Title: What China has learned from Korea and Japan by processing trade?

Abstract

This paper empirically examines the change in trade structure of China, Japan, and Korea.

China has been the largest exporter of goods since 2009.

In 2015, % of total export of China was related with processing trade.

Enterprises that conduct processing trade in China import raw materials, parts and components, and related materials and re-export processed or assembled products.

Generally, distinct from normal trade, the subject of processing trade is importer of final goods.

It is common that foreign importer has a production plan and required technologies.

Processing trade has been recognized as utilization of relative cheap labor force by foreign enterprises.

It is evident that over 1/3 of China’s export is still related with processing trade. Especially,

How will China deal with the dilemma has received attention. 12th and 13th five-year plan of China (ref) points domestic oriented economic growth which implies avoiding processing trade.

This paper

The remaining part of the paper is organized as follows. Section II provides a definition, trend of processing trade in China. Section III provides an analysis of structural catch-up of export of China. Section IV reports empirical results. Finally, concluding remarks may be found in Section V.

Ⅱ. Definition of processing trade

China customs

China customs classifies each trade into 19 modes by nature thereof. Range of processing trade is different by viewpoints. With the world and Korea, only a few kinds of modes have significant share in total trade. We consider five types of processing trade which consist 97 percent of total trade in 2014.

Processing and assembling trade with customer-supplied materials(14, 来料加工) and processing trade with imported materials (15, 进料加工) are most common concept and do not requires a location constraint to firms in China. In case of first one, a production firm compensated only with processing cost. A firm may decide their return in the other case by deciding price of finished goods. As the first case has less profitability, its portion has been halved (9.4% in 2007, 4.4%in 2014). The latter one also has lost its portion, 35.9% in 2007 dropped to 28.4% in 2014.

In relation with bonded warehouse, inbound/outbound (33, Chinese term will be added) and storage of transit (34, Chinese term will be added) are most significant concept. The one is distinguished from another by the regional scope. i.e., the latter one exclusively counts trade conducted in Special Economic Zone.

The latter contains

………..

These two type of trade… (will be added later)

………..

For instance, among trade classified as the code 33, the portion of chapter 27 which contains aviation fuel is over one quarter in 2014.

Ordinary trade, which consist 53.8% in 2014, is the concept which contains all cases not specified elsewhere.

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| Code | Trade mode |
| 10 | Ordinary Trade |
| 11 | Aid & Donations from Other Countries/Regions or International Organizations |
| 12 | Other Material Donations |
| 13 | Compensation Trade |
| 14 | Processing and Assembling Trade with Customer-Supplied Materials |
| 15 | Processing Trade with Imported Materials |
| 16 | Trade by Consignment and Proxy |
| 19 | Petty Frontier Trade |
| 20 | Equipment Imports by Processing Trade |
| 22 | Exports for Contracted Foreign Projects |
| 23 | Leasing Trade |
| 25 | Imports by Foreign-Invested Enterprises as Investment |
| 27 | Processing Trade with Exported Materials |
| 30 | Barter trade |
| 31 | Tax-Free Foreign-Exchange Goods |
| 33 | Inbound/Outbound Goods in Bonded Warehouses |
| 34 | Storage of Transit Goods in Bonded Warehouses |
| 35 | Equipment Imports by Export Processing Zones |
| 39 | Others |

Ⅲ.

Revealed comparative advantage (RCA) index suggested by Balassa (????) measures relative intensity of export of a country in a specific market. Without a note, the market refers the world market. Technically, export statistics consistently used for the calculation of trade indices.

Footnote: A trade flow can be measured as an import or an export. Using import statistics is more common for a calculation of trade indices because of its relation with tariff. To utilize the China Customs statistics divided by trade modes, export were chosen.

A country classification provided by World bank was used.

World, OECD, ASEAN

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In this section,

Trends of processing trade in China

Dependent to production plan, demand, and technology.

production designing

which distinct from normal trade in the

Processing trade has been played as a major growth engine of China’s export.

Thanks to the OECD-WTO Trade in Value-Added(TiVA) initiative, there are many attempt to measure China’s trade in the notion of domestic value added.

Koopman et al. (2008) tried to evaluate China’s export in terms of value-added.

(Chapter 3) Who made that product? Competitiveness, intra industry trade and processing trade

(Chapter 4) What they have learn from processing trade

-a : Descriptive statistics

-b : panel regression(AB)

(Chapter 5) Conclusion