Trade Relations between China and Emerging Markets:

An Analysis Based on Competitiveness and Complementarity

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Abstract

China's foreign exports are caught in several predicaments: a weak recovery of the global economy; sluggish U.S., European, and Japanese markets; a single export market pressure at home from industrial restructuring and upgrading; excess capacity of certain products; and short supply of energy. One important option for China to cope with this grim export picture is to exploit emerging markets. Furthermore, exploiting emerging markets is an inevitable path in order for China to have a say in global economic governance and to transition from a great trader to a powerful trader.

Therefore, China is formulating an emerging market strategy, with its focus on emerging economies. As the trade competitiveness and complementarity between China and these countries differ from one another, targeted policies and measures must be put in to place. China needs to carefully arrange domestic and foreign policies to guarantee the success of its strategy of exploiting emerging markets. This paper selected 14 countries (i.e., Russia, India, Brazil, Pakistan, Egypt, Indonesia, Iran, Philippines, Mexico, Bangladesh, Nigeria, Turkey, Vietnam, and South Africa), built measurement indexes based on a comparison of the trade structures between China and these countries, estimated the trade relations between them, and ranked the potentials for China to cooperate with these emerging countries. Accordingly, this paper, grounded on exploiting emerging markets, puts forward recommendations for policies for optimizing trade structures between China and major emerging markets and proposes different countermeasures considering the trade barriers against China in various countries.

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I. Foreword

1.1 Study background

In the post-crisis era, the influence of the global financial crisis on different economies is still felt, and the world economy still faces many unstable and uncertain factors. Therefore, viewed from an external perspective, China's exports are challenged by the weak recovery of the global economy, the singularity of its export market, and the sluggish European and U.S. markets; at home, it is under pressure from industrial restructuring and upgrading, excess capacity for some products, insufficient supply of energy and raw materials, and weak brand building among others.

In the meantime, as economic globalization presses forward, especially since the beginning of the new century, emerging markets are witnessing remarkable upturns as groups and moving from the margins to the centre of the world stage, becoming important forces of international production, trade, and investment. Their economic scales are expanding fast and their internal demand is robustly growing. In particular, their growth in trade exceeds that of advanced markets in the same period.

According to the World Trade Organization's (WTO)'s *World Trade Report 2013,* in the global commodity trade rankings for 2012, China's commodity export ranked in first place while its imports ranked second place. Developing economies including China made up nearly half of the global trade. WTO data reveals that global commodity trade volumes increased by 2.1%, representing a further slowdown compared with the 2.3% seen in the previous year. Exports by advanced countries grew by 1.5% but imports declined by 0.2%;

meanwhile, exports by emerging markets rose by 3.3%, and their imports increased by 4.4%.

The United Nations Conference on Trade and Development (UNCTAD) released a report entitled *Global Value Chains and Development: Investment and Value Added Trade in the Global Economy* at the end of February 2013. As per the report, most developing countries, including the poorest countries, are becoming increasingly involved in global value chain activities and their shares in global value-added trade increased from 20% in 1990 to 30% in 2000, and have exceeded 40% at present. The ratio of value-added trade to GDP in developing countries is 28% on average, but this ratio is only 18% in advanced countries.

We can see that emerging countries offer a good buffering effect, especially after the outbreak of the financial crisis, and have become important global producers, traders, and investors. Emerging markets comprising emerging countries will play even more important roles in future global economic development and are therefore drawing increasing attention globally.

To decentralize trade risks, cope with changes in development environment and conditions at home and abroad, and achieve sustainable development in foreign trade, China is planning a further upgrade and deepening of its diversified global market strategy as well as planning to adopt an emerging market strategy. Thus, developing emerging markets has become the internal driving force behind China's opening-up and economic development. The fundamental need for sustainable foreign trade development has thus motivated even the basic demand for implementing a win-win opening-up strategy. In such a context, China has in recent years continued to expand its economic and trade exchanges with emerging markets. Emerging markets have become both important sources and destinations for investment, and multi-level and multi-faceted partnerships are deepening. Developing economic and trade relations with emerging markets has become an important measure for China to achieve its market diversification strategy and raise the level of its open economy. Since China's entry into the WTO, its share of exports to emerging markets rose from 1% to 13%; and the share of its imports increased from 2% to 13%.[1]

However, the concept of emerging markets is quite broad and still lacks a clear definition. Name lists vary according to different scholars and research institutes based on different criteria and definitions. Emerging markets or economies, since the term was originally coined by World Bank economist Antoine van Agtmael in 1981, has become a fashionable term in the economic world.[2] A 2012 IME report listed only 25 emerging markets or economies while BBVA (Banco Bilbao Vizcaya Argentariais) listed as many as 45. This lack of clarity has been compounded by the fact that many new terms have emerged to describe emerging markets/economies, e.g., BRICS (Brazil, Russia, India, China, and South Africa), Next Eleven (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Africa, Turkey, and Vietnam), VISTA (Vietnam, Indonesia, South Africa, Turkey, and Argentina), and CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa). Zhang Li from the Chinese Academy of International Trade and Economic Cooperation of Ministry of Commerce defines emerging markets or economies as "developing countries experiencing notable accelerated economic development, fast increases in shares of world economy, and mid-to-late period of industrialization."[3] French scholar Julien Vercueil summarized the following characteristics of an emerging economy: 1. Its PPP per capita income is between 10% and 75% of the average EU per capita income, and it possesses economic and market potential capable of sustainable growth. 2. During at least the last decade, it has experienced brisk economic growth that has narrowed its income gap with advanced economies. 3. Institutional transformations and economic opening: during the same period, it has undertaken profound institutional transformations that contributed to integrate it more deeply into the world economy.[4] More than 50 countries, representing 60% of the world's population and 45% of its GDP, matched these criteria.

In consideration of the above study, this paper defines emerging markets as developing countries experiencing notably faster economic growth in recent years, rapid increases in their share of the world economy and reaching a mid-to-late period of their industrialization. Emerging markets comprise some important developing countries/regions, some countries in a transitional phase between developing and developed status, and several individual developed countries. Therefore, the specific defining criteria are: 1. countries with steady and anticipatable economic growth and market potential; 2. countries ranked among the first 50 in global trade; and 3. countries known as new markets for Chinese foreign trade instead of relatively saturated markets. Consequently, this paper identifies 14 countries, namely Russia, India, Brazil, Pakistan, Egypt, Indonesia, Iran, Philippines, Mexico, Bangladesh, Nigeria, Turkey, Vietnam, and South Africa, as its objects of study.

Overall, in the post-crisis era, focusing on expanding emerging markets, deciding on specific ways of developing emerging markets and promoting market diversification in a solid manner have become China's strategic choices to develop its foreign trade. Accordingly, the implementation of China's emerging market strategy shall comprise well-targeted policies and measures on the basis of differences in competition and the complementarity of trade between China and emerging markets. By comparing China's import and export structures with those of emerging markets, this paper will build indices to measure the trade relations between China and the above 14 countries, evaluate their potential for mutual cooperation, and put forward specific ways for China to develop emerging markets as well as suggest policies and recommendations for improving bilateral trade structures. Meanwhile, taking into consideration trade barriers for China already existing in these countries, we will explore different policies and measures to meet the above aims.

1.2 An overview of precedent studies and study methods

1. Early studies in China

Researches specifically focusing on emerging markets are scant at present. Most existing studies examine trade competition between two countries/regions (emerging market groups). Starting with a specific product category, they mainly analyze the homogenous export structure between emerging markets by calculating a product's similarity index and trade competitive index.

Studies on the homogenous export structure of emerging markets using the trade competitive index and product similarity index method first examined specific product categories: Shi Zhiyu (2003)[5] calculated the export similarity index covering 1991–1997 for China and Association of Southeast Asian Nations (ASEAN) countries and found that its value became increasingly greater; the export similarity index between China and Malaysia/Philippines topped 30% in 1995–1997, while the export similarity index between China and Thailand/Malaysia reached over 50%, a sufficient demonstration of a serious homogeneity of trade structures between emerging markets. Cheng Haibiao (2006)[6] also studied the export similarity index of China and ASEAN countries for 1999–2003. In light of the export similarity index's tendency to change, the export similarity index for China and ASEAN stood at about 40%; the export similarity index between China and Thailand was particularly high, above 50%. The analysis of the changing tendency of the similarity index found a homogeneity of export trade structures between China and ASEAN countries. Rong Jing and Yang Chuan (2006)[7] calculated the relative competitive index and similarity index of agricultural products for China and ASEAN-4 (Thailand, Malaysia, the Philippines, and Indonesia). They believe that the relative competitive index of animal products and animal and vegetable oil products as well as food and tobacco products is low but the relative competitive index of their vegetable products is high; in general, the similarity index is high between China and ASEAN-4, reaching as high as 60%, with the low index value between China and Malaysia a clear exception. Li Guojian (2006)[8] calculated the similarity index of trade structures between China and ASEAN countries as well, and the value of such an index between China and ASEAN countries like Indonesia, Malaysia, Thailand, and Vietnam was found to be about 45%, revealing a notable homogeneity of trade structures between emerging markets. Zhang Huiqing (2006)[9] studied the competitive status of trade between China, Mexico, Brazil, and some SE Asian countries in the U.S. market and found a certain "crowding-out effect" of Chinese products upon products of other countries in the U.S. market. The author further calculated the export similarity index between China and Brazil, Argentina, Hungary, Indonesia, Malaysia, and Mexico using a similarity index, and concluded that their structures of export commodities are similar. Zhai Xuke (2011)[10] found highly similar foreign trade structures between China and Malaysia, Thailand, India, and the Philippines through an analysis of foreign trade structures between China and ASEAN countries, and concluded that competition intensifies along with similarity degree.

As the existing literature shows, most studies focus on trade between China and a specific emerging market, but the results of systematic analyses of the developing trend of trade between them are few, and even fewer are studies from competitive and complementary perspectives. As global economization continues to progress, it becomes necessary to know the competitive and complementary characteristics of trade between China and major emerging markets so that we can improve bilateral trade structures and adjust emerging market strategy in good time. This study attempts to cover the gaps left by existing studies. It conducts an overarching yet in-depth quantitative analysis of the characteristics of trade between China and 14 major emerging markets by constructing competitive and complementary measurement indices between them, the results of which are used as the basis for developing and deepening China's emerging market strategy.

2. Study method and indexing

Traditional analysis indices for bilateral trade competition and complementarity are centered on the concept of Relative Comparative Advantage (RCA) proposed by U.S. economist Balassa (1965, 1989)[11], which is now widely used. Concerning the evolution of this concept, international academia has produced many researches, such as the analysis of static and dynamic comparative advantage index by Cypher and Dietz (1998)[12]. Major variants of RCA include the RTA index that takes both exports and imports into account, IIT (Intra-industry Trade), and others.

Based on the RTA index, Scott and Vollrath (1992) established the OBC (overall bilateral complementarity) index.

$$OBC_{ij} = \frac{-COV\,(RTA_i,\ RTA_j)}{\sqrt{VAR\,(RTA_i)} \times \sqrt{VAR\,(RTA_j)}}$$

A positive OBC index shows that two countries have complementary trade structures; that is, one country has a relative trade advantage and the other does not, i.e., the trade structures of these two countries are different and complement each other. On the contrary, if OBC index is a negative value, it means that the trade structures of the two countries compete with each other, or the production/trade structures of products produced by the two countries are homogeneous and competitive in the same export market.

Chinese scholar Yu Jinping (2003)[13] constructed a comprehensive complementary index based on the RCA:

$$C_{ij} = \Sigma\,[(RTA_{xik} \times RTA_{mjk}) \times (W_k / W)]$$

In the formula, RCA_{XIK} represents the comparative advantage of country i in product k measured by exports; RCA_{mjk} represents the comparative advantage of country j in product k measured by imports. W_k/W is the weighting coefficient, expressing the share of various products in world trade. When the comparative advantages of all countries in various products are the same, the resulting complementarity index equals 1. This index is an indirect reflection of the share of inter-industry trade in bilateral trade. If bilateral trade is dominated by inter-industry trade, the corresponding complementarity index will be large; in contrast, if it is dominated by intra-industry trade, the resulting complementarity index will be small. However, the RCA index is being questioned by many researches on grounds such as defects with its calculation method and inter-temporal comparison, lack of objectivity in case of prevailing intra-industry trade, etc. (Liu Mingxing, et al, 2007[14]; Leu Mike, 2006[15]; Lu Xiaodong et al, 2007[16]).

A comparison of the import and export structure of two countries within a specific time period also enables an intuitive calculation of the competitiveness and complementarity of those two countries. Blaazquez-Lidoy et al. (2007)[17] evaluated trade relations between China and Latin American countries using this method. By referring to the index system thus developed, this study created a trade competitive index and a trade complementary index, respectively. The data are taken from the UNCOMTRADE database, and the goods classification criteria is HS1992 (2-digit).

(1) Trade competitive index

$$CS = 1 - \frac{1}{2}\sum_{n} | a_{it}^{n} - a_{jt}^{n} | \qquad CC = \frac{\sum_{n} a_{it}^{n} a_{jt}^{n}}{\sqrt{\sum_{n} (a_{it}^{n})^{2} \sum_{n} (a_{jt}^{n})^{2}}}$$

The export structures of two countries within a specific time period are compared. Highly similar trade structures indicate a very high probability of fierce competition between them. These two indices are modified CS and CC.

In the above formula, a_{it} and a_{jt} stand for the ratio of product n of country i and country j to their total exports within time t. If their export structures are identical, then both indices equal 1. In this case, potential trade competition is highly possible; otherwise, both indices being 0 indicates two distinctly different export structures. To confirm the reliability of the study's results, two groups of indices are used to replace one group of indices, and the final data are defined as CI to signify the arithmetic mean of the two indices.

(2) Trade Complementarity Index

① Complementarity index of exports by China and imports by emerging markets

This study has built two indices for comparing the export structure of China and the import structures of emerging markets. If the imports of a specific country coincide with the exports of China, this tells of a possible increase in the trade potential of such a country. We shall point out that the closer the values of the two indices are to 1, the higher the trade complementarity becomes, implying a potential benefit and an apparent trade opportunity.

These two indices are modified CS_m and CC_m.

$$CS_m = 1 - \frac{1}{2}\sum_{n} | a_{it}^{n} - a_{jt}^{n} | \qquad CC_m = \frac{\sum_{n} a_{it}^{n} a_{jt}^{n}}{\sqrt{\sum_{n} (a_{it}^{n})^{2} \sum_{n} (a_{jt}^{n})^{2}}}$$

Wherein, a_{it} presents the ratio of product n of country i to its total exports within time period t. a_{jt} stands for the ratio of product n of country j to its total imports within time t. If the exports of China coincide completely with the imports of a country, then the two indices are both equivalent to 1. Similarly, modified mean value CIm index is used to ensure the reliability of the conclusion.

② Complementarity index of imports of China and exports of emerging markets

This study has created two indices for comparing the export structure of emerging markets and the import structure of China. If the exports of a specific country coincide with the imports of China, this indicates a possible increase in the trade potential of such a country. It shall be pointed out that the closer the values of the two indices are to 1, the higher the complementarity of trade becomes, implying a potential benefit and an apparent trade opportunity.

These two indices are modified CS_m and CC_m.

$$CS_m = 1 - \frac{1}{2}\sum_n |a_{it}^n - a_{jt}^n| \qquad CC_m = \frac{\sum_n a_{it}^n a_{jt}^n}{\sqrt{\sum_n (a_{it}^n)^2 \sum_n (a_{jt}^n)^2}}$$

In the above, a_{it} represents the ratio of product n of country i to its total exports within time period t. a_{jt} stands for the ratio of product n to the total imports of China within time t. If the imports of China coincide completely with the exports of a country, then the two indices are both 1. As above, the modified mean value CIm index is used to ensure the conclusion's reliability.

II. Why China Needs to Develop Trade Relations with Emerging Markets

An open economy environment makes the pursuit of diversified, stable, and predictable markets a country's inevitable choice, and this is also determined by objective law. Ever since the 1990s, though China's export size has been expanding, its export markets are still dominated by advanced countries. In the light of strategic thinking to avert and diffuse market risks and reduce trade frictions, China adopted a market diversification strategy and has attained some promising results. However, the EU, U.S., and Japan remain its major export markets. Considering the ever-rising position of China in world economic and political relations and a series of changes occurring to domestic and international development environments (particularly challenges and inspirations from the financial crisis), it is necessary for China to further upgrade and deepen its market diversification strategy and determine new methods of diversification. The necessity of an emerging market strategy will be discussed in the next section.

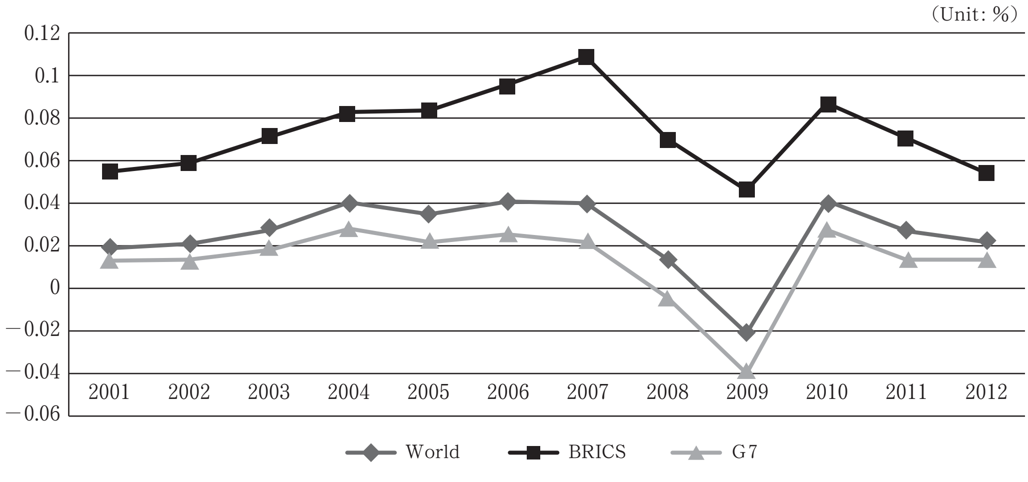
2.1 China needs to command world economic and political trends and seize an early opportunity for strategy reform

Due to complex and volatile global economic situations and an unpredictable future coupled with the anticipated gradual withdrawal of the U.S. quantitative easing policy, financial turbulence and sluggish growth returned, and voices doubting emerging markets are constantly heard. However, we can affirm that economic globalization is a long-term and irreversible development trend. Taking advantage of their late-adopter advantages, emerging markets remain in a period of economic growth in the tides of globalization, with both their economic and trade positions and shares still growing. Their improvement represents a general trend that is also irreversible.

Judging from the changing trends of global export share in the past 20 years released by the WTO, the share of commodity trade between developing countries rose gradually from 8% in 1990 to 24% in 2011, a threefold increase. The share of commodity trade between developed countries declined from 56% in 1990 to 36% in 2011, a decline of 20%. In the past 30 years, the contribution of developing countries to world GDP has continued to grow as well, soaring from a mere 17.4% in 1991 to 35.8% in 2012, a more than twofold increase; meanwhile, the advanced countries' GDP share dropped from 79% in 1991 to 60.4% in 2012. Based on the latest IMF estimates using purchasing power parity calculations, the GDP of developing countries comprised 50.4% of global GDP (rate method of 39.4%) in 2013, overtaking the share of developed countries for the first time. Developing countries are expected to see their share rise to 53.9% in 2018[18].

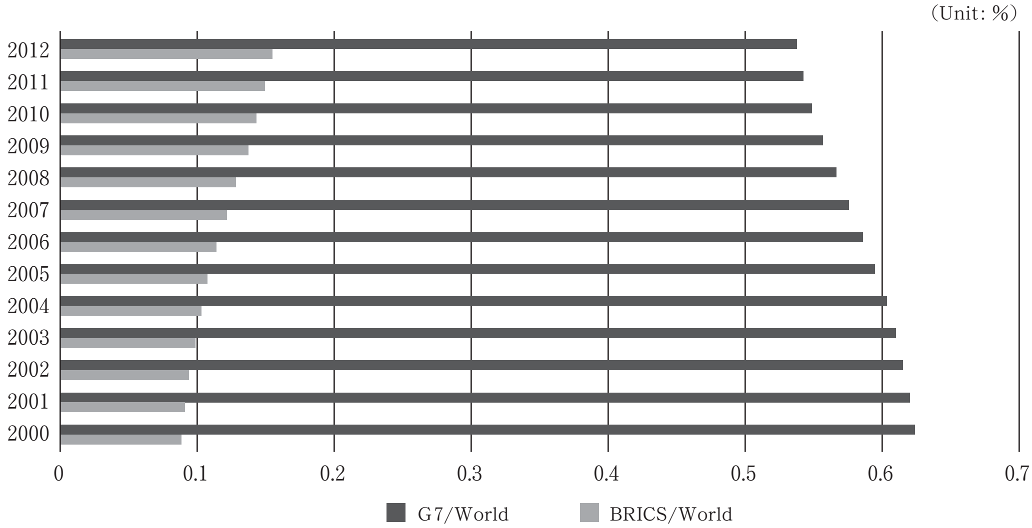
Over the past decade, the most profound impact brought about by rapid economic globalization is the emergence of large emerging economies. Based on UNCTAD data, compared with advanced countries experiencing relatively slow economic growth, the BRICS, as typical examples of emerging economies, achieved record economic growth after 2000, far above both global and G7 averages. China had achieved both fast and sustainable economic development after adopting reforms and an opening-up policy for over 30 years, resulting in a record-breaking annual average growth of nearly 10%; India also maintained rapid economic growth in recent years; Russia was named "a rising giant"; and Brazil was also emerging from economic stagnation and gradually entering a path of fast economic development. In 2009, although the global economy experienced negative growth of 2.1%, China and India, two BRICS economies, nevertheless achieved rapid growth of 9.2% and 8.2%, respectively. Viewed in the light of global growth patterns, the BRICS' economic strength and their contribution to global economic growth were constantly improving, and the BRICS were becoming less and less dependent on advanced economies.

Based on UNCTAD data of 2012, the GDPs of China, India, Brazil, Russia and South Africa stood at $4,567.45 billion, $1,375.38 billion, $1,136.55 billion, $979.4 billion, and $305.54 billion, respectively, accounting for 15.5% of global GDP, which is 6.5 percentage points higher than the 9.0% recorded in 2000.[19] Correspondingly, the G7's share of global GDP declined from 62.5% in 2000 to 53.8% in 2012. At present, the BRICS' overall economic scale has outstripped Japan and reached 60% of that of the U.S. From 2000 to 2012, real GDP of the world and advanced countries only increased by 1.4 and 1.2 times, respectively, while



Data source: UNCTAD data.

Figure 2.1-1 Transition of GDP Growth for the World and Various Economies (2000-2012)



Data source: UNCTAD data.

Figure 2.1-2 Transition of Shares of GDP of Various Economies in World Total (2000-2012)

the total GDP of the BRICS increased by 2.3 times.

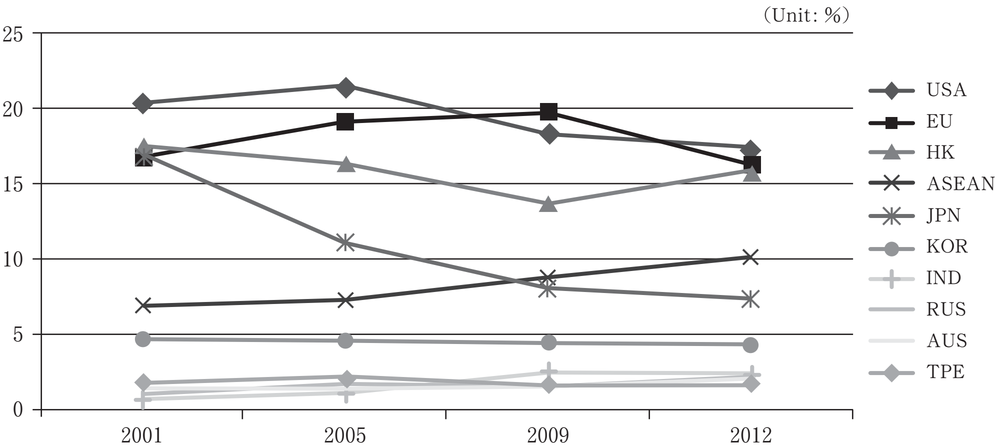
We can see that over the past dozen years, emerging markets developed at an accelerated rate, higher than the world average, with rises in their shares of economic stocks and increments. Emerging economies had become important engines and drivers of world economic growth, and global economic structure is presenting a distinct development trend of "rise in the east and fall in the west."

As predicted in a report of Roland Berger Strategy Consultants, from 2010 to 2020, 95% of population growth will occur in developing countries including emerging markets; the population of Asia and Africa alone will reach 87% of the projected global population of 8.3 billion in 2030. By 2030, two thirds of economic growth in the world will take place in emerging markets, which will be home to 80% of the world's middle class.[20] Richard Cooper, Professor of International Economics at Harvard University, asserted that besides ongoing industrialization and urbanization, the impetus behind rising emerging markets also includes their increasingly powerful and vibrant enterprises. By 2025, 7,000 new large enterprises may be created, 70% of which will be from emerging markets or economies. The global share of consolidated sales revenues realized by these business entrepreneurs from emerging markets will rise from the present 24% to 46% in 2025, and these businesses will occupy 50% of the World Top 500.[21] International organizations like the IMF, World Bank, and OECD also predicted that China will become the world's largest economy either as soon as 2016 or as late as 2030. By then, the center of the world economy will shift to emerging markets and developing countries, causing a corresponding inevitable shift of the global political center as well. The Chinese government shall plan ahead and devise a strategic plan and undertake long-term preparations for the adjustments and reforms of the future world economic and political patterns.

2.2 China needs to cope with low demand in traditional export markets and a grim foreign trade situation

Recently, the EU, China's largest trade partner, has failed to rid itself of the shadow of the 2008 financial crisis, and was mired in a sovereign debt crisis in 2010. As a result, signs of total recovery have not yet appeared. Encumbered by financial deficits and other crises since 2008, the U.S., China's second-largest trade partner, has manifestly weak economic recovery. In October 2013, the U.S. government was closed for almost half a month due to the ferocious battle between the two parties of Congress, and such institutional chaos was another blow to the recovery of the American economy, resulting in even more uncertainty regarding its future development. While Japan was China's third-largest trade partner before 2012, it dropped to fifth place after that year, and has been suffering economic recession since the 1990s. Recently, due to the dispute over sovereignty of the Diaoyu Islands with China, Sino-Japanese relations have exhibited a trend of "cold politics and cold economy" in contrast with the past "cold politics and warm economy." Furthermore, the so-called Abenomics promoted in Japan to achieve economic recovery may fail too, thus further deteriorating the international economic environment.[22]

To the extent that the above factors can be blamed for low demand in China's traditional export markets and people' s low purchasing power, China's exports to these countries are facing slower and even negative growth. In 2012, imports and exports of Chinese commodities totaled about \$3,870 billion, a year-on-year growth rate of 6.2%, which marked a fall of 16.3% over the previous year. The share of China's imports and exports from and to the four traditional markets, namely the EU, U.S., Japan, and Hong Kong (HK), dropped from 50% in 2007 to 44% in 2012.[23] In the first nine months of 2013, bilateral trade between China and the EU, U.S., and Japan was still not optimistic, registering growth of −0.8%, 6.7%, and −7.9%, respectively.[24] China's fast-growing foreign trade as registered in the past decade is confronted with unprecedented challenges, and its foreign trade situation is grim.



Data source: UNCOMTRADE data.

Figure 2.2-1 Share of China's exports to its major trade partners (top 10)

However, while many advanced countries are decreasing their imports due to the influence of the crisis, emerging and developing countries have become important forces driving global economic growth. According to UNCTAD statistics, in 2008–2012, total imports by emerging and developing countries grew at an annual average of 10.9%, far above the 3.3% seen in advanced countries, and the former's share of imports also rose from 39% to 45% of global totals.[25] In the context of an ongoing profound adjustment of the global demand structure, China shall consolidate traditional markets but still explore new market development directions and expedite the exploitation of promising emerging markets, so as to mitigate the foreign trade bottleneck caused by over-reliance on European and American markets. To actively exploit emerging markets and improve its share of imports and exports from and to emerging economies, China should boost its foreign trade growth potential, cultivate new export growth points, mitigate the impact of world economy fluctuations on its foreign trade and economic growth, and effectively avert economic risks.

In addition, in terms of the market structure of foreign trade, China's traditional export markets are concentrated on advanced countries, in addition to a seriously imbalanced trade. Among these markets, the EU, U.S., and Japan alone account for 40.9% of China's export markets; in 2012, China's trade surpluses with the EU, U.S., and Japan were €146 billion, $315.05 billion, and $44.19 billion, respectively. The world economy currently remains in the doldrums, as trade protectionism increases in various countries and trade frictions with China occur frequently. All these factors are making the development environment of China's foreign trade even more complicated and further inhibit the growth of China's imports and exports. China thus faces very unfavorable conditions for the steady development of its foreign trade. According to the information disclosed by Vice Minister of Commerce Zhong Shan in the "2012 Report on China's Foreign Trade Situation," China has become the biggest focus of trade friction for 17 consecutive years. Data on the WTO website at the end of 2013 discloses that among the 43 cases of trade frictions with China, 36 were disputes with advanced countries (Europe, U.S., Japan, and Canada), comprising 83.7% of all cases.

On account of the stagnant economies in the above traditional markets, reduced foreign exports, long-term trade imbalance, and increased frictions, the Chinese government must — while further improving relevant foreign trade policies — optimize its foreign trade market structure; adopt an export market diversification strategy to decentralize risks, reduce trade frictions and implement a strategic shift counterattack in order to guarantee its industrial security; and promote a balanced, steady and sustainable development of foreign trade.

2.3 China needs to optimize export goods structure, guarantee energy supplies, and adopt a "go global" strategy for its enterprises

Based on statistics from China's Ministry of Commerce, in 2012, China's total exports of hi-tech products were $601.2 billion, this sector's share of total exports rose to 29.3%. Exports of mechanical and electronic products were $1,179.42 billion, accounting for 57.6% of total exports; exports of seven categories of labor-intensive products, namely clothing, textiles, footwear, furniture, plastic products, bags and suitcases and toys, totaled $418.89 billion, 20.4% of the total. Exports of high-polluting, high-energy-consuming, and resource-dependent products continued to decline, and coal and oil product exports fell by 36.8% and 5.5%, respectively.[26] China's export commodity structure is taking on a trend of "gradual decline of exports of primary, agricultural, and energy-related products and a steady rise in exports of non-resource products."

This demonstrates that under the combined effects of the market backlash and policy guidance, Chinese export enterprises have strengthened their technical R & D, brand cultivation and quality management, resulting in notable increases in technical content and added value of export commodities as well as their improved structure.

However, even though China's share of labor-intensive product exports (based on low technology but not resources) remains high, such products have limited competitiveness in advanced countries' markets but still have certain advantages in many technically backward emerging markets. For example, some low-medium technology-intensive mechanical and electronic products, spare parts for communication devices and Chinese automobiles are squeezing the market share of advanced Western countries in emerging markets. Some Chinese high-tech non-resource-dependent finished products lack obvious competitive advantages in European and American markets and are dominated by Original Equipment Manufacturer (OEM), but they are known for their superior quality and cheap price in emerging markets, and most appear as self-owned brands. Some emerging markets are showing great interest in China's infrastructure construction like high-speed rail, rail transit, nuclear development, and some military products. Therefore, to increase exports to emerging markets, China can develop a series of brands with international influence such as Lenovo, Huawei, Geely automobiles, China Railway's high-speed trains, FC–1 Fighters, and HQ–9 anti-aircraft missiles system. This will help optimize China's export commodity structure and cultivate independent brands, improve the international competitiveness of China's export commodities, further optimize trade patterns and structures, and speed up the transformation of modes of foreign trade development.

Moreover, to maintain its stable and rapid economic development, China needs to import large amounts of relevant energy and primary products from foreign countries. In 2012, these two elements alone accounted for more than 30% of China's total imports, being $312.8 billion and $259.5 billion, respectively, and accounting for 17.2% and 14.3% of total imports. In contrast, in 2011, China's imports of energy and primary products were only $13.7 billion and $14.6 billion, being only 6.9% and 7.4% of that year's totals. We can see that in the structure of import commodities, the percentage of primary and energy products imported to China is on the rise. At present, China has become the largest importer of petroleum, replacing the U.S.[27] Accordingly, exploring emerging markets is an important strategic arrangement for ensuring China's energy security and supply of raw materials, keeping a balance between imports and exports, promoting trade balance and achieving stable, healthy, and sustainable economic development.

Yet, as Chinese enterprises are constantly improving their comprehensive strength, they are expanding their "go global" perspective into their development space. According to the 2012 Statistical Bulletin of China's Outward Foreign Direct Investment co-released by China's Ministry of Commerce and The National Bureau of Statistics on September 9, 2013, the country's outward investment set a new record of $87.8 billion, a year-on-year increase of 17.6%, placing China for the first time as the third largest global investor. By the end of 2012, the cumulative net value of China's foreign direct investment (stock) reached $531.94 billion, ranking 13th in the world.[28] In January–November 2013, Chinese domestic investors made non-financial direct investment (as below) of $80.24 billion in 156 countries and regions, a year-on-year growth of 28.3%; Chinese investments in ASEAN, an important emerging area, achieved high growth of 35.3%, but not when compared to the growth of 232.2%, 109.3%, and 89.9% recorded by the U.S., Australia and the EU, meaning that such growth cannot be called fast but nonetheless implies great growth potential.[29] The vast markets and abundant investment opportunities that emerging markets provide offer vast scope for outbound Chinese enterprises. Increased investment in emerging markets will help some Chinese enterprises escape the predicament of dual pressures from energy shortages and excessive production capacity, avoid world trade barriers, and exploit international markets. There is no room for doubt that this is an important part of "opening up", "going global" and other major Chinese strategies.

III. China's Potential in Developing Trade Relations with Emerging Markets

In its twelfth five-year plan, the Chinese government made clear a strategic plan of encouraging enterprises to actively exploit emerging markets, and the 18th National Congress report of the Communist Party of China (CPC) made a further prospective judgment of "overall strength of emerging markets and developing countries to grow further". Thanks to the attention paid by the Chinese government and its encouragement, economic and trade exchanges between China and emerging markets have been constantly expanding in recent years, and multi-level, cross-border and all-round partnerships continue to deepen.

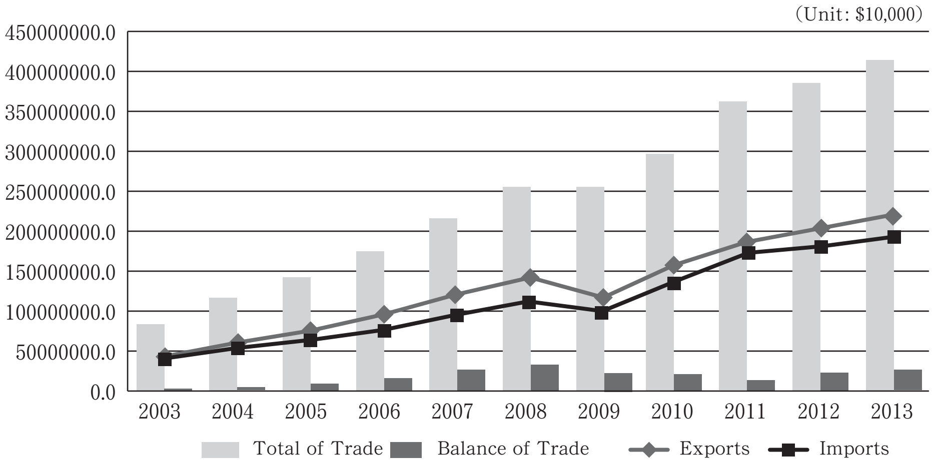
3.1 Current status of trade relations between China and emerging markets

Along with economic globalization, China's foreign trade maintained a robust momentum of development. Total import and export volumes increased from $85 million in 2003 to $4,160 billion in 2013, breaking through $4,000 billion for the first time. In total, its exports were $2,210 billion, up 7.9%; its imports were $1,950 billion, a growth rate of 7.3%; and its trade surplus was $259.01 billion, an increase of 12.8%.

Foreign trade development in 2003–2013 reveals a gradual increase in China's imports from and exports to emerging markets and a further improved international market structure. Taking the 14 emerging markets selected in this study as examples, we can observe intuitively from Figure 3.1–2 below the basic status of trade development between those markets and China, please refer to **annexed Table 3.1–1 and annexed Table 3.1–2** of this chapter for details.

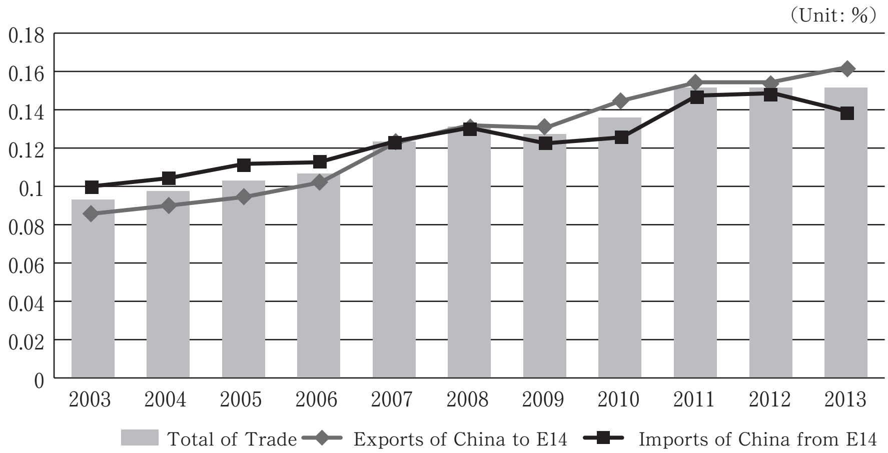
In 2013, the 14 emerging markets made up about 15.2% of China's foreign trade, up 6 percentage points compared with the 9.3% in 2003. These 14 countries accounted for 16.0% of China's export trade, 7 percentage points higher than the 9.0% in 2003, and about 14.0% of China's import trade, which is 3.9 percentage points higher than the 10.1% in 2003.

Judged from import-export data for 2003–2013, as emerging market economies gained momentum and their domestic demand grew robustly, China's imports and exports vis-à-vis emerging markets grew rapidly, leaving behind its three major traditional markets of the U.S., Europe and Japan. In 2004–2007, China's exports to emerging markets displayed an upward growth trend, whereas the growth of its exports to the American, European,



Data source: UNCOMTRADE data.

Figure 3.1-1 Development Status of China's Foreign Trade (2003–2013)

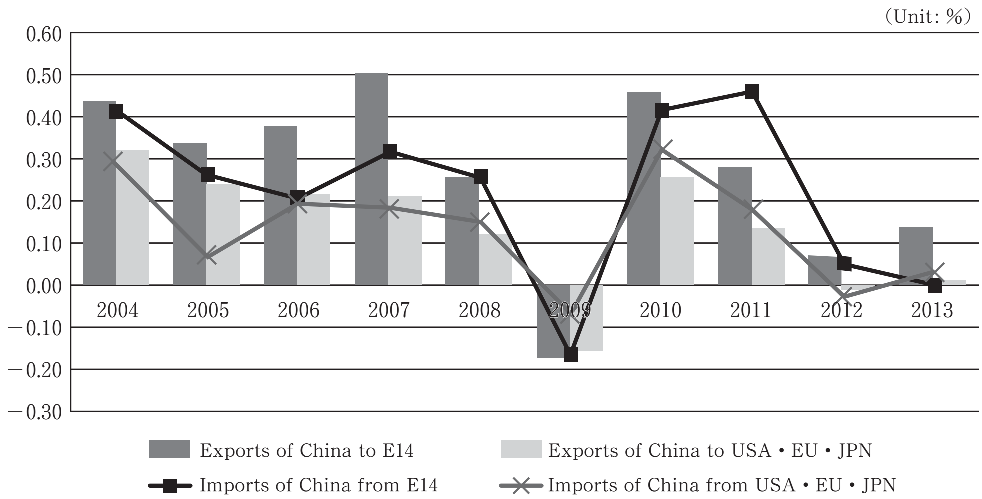


Data source: UNCOMTRADE data.

Figure 3.1-2 Trade Status between China and Emerging Markets (2003–2013) and Japanese markets showed a downward trend. Over the past four years, the growth of China's exports to emerging markets rose from 43% to 51%, the highest record in its history, while the growth of its exports to the U.S., Europe, and Japan declined from 32% to 21%. After the global financial crisis in 2008, the growth of China's exports slackened, but its exports to emerging markets continued to grow faster than its exports to the three traditional markets (U.S., Europe, and Japan), reaching 46% in 2010, higher than its 26% to the U.S., Europe, and Japan. Subsequently, the growth of China's exports to the U.S., Europe, and Japan continued to fall, recording negative growth in 2012 and merely 1% in 2013, while the growth of its exports to emerging markets stayed about 14%. The above trends clearly display the growing importance of emerging markets in China's foreign trade.

With regard to imports, from 2004 to 2012 — with the year 2009 (affected by the world financial crisis) as an exception — the growth of China's imports from emerging markets had been higher than that seen for imports from the U.S., Europe and Japan. In 2004, 2007, 2010 and 2011, the growth of China's imports from emerging markets reached 41%, 32%, 42% and 46% respectively, whereas the highest growth of China's imports from the U.S, Europe and Japan was 33% in 2011, not to mention the negative growth recorded in 2012. In 2013, the growth of China's imports from emerging markets and the U.S., Europe, and Japan changed, presenting a distinct fall and faster growth of imports from the U.S, Europe, and Japan than from emerging markets. However, the difference was minor, being merely 2%.

In the meantime, the share of the U.S., Europe, and Japan, known as China's traditional import-export markets, in China's export trade took a sharp decline. According to data for 2003–2013, the share of China's exports to the U.S., Europe, and Japan out of its total foreign

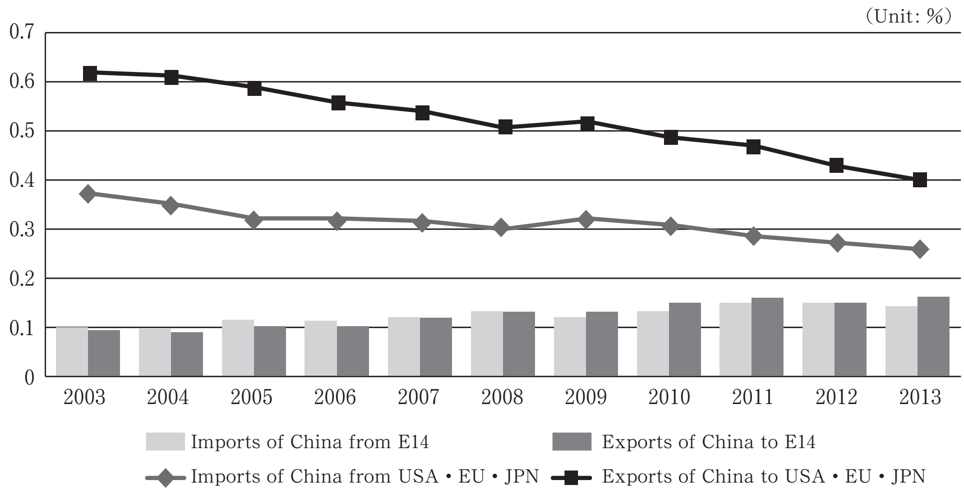


Data source: UNCOMTRADE data.

Figure 3.1-3 Changes in the Growth of China's Imports from and Exports to Emerging and Traditional Markets (2003–2013) trade dropped from 62% in 2003 to 40% in 2013, a decline of 22 percentage points while the share of China's imports from the above three markets in its foreign trade declined from 38% in 2003 to 26% in 2013, a fall of 12 percentage points, please refer to **annexed Table 3.1-3** of this chapter for details.

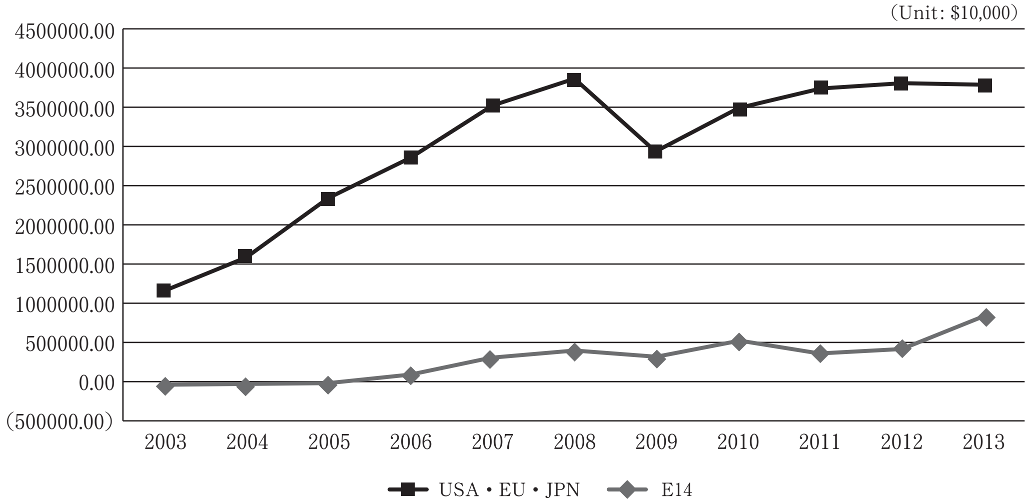
In addition, viewed from the balance of imports and exports, though China's huge trade surplus still came from advanced markets such as the U.S, Europe, and Japan, its surplus from trade with emerging markets continued to rise, and did so at a speed faster than that with advanced economies in recent years. Prior to 2006, China's import and export trade with the 14 emerging markets was dominated by deficits, but this situation changed after that year. In 2010, its surplus reached $5.37 billion, and reached $8.49 billion in 2013. In terms of trade surplus, the growth contributed by emerging markets accelerated notably, while that contributed by advanced economies like the U.S, Europe, and Japan slowed down. This trend became even more distinct after the world financial crisis. The years of 2011 and 2012 registered growth of merely 8% and 2%, respectively, while 2013 even saw negative growth. In contrast, the growth arising from the 14 emerging markets gained speed, reaching 62% in 2010, 81% in 2012 and as high as 94% in 2013 despite negative growth in 2011.

The above data reveal that the decreasing share of China's import and export trade with the U.S, Europe, and Japan was being compensated for by trade with emerging markets. Meanwhile, China's trade imbalance, known as being over-dependent on traditional advanced markets, had not fundamentally changed. The U.S, Europe, and Japan alone make up nearly half of China's total exports, while China's exports to emerging markets fall short of 20% of its total exports. However, this also indicates huge potential for China to exploit emerging markets.



Data source: UNCOMTRADE data.

Figure 3.1-4 Changes in Shares of Emerging and Traditional Markets in China's Foreign Trade (2003-2013)



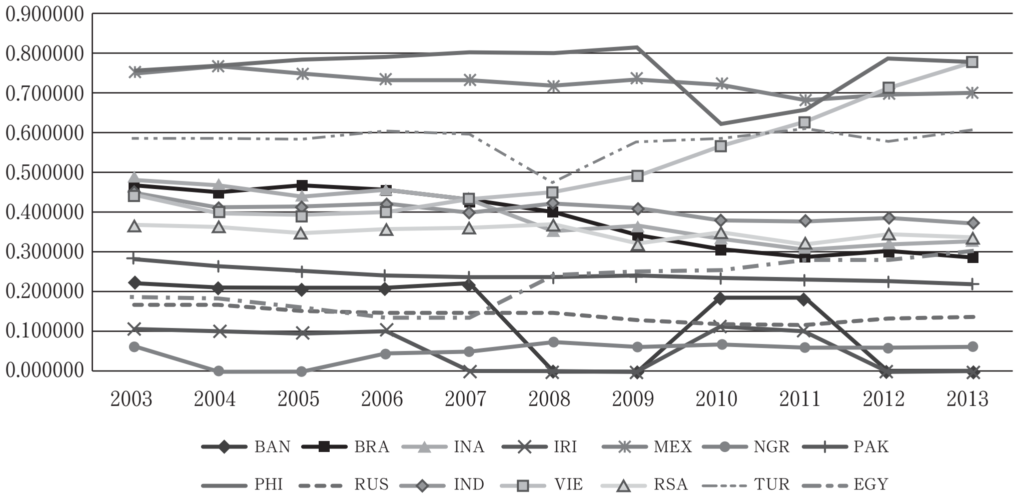
Data source: UNCOMTRADE data.

Figure 3.1-5 Changes in China's Trade Balance with Emerging Markets and the U.S, Europe, and Japan (2003-2013)

3.2 Trade Competitiveness Analysis of China and Emerging Markets

By calculating the trade competitiveness index (CI) between China and emerging markets during the period 2003-2013 (please refer to **annexed Table 3.2-1** of this chapter for details), we can see in the Figure below (Figure 3.2-1) the changing tendency of trade competitiveness between China and emerging markets.

1. Trade competition between China and emerging markets is relatively scattered on the whole, and their export structures are not similar. Prior to 2010, except for relatively



Data source: UNCOMTRADE data.

Figure 3.2-1 Trade Competitiveness Index between China and Emerging Markets (2003-2013) intense trade competition between China and Mexico, the Philippines, and Turkey or the highly similar trade structures between them, trade competitiveness between China and the other 11 countries was relatively weak. As of 2011, as Vietnam's economy picked up, trade competiveness between China and Vietnam increased year by year. Vietnam, the Philippines, and Mexico became the "new three powers" that were strongly competitive with China's trade, and trade competitiveness between China and Turkey dropped to fourth place among the 14 emerging markets.

2. Before 2009, among the strongly competitive three countries, trade competitiveness between China and the Philippines increased year by year, trade competitiveness with Turkey was weakening year by year, and trade competitiveness with Mexico maintained a relatively stable trend. After 2010, trade competitiveness between China and Mexico varied little despite a slightly weakening trend; trade competitiveness with the Philippines was on the rise. Its index reached 0.78 in 2013 but failed to rebound to 0.82, the peak value, which was recorded in 2009. Moreover, trade competitiveness between China and Turkey, one of the "old three powers," maintained a level of 0.60 and saw little variations; on the contrary, Vietnam became one of the three powers for the first time, replacing Turkey, in 2011 and further overtook the Philippines and Mexico to become one of the 14 emerging markets most competitive with China's foreign trade in 2013.

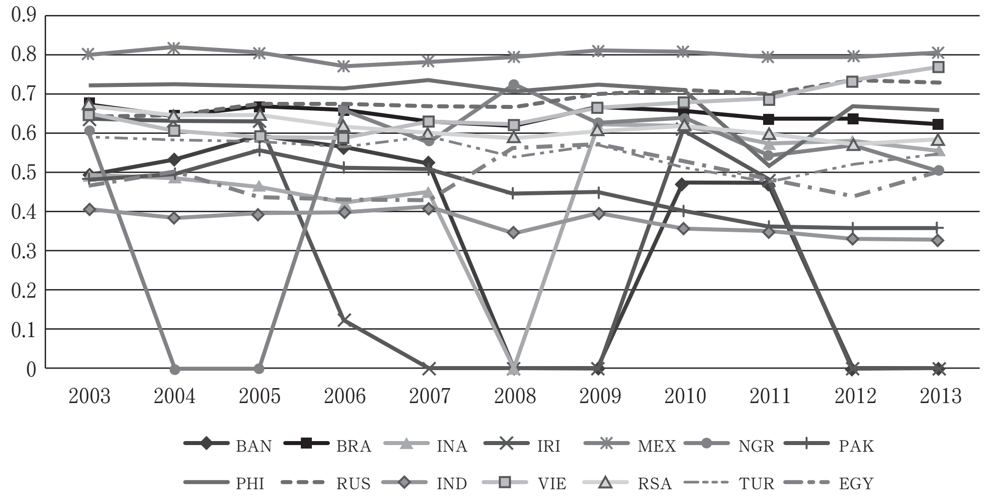
3. Seen from trade competitiveness indices earlier than 2009, among the 11 weakly competitive countries, the competiveness between China and Indonesia, Brazil, Pakistan, Bangladesh, Russia, and Egypt weakened year by year; while competitiveness with India, Vietnam, South Africa, Iran, and Nigeria was relatively stable. After 2010, trade competiveness between China and Brazil, Pakistan, Bangladesh, Iran, India, and South Africa continued the momentum it had before 2009; while trade competitiveness with Vietnam, Indonesia, Nigeria, Russia, and Egypt grew stronger, displaying big changes in trade competitiveness with Vietnam and Egypt and minor changes in trade competitiveness with the other three countries.

3.3 Analysis of Trade Complementarity between China and Emerging Markets

1. Complementarity between China's Exports and Emerging Markets' Imports

By calculating the complementarity index (CI_m) between China's exports and emerging markets' imports for 2003–2013 (please refer to **annexed Table 3.2–2** of this section for details), we can see from the Figure below (Figure 3.3–1) the changing tendency of the complementarity between China's exports and emerging markets' imports.

(1) Generally speaking, before 2009, China's exports were strongly complementary with the imports of most of the emerging markets, with Bangladesh, Iran, India, and Pakistan as exceptions, or China's export structure was highly integrated with the import structure of the above-mentioned 10 countries. Its complementarity with Indonesia and Egypt grew in 2008–2009, and its complementarity with Pakistan and Iran saw significant changes. After 2009, the complementarity index between China's exports and imports of the 14 emerging markets still maintained a high level of more than 0.5 on the whole despite showing signs of weakening, especially in terms of a declining trend with Brazil, Indonesia,



Data source: UNCOMTRADE data.

Figure 3.3-1 Complementarity Index between China's Exports and Emerging Markets' Imports (2003-2013)

and Nigeria; conversely, the complementarity between China's exports and Mexico, the Philippines, Russia, Vietnam, South Africa, Turkey, and Egypt saw drastic changes despite a rising trend. In particular, its complementarity with Russia, South Africa, Turkey, and Egypt displayed an unstable trend of a mixture of rises and falls.

(2) Before 2009, among the 10 countries strongly complementary with China, the complementarity between China's exports and the imports of Mexico, the Philippines, and Russia was the strongest, plus a growing trend of year-on-year increased complementarity with Russia, Vietnam, and Nigeria and relatively stable complementarity with Mexico, the Philippines, Turkey, and Brazil. In 2011, the complementarity between China's exports and the imports of the Philippines, one of the traditional "three powers", fell to the eighth place among the "10 powers"; meanwhile, Vietnam overtook Brazil, South Africa, Indonesia and the Philippines to rank among the "three powers" for the first time. In 2013, the complementarity between China's exports and Vietnam's imports increased further, and Vietnam overtook Russia and became a country whose complementarity with China's exports was second only to Mexico. During 2012-2013, the complementarity between China's exports and the Philippines' imports gradually recovered after experiencing a sharp decline and basically remained in fourth place. The above static measurement results reveal that during the 10 years between 2003 and 2013, Mexico had been the most complementary with China's exports; Russia and the Philippines essentially secured their places in the top three, and Vietnam, as an up-and-coming star, gradually became an emerging market strongly complementary with China's exports during these last few years.

(3) In the same period, the complementarity between China's exports and India's imports was weak and remained low for years. By 2008, Indonesia, Egypt, and India became the three least complementary countries with China's exports, and their bilateral

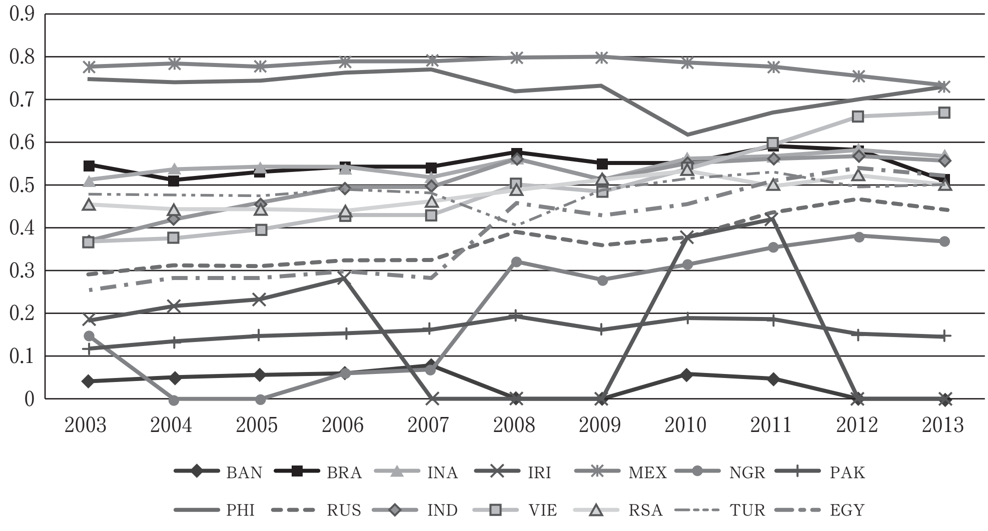
complementarity indices basically remained below 0.5. After 2009, China's exports became increasingly complementary with Indonesia's imports, but became decreasingly complementary with the imports of Bangladesh, Iran, and Pakistan; and retained stable complementarity with Egypt's imports, with the index settling at around 0.5.

2. Complementarity between China's Imports and Emerging Markets' Exports

By calculating the complementarity index (CI_m) between China's imports and the exports of emerging markets for 2003–2013 (please refer to **annexed Table 3.2–3** of this chapter for details), we can see from the Figure below (Figure 3.3–2) the changing tendency of the complementarity between China's imports and emerging markets' exports.

(1) In all, the complementarity between China's imports and the 14 emerging markets' exports was widely distributed, featuring super-high complementarity with Mexico and the Philippines (complementarity indices basically above 0.6) and strong complementarity with the exports of Indonesia, Brazil, South Africa, and India (complementarity indices all above 0.5). This shows that China's import structure was highly integrated with the export structure of the above six countries, but showed low complementarity with the trade of the other eight countries.

(2) Among the six countries strongly complementary with China, trade complementarity between China and Mexico, the Philippines, India and Vietnam increased year by year, characterized by faster complementarity growth with India and Vietnam and stable complementarity with Brazil and Indonesia. In the 10 years from 2003 to 2013, China's imports and Mexico and the Philippines' exports had been highly complementary, with their bilateral trade complementarity indices remaining above 0.6 at all times. After 2010, the complementarity index with Vietnam increased to above 0.5 and further surpassed 0.6,



Data source: UNCOMTRADE data.

Figure 3.3–2 Complementarity Index between China's Imports and Emerging Markets' Exports (2003–2013) reaching 0.67 in 2012. This shows that the complementarity between China's imports and Vietnam's exports grew rapidly during these two years.

(3) Among the eight weakly complementary countries, complementarity between China and most countries (including South Africa, Russia, Bangladesh, Nigeria, and Pakistan) was stable; complementarity with Turkey, Egypt, and Iran was on the rise. Out of all these countries, complementarity with Bangladesh and Pakistan was the weakest, with both indices staying below 0.2; in addition, complementarity between China's imports with Iran, Nigeria, and Russia remained low, never exceeding 0.5 during the 10 years of this study; Turkey and Egypt, like the above three countries, had low complementarity with China's imports, but these two countries' complementarity with China's imports went above 0.5 after 2010, exhibiting a strong growth trend.

3.4 Strategic Thinking on Optimizing Trade Structures of China and Emerging Markets

The above calculations in combination with economic and trade size, bilateral economic and trade relations and other factors lead to the following conclusion: China has greater export potential to the 12 emerging economies known as Mexico, the Philippines, Russia, Vietnam, Brazil, Nigeria, South Africa, Turkey, Bangladesh, Indonesia, Egypt, and India; and has greater import potential from seven emerging economies, namely Mexico, the Philippines, Indonesia, Brazil, South Africa, India, and Russia. Of these countries, imports from Mexico, India, Russia, and Turkey in 2008 (the normal level before the financial crisis) all exceeded $200 billion, imports from Brazil also reached $180 billion, so the above five countries can be considered the major markets to be exploited by Chinese enterprises in the future; the size of imports from South Africa, Vietnam, the Philippines, and Indonesia fell by roughly between $50 and $130 billion, so they shall be secondary important markets; and the imports of Egypt, Nigeria, and especially Bangladesh, were limited, hence China has limited export potential to these countries.

Therefore, on the premise of a summary of trade barriers with various emerging markets to provide a basis for drafting trade strategies for different countries, China shall, based on trade competitiveness and complementarity between different countries, work out the following market strategies for major emerging export markets:

1. For the Mexican market with its great export potential, efforts should focus on enhancing intergovernmental collaboration, reducing further import duties on its agricultural products, making quota management more transparent, simplifying quota management flows, easing trade frictions, and reducing trade remedy measures for Chinese products; meanwhile, Chinese enterprises shall also strengthen the standardized authentication of export commodities.

2. The Indian market also offers huge potential. To expand exports to India, China's major requirements are to hasten the demarcation of their border, improve bilateral political and military relations, make clear the strategic cooperative goals of the two countries, boost their cooperation in international affairs, increase Tibet's frontier trade to India, set up a Tibet cross-border economic cooperation area, and open up a great overland channel leading to India and south Asia via Tibet.

3. To extend the Russian market, China shall use first the cooperation mechanism among "BRICS" and coordinate their positions in international economic affairs while giving play to civilian forces in promoting economic and trade cooperation; next, it shall promote the reduction of high Russian import duties, reduce quota restrictions, simplify formalities for customs clearance, raise custom clearance efficiency, help it improve its compulsory certification system, and expand its trading of strategic resource products with China. In addition, Chinese enterprises shall attach importance to the building of their product images, strengthen the standardized certification of their products in Russia, actively assume their social responsibilities, and make special efforts to better fit into Russian society.

4. To develop the Turkish market, China needs to enhance bilateral intergovernmental cooperation, particularly in terms of making Turkey expand its import scope, better define its import standards, and reduce the arbitrariness of its law enforcement.

5. While developing the Brazilian market, China will face competition from the U.S, Japan, and Latin American countries. Therefore, China is required to bring its steep tariffs down, simplify import license management measures, shorten the testing and authentication periods for imported products, and try to find more common interests and common ground in international economic and trade affairs through enhancing bilateral cooperation and negotiations.

6. As for extending the South African market, China's main issues are to enforce mutual agreement on mutual recognition of product testing results, simplify product certification formalities, seek to reduce the high duties imposed on textiles, shoes, motorcycles, spare parts, and processed food, improve the quality of export products, and educate Chinese to shoulder social responsibilities, respect local cultures, and improve the market environment in South Africa.

7. With regard to developing Vietnam's market, China shall actively avail itself of the opportunity of the completed China-ASEAN Free Trade Zone, expand its trade with ASEAN, especially Vietnam, deepen economic and trade cooperation, boost exports mainly of textiles, electronics, machinery, building materials, chemicals, home appliances, leather, drugs, ceramics, and food, and drive exports with project contracting.

8. China's major competitors in the Philippines market are the U.S., Japan, and South Korea. Consequently, China shall make efforts to cut down its non-tariff measures; increase its imports of pork, automobiles, and other products; enhance bilateral economic and trade cooperation; ease trade frictions; and enterprises shall follow the product testing standards of the Philippines and make export products comply with its compulsory standards.

9. In respect of high tariffs, more restrictions on import quantity and Nigeria's changeable policies, China shall, on the basis of enhancing intergovernmental cooperation and mutual trust, reduce its tariff level and restrictions on import size and promote trade facilitation. Meanwhile, Chinese enterprises shall take the initiative to shoulder their social responsibilities. In exploring the Iranian market, Chinese enterprises shall respect the co untry's religious beliefs, enhance economic cooperation in non-energy fields, and create

conditions for cooperation in the field of energy. In exploring Bangladesh's market, China shall fight for reasonable and stable tariff treatment for its industrial products, and provide expected stable treatment for its enterprises. Furthermore, on the basis of consolidating favorable political relations with the Pakistan government, China shall avoid the impact on bilateral economic and trade relations from changes of government.

As it increases its efforts in exploiting emerging markets, China shall, while optimizing trade flows/structures, improve trade balances/structures, trade patterns/structures and trade structures in goods and services.

First, China's recent trade surplus with emerging markets is growing fast. In 2010, except for trade deficits of $13.6 billion, $7.1 billion, $4.6 billion, and $4 billion with Brazil, Iran, the Philippines and South Africa, China recorded trade surpluses of $20 billion, 16.2 billion, $11.1 billion, $8.8 billion, $6.5 billion, $5.6 billion, $5.2 billon, $5.1 billion, $3.8 billion, and $1.2 billion with India, Vietnam, Mexico, Turkey, Bangladesh, Nigeria, Pakistan, Egypt, Russia, and Indonesia, respectively. In particular, its trade surpluses with India, Vietnam, Mexico, Bangladesh, Nigeria, and Egypt increased rapidly. Therefore, China shall implement "a strategy placing equal stress on safety and development" and adopt an import policy of "seizing the two ends, relaxing the middle and promoting balance." The two ends refer to resource-dependent and hi-tech industries; the middle refers to labor- or capital-intensive industries, and balance means a basic long-term balance of trade.

Next, economic and trade cooperation with emerging economies is of special significance to China's development of general trade. Besides processing and manufacturing, enterprises shall also engage in "localized" R & D in line with local markets, build local distribution channels and after-sale service networks, thus greatly enhancing their value chains and improving their cross-border operational capacity, which is favorable for the upgrading of China's foreign trade enterprises. Processing trade lacks such advantages. For this reason, we shall increase our support to general trade in exploiting emerging markets, particularly to small and medium-sized enterprises. To this end, we need to learn from other countries' experiences. Taking the U.S. as an example, its government's trade promotion policies mainly target small and medium-sized enterprises. In addition to funds and financial support, it also provides an information service, trade barrier early warnings, and trade friction settlement mechanisms. Therefore, we shall give special support to building various trade and sales/exhibition platforms in emerging markets and drive trade development with a distribution network.

Finally, trade in services is becoming more and more important in international competition and is emerging as the focus of competition among different countries, especially large countries. To exploit emerging markets, China shall make the best of the comparative and competitive advantages of emerging markets, make efforts to improve its original foreign trade structure, and more rapidly develop its trade in services with emerging markets.

Annexed Table 3.1-1 China's exports to emerging markets and their shares of its total trade (2003-2013)

(Unit: $10,000, %)

		BAN	BRA	INA	IRI	MEX	NGR	PAK	PHI	RUS	IND	VIE	RSA	TUR	EGY
2003	**Exports**	133466.9	214325.6	448189.0	231516.2	326703.0	178597.3	185499.1	309268.8	602992.7	334322.5	318273.9	202936.4	206514.0	93675.8
	Share	0.30	0.49	1.02	0.53	0.74	0.41	0.42	0.70	1.38	0.76	0.73	0.46	0.47	0.21
2004	**Exports**	190626.8	367410.4	625642.3	255476.1	497275.4	171855.9	246579.2	426871.8	909811.6	593600.8	426002.8	295190.4	282129.2	138843.5
	Share	0.32	0.62	1.05	0.43	0.83	0.29	0.42	0.72	1.53	1.00	0.72	0.50	0.48	0.23
2005	**Exports**	240274.0	482720.9	835036.8	329658.5	553768.7	230316.2	342766.2	468763.1	1321128.3	893427.7	564389.9	382596.5	425372.6	193403.6
	Share	0.32	0.63	1.10	0.43	0.73	0.30	0.45	0.62	1.73	1.17	0.74	0.50	0.56	0.25
2006	**Exports**	309040.3	738010.6	944971.2	448895.2	882355.4	285215.2	423936.5	573813.5	1583248.7	1458129.7	746335.5	576770.9	730328.5	297550.1
	Share	0.32	0.76	0.98	0.46	0.91	0.29	0.44	0.59	1.63	1.50	0.77	0.60	0.75	0.31
2007	**Exports**	334975.8	1139847.2	1269566.1	736329.2	1171765.5	379946.2	583134.9	752837.8	2852989.5	2405138.0	1189498.4	744490.0	1048426.6	446809.9
	Share	0.27	0.93	1.04	0.60	0.96	0.31	0.48	0.62	2.34	1.97	0.98	0.61	0.86	0.37
2008	**Exports**	455607.4	1880745.7	1719311.4	816342.8	1386648.8	676705.2	605106.6	913223.1	3307585.0	3158538.1	1512213.3	861762.2	1060631.2	587426.0
	Share	0.32	1.31	1.20	0.57	0.97	0.47	0.42	0.64	2.31	2.21	1.06	0.60	0.74	0.41
2009	**Exports**	444106.7	1411851.8	1472062.4	791868.7	1229899.1	547559.4	551507.4	858470.8	1751377.1	2966656.0	1630091.4	736558.8	833353.5	510735.9
	Share	0.37	1.17	1.23	0.66	1.02	0.46	0.47	0.71	1.46	2.47	1.36	0.61	0.69	0.43
2010	**Exports**	678909.7	2446065.2	2195356.5	1109218.8	1787265.3	669684.4	693779.2	1154027.7	2961207.4	4091395.8	2310155.6	1079986.2	1194203.7	604098.4
	Share	0.43	1.55	1.39	0.70	1.13	0.42	0.44	0.73	1.88	2.59	1.46	0.68	0.76	0.38
2011	**Exports**	781065.8	3183667.7	2922094.4	1476199.9	2397590.6	920557.4	843972.9	1425538.8	3890301.8	5053641.6	2909156.8	1336230.0	1561370.5	728323.3
	Share	0.41	1.68	1.54	0.78	1.26	0.48	0.44	0.75	2.05	2.66	1.53	0.70	0.82	0.38
2012	**Exports**	797009.3	3341363.3	3428524.4	1159879.9	2751796.3	929631.3	927649.2	1673221.0	4405655.1	4767745.2	3421258.7	1532331.2	1558529.3	822392.1
	Share	0.39	1.63	1.67	0.57	1.34	0.45	0.45	0.82	2.15	2.33	1.67	0.75	0.76	0.40
2013	**Exports**	970508.7	3589547.1	3693049.0	1403664.5	2896630.0	1204261.2	1101959.6	1986812.5	4959117.2	4843241.1	4858629.8	1683077.6	1774699.1	836267.5
	Share	0.44	1.62	1.67	0.64	1.31	0.55	0.50	0.90	2.25	2.19	2.20	0.76	0.80	0.38

Data Source: UNCOMTRADE data.

Annexed Table 3.1-2 China's exports to emerging markets and their shares of its total trade (2003-2013)

(Unit: $10,000, %)

		BAN	BRA	INA	IRI	MEX	NGR	PAK	PHI	RUS	IND	VIE	RSA	TUR	EGY
2003	**Imports**	3399.3	584229.2	574697.1	330736.0	167674.1	7165.9	57493.6	630683.3	972806.8	425137.7	145670.8	183999.3	53267.2	15282.1
	Share	0.01	1.42	1.39	0.80	0.40	0.02	0.14	1.53	2.36	1.03	0.35	0.45	0.13	0.04
2004	**Imports**	5700.7	867286.1	721567.1	449069.4	213984.0	46321.6	59474.9	905944.3	1212741.1	767803.0	248198.9	296020.3	59138.1	18793.6
	Share	0.01	1.55	1.29	0.80	0.38	0.08	0.11	1.61	2.16	1.37	0.44	0.53	0.11	0.03
2005	**Imports**	7860.3	999252.4	843696.0	678667.8	222529.5	52687.9	83316.9	1286968.9	1588994.3	976621.6	255283.8	344305.2	62174.4	21113.6
	Share	0.01	1.51	1.28	1.03	0.34	0.08	0.13	1.95	2.41	1.48	0.39	0.52	0.09	0.03
2006	**Imports**	9883.5	1290949.5	960574.3	995845.6	260710.3	27774.7	100721.4	1767456.1	1755432.7	1027744.9	248607.6	408535.8	76595.2	21676.9
	Share	0.01	1.63	1.21	1.26	0.33	0.04	0.13	2.23	2.22	1.30	0.31	0.53	0.10	0.03
2007	**Imports**	11417.1	1834207.1	1246420.7	1330152.8	326531.0	53708.0	110422.6	2311783.5	1968857.9	1461715.7	322628.1	661809.4	129380.1	23973.9
	Share	0.01	1.92	1.30	1.39	0.34	0.06	0.12	2.42	2.06	1.53	0.34	0.69	0.14	0.03
2008	**Imports**	13191.0	2986344.3	1432293.5	1959419.5	369025.5	50838.1	100680.0	1950474.4	2383276.2	2025888.6	433631.7	923497.3	196293.3	42893.9
	Share	0.01	2.64	1.26	1.73	0.33	0.04	0.09	1.72	2.10	1.79	0.38	0.82	0.17	0.04
2009	**Imports**	14072.2	2828098.3	1366378.3	1328654.7	388189.9	89652.6	126025.6	1194661.0	2128295.2	1371428.9	474674.0	869325.3	174548.5	75254.3
	Share	0.01	2.81	1.36	1.32	0.39	0.09	0.13	1.19	2.12	1.36	0.47	0.86	0.17	0.07
2010	**Imports**	26887.6	3809944.7	2079518.9	1830089.1	687518.8	107162.2	173094.9	1622025.5	2591399.4	2084631.3	698426.2	1489642.2	316405.9	91793.0
	Share	0.02	2.73	1.49	1.31	0.49	0.08	0.12	1.16	1.86	1.49	0.50	1.07	0.23	0.07
2011	**Imports**	44903.6	5238675.0	3133708.4	3033297.3	937758.7	158368.0	211846.0	1799231.7	4036259.9	2337227.9	1111653.1	3209519.0	312322.8	151834.0
	Share	0.03	3.00	1.80	1.74	0.54	0.09	0.12	1.03	2.32	1.34	0.64	1.84	0.18	0.09
2012	**Imports**	47972.7	5228112.7	3193598.6	2486940.8	916102.5	127379.3	314039.4	1964320.5	4413827.9	1879719.1	1622912.5	4465373.7	351181.0	132073.7
	Share	0.03	2.88	1.76	1.37	0.50	0.07	0.17	1.08	2.43	1.03	0.89	2.46	0.19	0.07
2013	**Imports**	60236.6	5429912.3	3142427.9	2538986.4	1023848.6	154660.3	319684.0	1818182.9	3996782.8	1697027.0	1689189.3	4838842.5	448623.4	185160.7
	Share	0.03	2.78	1.61	1.30	0.53	0.08	0.16	0.93	2.03	0.87	0.87	2.48	0.23	0.10

Data Source: UNCOMTRADE data.

Annexed Table 3.1-3 China's Imports/exports between the U.S., Europe, and Japan and their Shares in Its Total Trade (2003-2013)

(Unit: $10,000, %)

		Exports			Imports		
		USA	**EU**	**JPN**	**USA**	**EU**	**JPN**
2003	**Imports**	9262629.6	12012123.2	5940869.8	3394416.6	4695372.4	7414812.5
	Share	21.1	27.4	13.6	8.2	11.4	18.0
2004	**Imports**	12514895.6	16067999.5	7350904.2	4474786.9	6017147.6	9432672.7
	Share	21.1	27.1	12.4	8.0	10.7	16.8
2005	**Imports**	16318045.9	19998104.9	8398627.7	4874135.9	6426177.8	10040768.1
	Share	21.4	26.2	11.0	7.4	9.7	15.2
2006	**Imports**	20380104.6	24599436.4	9162267.3	5931427.0	8006340.2	11567258.1
	Share	21.0	25.4	9.5	7.5	10.1	14.6
2007	**Imports**	23316879.0	32089261.7	10206249.6	6954796.4	9858146.1	13395050.4
	Share	19.1	26.3	8.4	7.3	10.3	14.0
2008	**Imports**	25284353.1	36488338.4	11613245.5	8158555.6	11559437.4	15060004.1
	Share	17.7	25.5	8.1	7.2	10.2	13.3
2009	**Imports**	22129502.0	30005936.5	9791096.6	7775510.1	11507823.7	13093752.5
	Share	18.4	25.0	8.1	7.7	11.4	13.0
2010	**Imports**	28378032.3	37424866.7	12104396.5	10273418.5	14996868.1	17673608.4
	Share	18.0	23.7	7.7	7.4	10.7	12.7
2011	**Imports**	32501098.8	41057082.5	14826870.8	12312401.0	18978580.4	19456785.6
	Share	17.1	21.6	7.8	7.1	10.9	11.2
2012	**Imports**	35243822.1	37482844.6	15162658.1	13376582.3	18504043.8	17783233.6
	Share	17.2	18.3	7.4	7.4	10.2	9.8
2013	**Imports**	36906385.9	37190310.8	15013258.9	15339486.2	19682791.3	16224557.3
	Share	16.7	16.8	6.8	7.9	10.1	8.3

Data Source: UNCOMTRADE data.

Annexed Table 3.2-1 Trade Competitiveness Index between China and Emerging Markets (2003-2013)

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
E14	**BAN**	0.224550	0.211805	0.208182	0.209907	0.223510	—	—	0.184083	0.181718	—	—
	BRA	0.464377	0.452458	0.463456	0.456453	0.428435	0.399146	0.340500	0.306047	0.289775	0.304179	0.288782
	INA	0.481551	0.469907	0.443763	0.454415	0.437330	0.352054	0.363516	0.335434	0.302833	0.315594	0.327997
	IRI	0.106765	0.100841	0.091633	0.102715	—	—	—	0.113475	0.101422	—	—
	MEX	0.754789	0.770675	0.750274	0.734331	0.734575	0.720951	0.738029	0.725593	0.686430	0.699666	0.701867
	NGR	0.062482	—	—	0.045369	0.049023	0.071779	0.060763	0.067860	0.058656	0.057271	0.061357
	PAK	0.281062	0.263177	0.251353	0.241899	0.236726	0.232582	0.240924	0.233246	0.227844	0.223828	0.218166
	PHI	0.756072	0.768104	0.784569	0.792233	0.804675	0.797990	0.817639	0.621067	0.658889	0.786743	0.778237
	RUS	0.168749	0.165860	0.149893	0.142176	0.142974	0.144527	0.125266	0.115895	0.115699	0.131488	0.134789
	IND	0.448375	0.406063	0.415389	0.417521	0.401628	0.420390	0.409393	0.380765	0.377505	0.386297	0.373366
	VIE	0.446987	0.404354	0.391477	0.403715	0.432342	0.450386	0.494551	0.567387	0.626836	0.712874	0.779401
	RSA	0.365207	0.362605	0.348678	0.355262	0.359345	0.366840	0.320525	0.346057	0.317162	0.343893	0.332685
	TUR	0.587955	0.588277	0.584596	0.605073	0.596761	0.471340	0.576509	0.587763	0.609154	0.576621	0.608740
	EGY	0.185415	0.180616	0.157347	0.135905	0.135531	0.237730	0.251335	0.252119	0.279873	0.278957	0.302968

Data Source: UNCOMTRADE data.

Annexed Table 3.2-2 Complementarity Index between China's Exports and Emerging Markets' Imports (2003–2013)

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
E14	**BAN**	0.495944	0.534663	0.595698	0.569081	0.525855	—	—	0.473570	0.474477	—	—
	BRA	0.677697	0.649123	0.671510	0.657505	0.635107	0.621548	0.665960	0.661449	0.635479	0.639765	0.625419
	INA	0.491636	0.489395	0.465440	0.424757	0.453163	—	0.624543	0.620194	0.579486	0.581125	0.559684
	IRI	0.638020	0.637322	0.633330	0.128304	—	—	—	0.610548	0.486080	—	—
	MEX	0.802448	0.819873	0.809203	0.775685	0.785171	0.798503	0.812613	0.810865	0.798786	0.799781	0.809498
	NGR	0.603021	—	—	0.656621	0.582780	0.725211	0.627677	0.643794	0.542381	0.570944	0.506625
	PAK	0.477621	0.492614	0.558070	0.515777	0.510176	0.444425	0.450230	0.400802	0.361616	0.357245	0.360916
	PHI	0.721370	0.725520	0.721048	0.716718	0.736356	0.705819	0.725311	0.713539	0.520168	0.669176	0.662586
	RUS	0.637335	0.647531	0.674866	0.678822	0.669699	0.667225	0.700433	0.713673	0.698577	0.737321	0.731215
	IND	0.409349	0.385702	0.395686	0.401220	0.411667	0.347819	0.397000	0.359231	0.351608	0.333467	0.328967
	VIE	0.653373	0.611331	0.591324	0.594225	0.631642	0.626579	0.668838	0.680490	0.689843	0.734728	0.772930
	RSA	0.664547	0.643642	0.646867	0.618233	0.602303	0.590905	0.609678	0.618904	0.598511	0.570593	0.586624
	TUR	0.592816	0.581375	0.582817	0.564536	0.591118	0.539687	0.574754	0.516161	0.473029	0.519643	0.546891
	EGY	0.471280	0.503044	0.444336	0.429050	0.428839	0.564826	0.574056	0.530500	0.486035	0.441370	0.503188

Data Source: UNCOMTRADE data.

Annexed Table 3.2–3 Complementarity Index between China's Imports and Emerging Countries' Exports (2003–2013)

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
E14	**BAN**	0.041488	0.051422	0.057256	0.056964	0.074421	—	—	0.054972	0.048273	—	—
	BRA	0.544279	0.510928	0.533133	0.541894	0.543279	0.572510	0.549955	0.548909	0.592558	0.578610	0.512276
	INA	0.513477	0.535923	0.541125	0.539900	0.517953	0.560436	0.511037	0.560870	0.565843	0.580361	0.569099
	IRI	0.185973	0.216099	0.232315	0.280550	—	—	—	0.375498	0.420807	—	—
	MEX	0.778207	0.787022	0.777319	0.786607	0.791236	0.798431	0.799673	0.787801	0.777289	0.756769	0.732207
	NGR	0.146263	—	—	0.059972	0.071078	0.32194	0.278659	0.313620	0.355812	0.381005	0.368121
	PAK	0.120290	0.132719	0.149631	0.152351	0.162930	0.193613	0.163338	0.188552	0.185775	0.150398	0.147012
	PHI	0.747742	0.738572	0.741588	0.762535	0.769588	0.721339	0.733106	0.621912	0.667359	0.699671	0.730160
	RUS	0.293791	0.309322	0.310097	0.323977	0.321104	0.391356	0.359653	0.374445	0.434631	0.466022	0.445422
	IND	0.367054	0.418073	0.455776	0.492911	0.49507	0.562993	0.509719	0.550053	0.562978	0.570986	0.562433
	VIE	0.368875	0.378015	0.395548	0.431825	0.43093	0.502311	0.486911	0.537630	0.597849	0.662462	0.671726
	RSA	0.456996	0.445731	0.445535	0.437096	0.462199	0.490515	0.512888	0.533876	0.503276	0.523286	0.505633
	TUR	0.478781	0.476817	0.474613	0.487133	0.482807	0.405895	0.488425	0.513949	0.532219	0.496541	0.512720
	EGY	0.255765	0.284527	0.285745	0.295602	0.283577	0.457816	0.427679	0.4547353	0.505713	0.537351	0.523140

Data Source: UNCOMTRADE data.

IV. Ways to Strengthen Trade Relations between China and Emerging Markets

Nowadays, advanced countries are experiencing economic slowdowns and their recovery processes are unpredictable; emerging markets are rising up in groups and their economic scales are constantly expanding; and China's economic growth is decelerating while the structural imbalance hindering further development of its economy is becoming increasingly prominent. Against such a background, the need to develop trade relations with emerging markets and expand both imports and exports with emerging markets have become important elements of China's transformation of its foreign trade development pattern and its adoption of market diversification strategies. In order to develop trade relations with and further exploit emerging markets, China shall begin with reforming its domestic trade system and carrying out its emerging market strategy; next it shall build a system of concrete policies promoting exports, imports, and its services trade; and finally it shall implement a pro-export investment strategy and a pro-trade FTA strategy.

4.1 Deepen China's emerging markets strategy

1. Improve and extend the "soft environment" of emerging markets

Doing Business 2013 released by the World Bank reveals that China ranks in 91st place among the 185 economies.[30] A series of events happened in China indicate that China's position is not unreasonable. Therefore, the Chinese government shall not try hard to persuade World Bank to reconsider this ranking, but shall transform the country's operations in a real sense and build the awareness of its services. Only by undertaking these steps can it create a brand new "doing business" environment and create a sound constitutional environment and "soft" infrastructures for domestic exploiters of emerging markets.

To encourage enterprises to explore emerging markets, China shall adopt consistent and stable policies favorable for foreign trade development as it did in the past, enforce various policies stabilizing foreign trade growth, and raise its trade facilitation level. While doing the above, China shall intensify its efforts regarding institutional innovation, promote reform of its foreign trade system, and take a specialized road of diversified development that integrates industrial restructuring/transformation and changes to its trade development patterns, upgrade its labor-intensive products to technology-, knowledge-, management- and information-intensive products, encourage scientific and technological progress, and improve the quality and enhance the efficiency of foreign trade.

As a result of the continued appreciation of the RMB (Chinese yuan) and rising costs of raw materials and labor, the price advantage of "made in China" has somewhat weakened. This requires arduous efforts by Chinese enterprises to strengthen the building of self-owned brands and foster new competitive advantages. In particular, Chinese enterprises shall strive to upgrade their technical levels and innovative capacity, enhance the brand reputation of their products and raise their service awareness, incubate a group of self-owned brands with international influence and competitive advantages, and produce first products for expanding emerging markets.

U.S. economist Michael Porter claims that a government can help its country build and accumulate competitive advantages and improve the international competitiveness of its foreign trade and economy by drafting and adopting correct foreign trade development strategies and policy measures.[31] Correct development strategies and policy measures must be based upon down-to-earth, all-round and in-depth investigations, and a solid theoretical basis. To work out the correct policies for exploring emerging markets, the Chinese government shall, under the guidance of the right theories, organize governmental, industrial, and learning institutions to conduct an in-depth and careful investigation, analysis, and study of the political and economic status, resource endowment, industrial development, market structure, market demands, social demands, customs, and legal system of emerging markets as well as of their specific demands on Chinese products, different demands, willingness to cooperate, potentials, and existing problems. Combining the above with its own situations, China shall draft appropriate policies and measures to provide policy support for foreign trade enterprises and help them avoid blind market exploitation.

2. Screen the major emerging markets to be exploited

Emerging markets are large in number and the support of governmental policies cannot cover all of them. In light of this, on the basis of a general consideration of resources reserves, population size, market share and strategic position, China can define criteria for studying and prioritizing emerging markets. China shall select them in order from easy to difficult in terms of "relieve domestic pressure, give play to the complementary advantages, and pursue economic interests." Based on this principle, using degree of trade integration, trade competition index, and trade complementarity index, the foregoing text revealed that China has higher export potential to Mexico, the Philippines, Russia, Brazil, Vietnam, South Africa, Turkey, Nigeria, Bangladesh, Pakistan, Iran, and India; whereas China has higher import potential from eight emerging markets, namely Mexico, the Philippines, Brazil, Indonesia, India, Vietnam, Iran, and Pakistan. In addition, by considering prior international experiences, China can also follow the order of economic, political and diplomatic, geographical, and time standards. Placing economic standards in the first place is mainly out of the consideration of the requirements to "transform the growth pattern of foreign trade," "import energy" and other strategies. Due to special domestic conditions, it is necessary for China to first solve some political and diplomatic problems in the process of expanding emerging markets. For example, hastening boundary settlement, settling territorial disputes, and improving political relations between China and India will produce unparalleled effects on extending Sino-Indian economic/trade relations and developing the Indian market; the scale of Sino-Russian trade will grow at an extraordinary rate if we deepen the political mutual trust between the two countries, create stable constitutional environments for economy and trade, and take advantage of two highly complementary economies. As for the geographical criteria, China shall follow the "from near to far" approach and adopt a strategy of "befriending the far and competing with the near;" finally, the time criterion means exploiting emerging markets gradually in due order in line with the short-, medium-, and long-term targets on the basis of the existing results of China's exploitation of emerging markets.

3. Build a trade promotion system for exploiting emerging markets

According to Chinese economist Lin Yifu, most of the current advanced economies at present were at one time seriously dependent on government intervention to boost their economic take-off and catch-up processes. The application of industrial, trade, and technical policies are major factors behind these countries' successful structural transformation.[32] Appropriate trade policies are indispensable to the promotion and development of foreign trade.

Borrowing from the experiences of other countries and establishing a foreign trade promotion system targeting emerging markets are important measures for improving the economic and trade cooperation between China and emerging markets. Establishing a foreign trade promotion system is a comprehensive and systematic project. It not only aims to expand exports but also promote imports to emerging markets enjoying long-lasting trade surpluses with China, so as to achieve a win-win situation. China shall increase its support to export enterprises, but in a more indirect and pragmatic manner. Governments of all countries are providing substantial financial support of larger scale and proportion to their export each year in contrast to China's current level, highly valuing practical results. At present, China's foreign trade promotion shall mainly target small and medium-sized enterprises, which will play important parts in increasing job opportunities and expanding exports. The building of a foreign trade promotion system targeting emerging markets shall integrate closely various modes of economic cooperation like foreign aid, exploitation of overseas resources, expansion of imports, and debt relief, thus amplifying the comprehensive effect of these policies.

On the above basis, China shall further improve both the regional distribution of its exports abroad and the imbalanced foreign trade development between different regions at home, with a view to encouraging more enterprises to expand into emerging markets. China's exports are currently produced mainly in eastern coastal areas. To change such an imbalanced foreign trade structure, China shall first draft domestic policies for a diversification strategy, put forward in detail key steps for the transformation of foreign trade development patterns, including the restructuring, promotion of balanced development, and stabilization of growth of different areas each year, and step up the foreign trade development in central and western regions; next, China shall promote the transformation and upgrade of processing trade in eastern regions and its gradual transfer to the central and western regions, provide vigorous support to the central and western regions to take over the industrial transfers from the world and eastern regions, and realize in-situ conversion of local resources to reduce energy waste and resource depletion caused by long-distance transport; considering resources reserves, and the featured and advantage products of different provinces and cities (regions), China shall adjust measures to fit local conditions, plan reasonably, and develop diversified, specialized, regionalized, and large-scale clusters of flagship export enterprises and advantage products characterized by higher market concentration rate; and finally, it shall continue to improve the infrastructures of the central and western regions, upgrade their industrial structures, and improve urban and rural market system construction.

4.2 Build a system of policies and measures for exploiting emerging markets

To stimulate and support more enterprises to engage in the exploration of emerging markets, China shall work out specific, substantial, and well-targeted policies and measures.

1. Export-promotion policies and measures

(1) Increase comprehensive support to the expansion of emerging markets. China shall increase financial support and set up various funds for the exploitation of emerging markets in the form of financial appropriations to compensate for the losses enterprises suffer due to importing commodities from emerging markets, lower the risk of enterprises exploring emerging markets, encourage enterprises to increase imports, and reduce the forces hindering market exploitation; it shall increase financial support, support enterprises to exploit emerging markets through methods like setting up funds for small and medium-sized enterprises to exploit emerging markets as well as providing a foreign aid partnership fund and foreign aid preferential loans. In respect of mechanical and electronic products and complete equipment to be sold of major targeted emerging markets, China can consider granting more preferential conditions and more convenient procedures for the use of national debt funds and other government investment funds as well as policy import/export financing conditions; China shall increase insurance support, pay more insurance to decentralize and avoid enterprises' risks in exploring emerging markets, especially in terms of providing special policy insurance services for foreign trade enterprises who will operate in high-risk emerging markets; and China shall provide more information technology support as small and medium-sized enterprises do not know emerging markets very well and lack effective access to information about potential trade partners, and thus need more detailed information technology support provided by the government.

(2) Advance vigorous financial cooperation plans. Financial cooperation plans mainly include a "currency swap plan" and "trade finance plan."

A currency swap (also called Cross Currency Interest Rate Swap) means the exchange between two debt capitals of the same amount, on the same terms, and using the same interest rate calculation method but in different currencies. In simple words, currency swaps are swaps between liabilities in different currencies. The two involved parties swap currency, but their own debtor–creditor relationship is not changed. A bilateral currency swap agreement is an agreement reached by two countries on the exchange of their currencies. Its advantages lie in that it can reduce fund-raising costs, lower the risk of exchange rate fluctuations, and thus benefit both parties. Emerging markets are playing increasingly important roles in global trade. If China reaches currency swap agreements with these countries, many small and medium-sized enterprises will benefit from the much lower foreign exchange costs.

So-called trade finance refers to short-term finance or credit facilities related to import and export trade settlement provided by banks to importers or exporters. According to the Basel Accord, trade finance means finance by banks using structured short-term financing tools based on assets like inventory, pre-pay, and accounts receivable in the commodity trade (such as crude oil, metals, grain). Trade finance is an effective financing method for enterprises to increase cash flow in the trading process. Along with the worsening negative impact of the world financial crisis on the real economy, faster shrinking of global industrial output and trade along with deteriorating trade financing conditions, many importers and exporters in emerging markets have been forced to consolidate their business or become bankrupt due to financial strain. Such a situation has also seriously affected the normal operation of China's foreign trade and elevated exporters' trade risks. Facing these difficulties, China shall increase trade finance, help emerging markets and developing economies obtain finance through liquidity arrangements and project support, and further enlarge the share of its trade with emerging markets.

2. Import-promotion policies and measures

China's import strategy shall strive to benefit from imports, avoid dangers possibly caused by imports, and solve some of the problems presently confronting Chinese foreign trade and arising in the future. We can see that China's import strategy for the present time and for a few years to come mainly needs to solve "security" problems like macroeconomic security, energy resources import security, industry security, and social security, as well as address development problems like raising efficiency, upgrading industrial structure, making technical progresses, and bettering residents' welfare. For this, China needs to adopt a "safe development" import strategy. This is a development strategy which places equal stress on safety and development instead of on safety only.

To achieve the two strategic goals of security and development, China can adopt an import policy known as "seize the two ends, relax the middle and promote balance" both now and for a few years to come. The two ends refer to resource-dependent industry and hi-tech industry, the middle refers to labor and capital-intensive industry, and balance means the long-term balance of trade. These import policies mainly cover the following:

(1) As China has gained or will soon gain comparative advantages in labor- and capital-intensive products, it can relax its restrictions on imports of these products, eliminate tariff and non-tariff barriers, and realize free trade of these two types of products. This can offer better scope to China's comparative advantages and allow free trade to promote competition and raise efficiency.

(2) Regarding resource and energy products, China shall adopt a diversification strategy and strengthen centralized management to avoid the risk of importing energy and resources, instead of ensuring safe and stable imports of these products. Pursuing a diversification strategy means searching for more import sources, and the execution of it is intended to lower political risks and decentralize the monopoly power of sellers. To strengthen centralized management means to strengthen intra-industry concentration through methods like encouraging acquisitions or making Chinese buyers stronger

through organized actions of industry associations and governmental bodies, thus countering the power of sellers. Moreover, it can also encourage domestic enterprises to invest in the overseas production of energy and resources. China's ever-growing demand for energy and resources also provides opportunities for launching this strategy.

(3) China shall find a balance between opening and protecting its hi-tech industry and avoid inadequate incentives toward technical innovation and restrictions on hi-tech industry development caused by either excessive opening or protection. It shall encourage the substituting of imports of high-tech products with the import of high technology itself. Importing high technology will be more conducive to fostering China's technical progress whereas importing hi-tech products may cause losses to manufacturers of hi-tech products and limit the development of high-tech industries. This means that when a country has relatively scarce capital, using capital flows to substitute imports of capital-intensive products is more favorable to that country. Needless to say, China needs to break the control held by other countries over technology imports as a first step.

(4) China shall promote the import of raw materials and spare parts serving the domestic market and avoid macroeconomic risks caused by imbalanced trade. In this way, although processing trade targeting the international market will use increasingly less imported materials/parts but increasingly greater amounts of domestic-made materials/parts, domestic production targeting the domestic market will use increased amounts of imported materials/parts and lower amounts of domestic materials/parts. This is a potential method for balancing a processing trade surplus. This means that China can not only exempt tariffs on processing trade imports but also can consider reducing or exempting customs duties and reducing non-tariff barriers for all raw materials and spare parts. In the meantime, it can build a strategic energy and resources reserve system. This can better ensure energy and resources import security and counterbalance international trade through more imports.

3. Service-trade promotion policies and measures

China's service imports and exports have risen steadily in recent years, reaching $470.58 billion in 2012, up 12.3% over the previous year. China has leapt to become the third-largest service trader in the world, after only the U.S. and Germany. When exploiting emerging markets, China shall regard the development of foreign trade in services as an important element of improving foreign trade development patterns and structures. China's service trade is not sufficiently advanced on the whole, and its trade with advanced countries basically suffers deficits and lacks export advantages. However, it has considerable advantages in foreign labor exports (including engineering), international tourism, culture and education, transport and logistics, advertisement and publicity, communication services, and computer and information services over numerous emerging markets, which shall be treated as the major directions of expanding service trade exports to emerging markets.

(1) Optimize the service sector's internal structure. Improving the service sector's internal structure depends on diversified and advanced production and consumption of these services. To achieve all-round development of the service sector, China shall, on the one hand, strengthen the construction of domestic infrastructures necessary for the development of the service sector and make its development better meet the requirements of modernization and informatization; on the other hand, China shall take an active part in adjusting and improving the international service structure, transfer advantage industries overseas via advanced countries, and attract foreign investment and new services to fill the gaps in the domestic service sector at the same time. Furthermore, it shall also develop industries with greater potential like real estate, property management, tourism, community service, education, and training, so as to foster new growth points and expand its scale of service trade with emerging markets.

(2) Speed up legislation on service trade and build a systematic service trade system. In order to ensure the normal development of the service sector and expand trade in services between China and emerging markets, China must carefully study WTO terms and establish at the earliest date a legal system that conforms to the objective of Chinese economic development without contravening international laws. It shall set down market access rules, and taxation, investment and preferential conditions for trade in services in the form of laws, thus increasing the transparency of the Chinese service trade and gradually institutionalize and legalize it; in order to more fully integrate China's service trade into the global market, China shall deepen its reform, adopt a uniform foreign policy, promote fair competition, and open service trade more widely to the outside world in an active, safe, coordinated, and orderly manner. It shall strengthen macro regulations on the basis of deepening reform, properly guide the direction of service trade development, train service trade talents actively, and provide backup for the greater development of its service trade. Under the framework of laws and policies, it shall gradually regulate the internal structure of service trade in order to improve its international competitiveness.

4.3 Strengthen investment and FTA strategy for exploiting emerging markets

1. Investment strategy promoting exports to emerging markets

In the context of the global division of labor, both trade and investment are highly integrated and diversified markets also involve diversified investment. Consequently, China shall attract more capital from emerging markets and go abroad to invest in emerging markets, as well as use investment to drive exports to emerging markets.

Chinese scholar Lin Yifu (2012) holds that in a booming country, the government can invest in other countries to relocate enterprises about to become part of a sunset industry to low-income countries with similar endowment structure, take these countries as export bases, benefit from their cheap labor and gain access to their domestic markets or to resources in short supply at home. If Chinese enterprises "go global" and become actively involved in investments in emerging markets and enterprise acquisition, they can make full use of cheap local resources, save costs, avoid being accused of neo-colonialism by the international community due to large-scale importation of raw materials and the restriction of "place of origin rule" imposed by advanced countries on China's export commodities, and thus reduce trade friction with advanced countries. Apart from the above, they can bring advanced technologies, management experience, and capital to the local places, help local people gain employment, and achieve mutual economic development between China and emerging markets.

(1) Draw emerging markets to invest in China

Attracting investment from emerging markets can both strengthen economic ties and improve economic relations with them. In addition, it can increase exports from emerging markets to China, avoid serious imbalanced trade, and create conditions for expanding exports to emerging markets. In attracting investment from emerging markets, the first step is to guide the direction of investment and make more of the investment flow into hi-tech, modern service, hi-end manufacturing, infrastructure and eco-environment protection, and old industrial bases in the central and middle regions and northeastern regions; the next step is to encourage multinational enterprises from emerging markets to set up headquarters, R & D centers, procurement centers, and training centers in China, encourage technical innovation by foreign-funded enterprises, improve their supporting capacity, and extend their industrial chains; one more thing to do is to promote diversified use of foreign funds, guide domestic enterprises to engage in various types of cooperation with multinational companies from emerging markets, give play to technology spillover effects, and strengthen the integration between emerging market enterprises and the Chinese economy; a final step is to encourage emerging market enterprises to preferentially obtain finance from China's capital market, including finance through getting listed in the Chinese securities market.

(2) Encourage Chinese enterprises to invest in emerging markets.

China shall strengthen the building of a "go global" security system, sign treaties on protecting bilateral investment and avoid double taxation treaties with emerging markets/regions, raise awareness of foreign-based enterprises for protecting their own interests with legal weapons and make the business organizations of Chinese foreign embassies play their role in protecting the legitimate rights and interests of foreign-based enterprises there. Meanwhile, China shall build a "go-global" coordination system. In combination with the market characteristics of the invested countries, China shall coordinate investment projects that may easily cause repeated construction and competition among Chinese firms and prevent unfair competition in foreign countries due to homogenous products and markets of Chinese enterprises. In addition, China shall also enhance the building of a "go global" service system. Highlighting better information service, China shall collect more economic and trade information on emerging markets. Moreover, China shall raise the enthusiasm of various foreign-related agencies, give free rein to their advantages, such as their being known as highly professional, resourceful, and well-informed, and make them provide agency services for enterprises to go global.

2. FTA strategy promoting exports to emerging markets

The U.S., Japan, and Korea, strong competitors to China in developing emerging markets, launched FTA network building in succession and promoted regional trade and economic connections. China must actively push forward its economic cooperation with neighboring countries and emerging markets, build an FTA, integrate market resources to the greatest extent, and provide services for expanding trade scales with emerging markets.

(1) Draft a clear-cut strategic plan for regional cooperation

In pursuit of improved regional economic cooperation, China shall try to draft a strategic plan for regional economic cooperation with clear goals. It shall choose partners to increase economic and trade exchanges with various countries using economic and trade relations as the orientation, shall choose partners to extend the consumption market using markets as the orientation, and shall choose partners to ensure China's future economic security using resources and energy strategy as the orientation.

(2) Extend the depth and scope of regional cooperation

The content of regional economic cooperation shall not be confined to traditional commodity trades, but shall be extended to the service trade, investments, and various facilitation sectors, aiming to reap more dynamic benefits from regional economic cooperation and achieve "deep integration." Partnerships can either be multilateral FTAs, or bilateral FTAs that can be easily agreed upon. A reasonable geographical span can also go beyond the immediate region to obtain larger market shares.

(3) Strive to give rein to the dominant role of regional economies

Japan, Korea, and ASEAN all want to be the leading power of regional cooperation in Eastern Asia and thus actively promote FTA networks that center on themselves. As a big economy in East Asia, China is a potential core nation, being very influential in the regional economy. To play its leading role in a true sense, participating in regional economic cooperation is a wise choice. On the principle of upholding the strategy of "making relations with major powers as the key, neighbors as top priority, and emerging markets the basis," China shall promote regional economic cooperation as follows: ① Engage in FTA negotiations with surrounding countries and strive to become the axle of any regional FTA; ② Engage in FTA negotiations with emerging markets outside the region, like Mexico, and enhance economic and trade relations with major global trade partners.

(4) Endeavor to build a BRICS free-trade zone

China can consider expanding its cooperation with developing countries in the financial field, prioritize BRICS with relatively mature and stable fiscal and monetary policies for experimental cooperation, sign bilateral investment agreements and currency swap agreements with them, promote international trade settlement in RMB, and gradually spread such cooperation to more developing countries and accelerate the internalization process of RMB with BRICS as the focus. Meanwhile, China shall actively guide BRICS towards entering a free-trade agreement, and take this as the pivot to lever all emerging markets. Such a free-trade zone shall be open and can admit more emerging countries at proper times and under proper conditions, so as to live up to the development goal proposed by the comprehensive development strategic theory.

Therefore, to achieve a favorable strategic environment for its development and peaceful wielding of increased influence, China must learn to manage its neighbors, make its development benefit more surrounding countries, and achieve mutual development. Objectively, China needs to arrange various resources, make good use of its comparative advantages, find the right strategic integrating points for deeper win-win cooperation with neighboring countries, take an active part in regional economic cooperation, and make great efforts to deepen the win-win situation. At present, China shall, on the basis of the above strategies, build its Silk Road economic belt, the 21st century Maritime Silk Road, promote its interconnection with the infrastructures of neighboring countries through featured trade like high-speed rail exports and diplomacy, accelerate the implementation of its free-trade zone strategy based on its neighbors such as the East Asian community, an upgraded version of the China-ASEAN Free Trade Area, RCEP (Regional Comprehensive Economic Partnership) and CIMB economic corridor, and build a new pattern of regional economic integration.

V. Conclusion

China's exports face many unprecedented challenges. In the face of such pressure and difficulties, China can create conditions for sustainable economic development only through reforms. China's trade with the emerging markets both compete with and complement each other. Emerging markets share common interests in the fields of politics, safety, and global governance. Therefore, to explore emerging markets is both an inevitable choice for China to cope with its grim situation of foreign trade/exports and a necessary path for China to fight for a right to have a voice regarding world economic governance and enable China to grow into a powerful trade nation from a large trader. China shall make appropriate arrangements in terms of domestic and foreign policies to ensure its successful exploration of emerging markets.

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