it}$ is the added value of enterprise i in year t , and $Export$ is the export variable of the enterprise. This is a dummy variable: if this company exports, it takes a value of 1; otherwise, it is set at 0. To avoid missing important explanatory variables, the fixed effects at the firm level and the year level are added into the econometric model.

Table 28.3 shows the dummy variables of export enterprises are significantly positive at the 1 per cent level. The growth rate of value added for export enterprises is significantly higher than that for non-export enterprises. The average value-added growth rate of export enterprises is higher than that of non-export enterprises, by 5.3 per cent.

Table 28.3 The effect of exports on economic growth

	(1)	(2)
Export dummy	0.053*** (0.004)	0.054*** (0.004)
Firm fixed effect	Yes	Yes
Year fixed effect	No	Yes
R ²	0.021	0.084
Observations	1,422,946	1,422,946

*** denote significant at 1 per cent level

Note: Standard errors are in parentheses.

Exports are an important driver of China's economic growth, but does growth come from the increase in factor inputs or the increase in productivity? Here we decompose the sources of China's economic growth. Following the Solow growth model, we decompose the growth of China's manufacturing output into factor and productivity growth.

We use the China Industrial Enterprise Database for 1998–2007 to estimate firm level TFP following Olley and Pakes (1996) method. This method can resolve issues with the omitted variable and sample selection bias. The exact form of the estimate is as follows (Equation 28.2).

Equation 28.2

$$Y_{it} = \beta_0 + \beta_L L_{it} + \beta_K K_{it} + \eta_{it} + \varepsilon_{it}$$

In Equation 28.2, Y , L and K represent the value added of an enterprise, the number of employees and the capital stock, respectively. We apply a price deflator to added value. We adopted the perpetual inventory method and the investment price deflator to estimate the enterprise's capital stock. In Equation 28.2, η_{it} represents

a productivity shock that was observed by business decision-makers without the productivity impact observed by researchers; ε_{it} is a productivity shock that was not observed by corporate policymakers or researchers.

Table 28.4 sets out the contribution of factor accumulation and productivity growth to economic growth, and indicates that productivity growth contributed 96.7 per cent in 2002—up from a low of 27.2 per cent in 1999. The increase in productivity has always been the most powerful driving force of China's economic growth.

Table 28.4 The contribution of factor accumulation and TFP growth to economic growth (per cent)

Year	Value-added growth	TFP		Inputs	
		Growth	Contribution	Growth	Contribution
1999	12.7	4.7	37.2	8.0	62.8
2000	15.7	11.7	74.5	4.0	25.5
2001	12.2	10.0	82.1	2.2	17.9
2002	18.3	17.7	96.7	0.6	3.3
2003	26.6	14.8	55.6	11.8	44.4
2004	29.4	20.6	70.3	8.7	29.7
2005	25.2	20.2	80.2	5.0	19.8
2006	24.8	19.7	79.3	5.1	20.7
2007	24.2	10.7	44.4	13.4	55.6

Productivity is a key driver of China's economic growth, and the export level is the most important determinant of productivity growth. This section will further clarify the contribution of exports to China's productivity growth.

This chapter divides all enterprises into export and non-export enterprises. In Table 28.5, we present the results of calculations of the average productivity level of both export and non-export enterprises in different years, and of a T-test for the productivity differences between exporters and non-exporters. Table 28.5 shows that the productivity level of China's non-export enterprises was 1.401 in 1998 and for export enterprises, it was 1.992. The higher productivity of export enterprises is significant at the 1 per cent level. The significance is similar through the period 1998–2007. The average productivity level of export enterprises is significantly higher than that of non-export enterprises.

In Table 28.6, we decompose the contribution of export and non-export enterprises to the weighted average productivity of Chinese manufacturing enterprises. The decomposition results in Table 28.5 show that through 1998–2007, the average contribution of Chinese exporters to TFP reached 48–58 per cent. The decomposition

results in Table 28.5 show that the contribution of export enterprises to the TFP growth rate reached 62 per cent, and export enterprises are also the most important source of China's productivity growth.

Table 28.5 TFP difference between non-exporters and exporters

Year	Non-exporters	Exporters	Difference
1998	1.401	1.992	-0.591***
1999	1.484	2.063	-0.579***
2000	1.635	2.210	-0.575***
2001	1.808	2.291	-0.483***
2002	1.956	2.393	-0.437***
2003	2.172	2.554	-0.382***
2004	2.381	2.633	-0.252***
2005	2.523	2.784	-0.261***
2006	2.676	2.886	-0.211***
2007	2.850	2.965	-0.115***

*** denote significant at 1 per cent level

Notes: Standard errors are in parentheses.

Table 28.6 Contribution to TFP of non-exporters and exporters

Year	Contribution to TFP				Contribution to TFP growth			
	Non-exporters		Exporters		Non-exporters		Exporters	
1998	1.090	(45.0)	1.330	(55.0)	0.102	(50.0)	0.102	(50.0)
1999	1.132	(45.6)	1.352	(54.4)	0.106	(52.0)	0.098	(48.0)
2000	1.154	(44.1)	1.466	(55.9)	0.079	(48.9)	0.082	(51.1)
2001	1.216	(44.9)	1.494	(55.1)	0.104	(44.9)	0.128	(55.1)
2002	1.261	(44.3)	1.583	(55.7)	0.103	(45.6)	0.123	(54.4)
2003	1.313	(44.2)	1.659	(55.8)	0.077	(37.9)	0.125	(62.1)
2004	1.326	(42.4)	1.801	(57.6)	0.136	(48.0)	0.148	(52.0)
2005	1.424	(45.0)	1.742	(55.0)	0.122	(55.8)	0.096	(44.2)
2006	1.458	(46.2)	1.699	(53.8)	0.117	(59.5)	0.079	(40.5)
2007	1.627	(51.4)	1.538	(48.6)	0.102	(50.0)	0.102	(50.1)

Notes: The figures in parentheses are the percentage of contribution.

Conclusion

Trade liberalisation and the reform of its economic system have created a solid institutional foundation for the rapid development of China's foreign trade. These changes have also brought China's foreign trade to the fore by improving the efficiency of resource allocation and contributing to dynamic efficiency.

China's foreign trade development faces challenges. First, the pace of economic reform has shown signs of slowing since the eighteenth National Congress, and trade liberalisation needs to be deepened. The main obstacles to this are political pressure and pressure from interest groups, especially large SOEs. Second, the external market environment continues to deteriorate, with increasing trade friction between China and its major trading partners and emerging markets. Third, export-led growth has reached its limit. A new model of development with greater emphasis on a balance between internal and external demand is required.

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This text is taken from *China's 40 Years of Reform and Development: 1978–2018*,
edited by Ross Garnaut, Ligang Song and Cai Fang, published 2018 by
ANU Press, The Australian National University, Canberra, Australia.

doi.org/10.22459/CYRD.07.2018.28