



## Assessing China and Hong Kong's Exports Performances from the Standpoints of the US, EU and Japan

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According to the World Trade Organization's (WTO) forecast, the world's goods and services trade will grow by 4.7% in 2014 in volume, more than double the 2.1% growth in 2013, and the 2.1% growth in total goods exports in value. Historically, China's goods exports grew faster than the world average. But the latest statistics show that during the first four months of this year, China recorded cumulative decline of 2.3% in its exports. Meanwhile, Hong Kong's goods exports recorded an anemic growth of just 0.7% in the first quarter, both below the WTO's projection and the 1.6% of the world's goods exports growth during the first two months of this year. In 1H13, China's exports growth were inflated by falsified trades aimed at arbitraging the RMB exchange rate. Thus, a high comparison base was formed, as the statistics never received proper revisions that can rid these fake trades, which in turn affects this year's performance measures. Nevertheless, WTO's world trade statistics have incorporated China's official statistics without revisions either. So concerns about China and Hong Kong's trade performances so far this year are not without merits.

### China and Hong Kong's softening exports

During the first four months this year, growth in China's goods exports came in 10.6%, -18.1%, -6.6% and 0.9% respectively, or -2.3% cumulatively, which was far worse than the full year average growth of 7.9% in 2013. Nonetheless, it was exactly the high comparison base for the same period last year due to falsified trade activities that put downward pressure on this year's trade performance. Such activities were at their peak during the first four months of last year, resulting in unusual high growth of China's exports of 25.0%, 21.8%, 10.0% and 14.6% respectively, or 17.4% cumulatively, which more than doubled the average growth in 2012 and extended its gap over imports growth during the same period to an unusual high of 6.8 percentage points.

During the first four months of 2013, China's general trade recorded growth of 15.1%, and processing trade with imported materials 3.4%. It was nothing out of the ordinary. Together they account for more than 80% of China's total goods exports, and there is little evidence that their growth was inflated. It was the surge of 259.1% in logistics goods exports in customs special supervision areas that was suspicious. Without its artificially high growth,

China's total goods exports would have grown by about 10.5% instead of 17.4%. Now that no revisions have been made to last year's data, during the first four months of this year, logistics goods exports in customs special supervision areas recorded staggering decline of 53.0% due to the high base, which paled in comparison with the 7.7% growth in general trade and 3.0% decline in processing trade with imported materials, resulting in 2.3% decline in China's total exports.

In Hong Kong's case, the distortion in exports figures seems to be less severe. As re-exports account for more than 98% of Hong Kong's total goods exports, and more than 60% of our re-exports originate from China, Hong Kong's trade statistics can be seen as a good proxy of China's without the suspected distortion. In fact, during the first four months of last year when the suspected trade activities took place, Hong Kong recorded growth of 17.6%, -16.9%, 11.2% and 9.0% respectively in its total goods exports, or 5.2% cumulatively, which was only modestly better than the 3.6% average growth in 2013, but substantially less than China's figures for the same period. Re-exports originating from China recorded growth of 14.2%, -11.0%, 11.6% and 5.8% respectively, or 5.2% cumulatively as well, suggesting its plausibility was high.

Fast forward to the first quarter of this year, Hong Kong's total goods exports growth came in at -0.4%, -1.3% and 3.4% respectively, or 0.7% cumulatively. Re-exports originating from China grew -0.2%, -12.7% and 1.2% respectively, or -3.9% cumulatively, closely mimicking China's exports performance. This argues that last year's high comparisons base might be only partially to blame. Therefore, cross references from their major exports markets need to be made in order to better gauge the true status of both China and Hong Kong's exports performances.

## **Divergence of imports statistics of the US, EU and Japan**

The major argument in favor of such cross references is that costs probably outweigh benefits should falsified trade actually take place via these markets. Thus, it is believed that there is considerably less noise in their imports data. However, it must be pointed out that their imports from China cannot match China's exports to these markets. Besides the different pricing of imports and exports, a substantial portion of goods made or assembled in China is shipped to Hong Kong first for re-exports to these markets. Hence statistically, Hong Kong becomes an important exports destination to China, replacing and reducing China's direct exports to other major markets such as the US, EU and Japan. But when customs in the US, EU and Japan compile trade statistics, they tend to categorize Hong Kong's re-exports of made-in-China goods back to imports from China. Thus, there are substantial discrepancies in one's exports and the other's imports, leading to trade disputes. But if focus is placed on growth rate instead

of value or volume, a fair picture of China's exports can still be painted.

According to China's General Administration of Customs, the four largest exports destinations were the US, EU, Hong Kong and Japan in 2012, combined accounting for 56.7% of China's total exports, amongst which Hong Kong's share was 15.8%, close to the US and EU's 17.2% and 16.3%, and substantially larger than Japan's 7.4%. But in 2013, due to the falsified trades mentioned above, Hong Kong surged to become China's largest exports market, boasting a market share of 17.4%, which was even higher than the US and EU.

On the other hand, the US' imports data do not seem to have such distortions. Even during the first four months of 2013 when the suspected trade activities took place, the US' imports from Hong Kong stayed low at 0.4% or less of the total, similar to historical average, while imports from China accounting for anywhere between 15.3% to 20.4% of its total imports. Moreover, growth of imports from Hong Kong and China were 19.9% and 2.8% for the period, slowing down modestly from 2012's pace of 23.6% and 6.5% respectively. For 2013 as a whole, the US' imports from China grew 3.5%, seemingly free of distortions. During the first quarter of this year, growth averaged 2.7%. Combined with imports growth from Hong Kong at 13.7%, it suggests that China and Hong Kong's exports should be growing, albeit modestly, instead of declining or staying flat from the standpoint of the US, both China and Hong Kong's largest exports market.

Net of effects from Hong Kong's re-exports, EU remains China and Hong Kong's second largest exports market. Although it has been underperforming, improvements are also at hand. During the first four months of 2013, its imports from China and Hong Kong declined on average by 3.3% and 10.7% respectively, worse than the 2012 declines of 1.1% and 3.6%, suggesting little traces of falsified trade. At that time, the EU's economic growth was flat. Afterwards when it began to recover slowly, imports from China and Hong Kong improved along the way and resumed growth at the end of the year. But for 2013 as a whole, imports still declined by 4.0% and 3.3% from China and Hong Kong respectively. Similar to the US, during the first two months of this year, EU's imports from China and Hong Kong were up 2.2% and down 1.1% respectively, slowly turning the corner and faring better than China and Hong Kong's own exports statistics.

By the same means, Japan is China and Hong Kong's third largest exports market. Its performance surpasses both the US and EU. Compared to the 9.9% and 21.2% average growth for imports from China and Hong Kong during the first four months of 2013, growth picked up to end the year at 17.4% and 28.8% respectively as a whole, actually accelerating during the remainder of the year. Fast forward to the first quarter of this year, Japan's imports from China and Hong Kong grew by 23.6% and -3.9% respectively. It seems that Abenomics' short

term stimulus, Yen's considerable depreciation, rising consumer inflation, and front running of sales tax rate hike before April this year all helped raise Japan's imports, even though there is still lingering doubt about its sustainability. Not only so, the US, EU and Japan's imports from China since last year all outperformed their overall imports, arguing for stronger performances by China and Hong Kong's exports than what the official statistics show.

### **Confirmation from China and Hong Kong's own data**

Now that general trade has replaced processing trade with imported materials as the most important form of trade in China's exports, and given that general trade grew 7.7% in the first four months of this year despite the decline of total exports by 2.3% in the same period, positive signs are still around regarding China's exports. On the other hand, imports data from the US, EU and Japan also confirm improvement and modest growth regarding their trade with China. Moreover, according to China's General Administration of Customs, during the first four months of 2013, China's exports to the US were up, while those to EU and Japan were still down. It was exports to Hong Kong that surged more than 60% drew suspicion. Fast forward to the first four months of this year, China recorded growth of 3.9%, 8.3% and 5.7% in its exports to the US, EU and Japan respectively, while that to Hong Kong plunging by 31.3%. This is consistent with the cross references drawn from the US, EU and Japan markets.

Hong Kong's own statistics show that during the first four months of 2013, imports from China grew 11.2% before narrowing it down to 5.5% for the full year. Thus it can be said that Hong Kong's trade data were also affected by the falsified trade, but to a lesser degree. On this base, Hong Kong's imports from China during the first quarter of this year were down 2.2%. Although it is nothing to cheer about, the decline was much smaller than the more than 30% drop in China's exports to Hong Kong for the same period. Therefore, it can be argued that the effects from last year's falsified trade on this year's trade growth will ease from mid-year on. But it is uncertain whether China and Hong Kong's exports growth can play catch-up and narrow the gap between the rest of the world. It is not unthinkable that they will underperform this year.

# 主要經濟指標 (Key Economic Indicators)

一. 本地生產總值 GDP	2012	2013	2013/Q3	2013/Q4
總量 (億元) GDP(\$100 Million)	19,644	20,372	5,124	5,416
升幅 (%) Change(%)	1.5	2.9	2.8	3.0
二. 對外貿易 External Trade	2012	2013	2014/3	2014/1-3
外貿總值 (億元) Total trade(\$100 Million)				
港產品出口 Domestic exports	588	544	51	127
轉口 Re-exports	33,755	35,053	2,964	8,048
總出口 Total exports	34,343	35,597	3,015	8,175
進口 Total imports	39,122	40,607	3,519	9,416
貿易差額 Trade balance	-4,778	-5,010	-504	-1,240
年增長率 (%) YOY Growth(%)				
港產品出口 Domestic exports	-10.4	-7.6	0.9	-1.1
轉口 Re-exports	3.2	3.8	3.4	0.7
總出口 Total exports	2.9	3.6	3.4	0.7
進口 Imports	3.9	3.8	3.2	2.1
三. 消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	4.1	4.3	3.9	4.2
四. 樓宇買賣 Sale & Purchase of Building Units			2014/4	2014/1-4
合約宗數 (宗) No. of agreements	115,533	70,503	6,012	20,000
年升幅 (%) Change(%)	6.2	-29.9	37	-31.4
五. 勞動就業 Employment	2012	2013	2013/12-2014/2	2014/1-2014/3
失業人數 (萬人) Unemployed(ten thousands)	12.45	11.84	11.3	11.9
失業率 (%) Unemployment rate(%)	3.2	3.2	3.1	3.1
就業不足率 (%) Underemployment rate(%)	1.5	1.4	1.2	1.2
六. 零售市場 Retail Market	2012	2013	2014/3	2014/1-3
零售額升幅 (%) Change in value of total sales(%)	9.8	11.0	-1.3	0.9
零售量升幅 (%) Change in volume of total sales(%)	7.2	10.6	-2.3	1.6
七. 訪港遊客 Visitors				
總人數 (萬人次) arrivals (ten thousands)	4,862	5,430	483	1,470
年升幅 (%) Change(%)	16	11.7	18.1	15.3
八. 金融市場 Financial Market	2012	2013	2014/2	2014/3
港幣匯價 (US\$100=HK\$)	775.05	775.4	776.1	775.7
H.K. Dollar Exchange Rate (US\$100 = HK\$)				
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	22.2	9.7	16.1	9.5
M2	11.1	12.3	12.8	12.1
M3	11	12.4	12.9	12.2
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	9.3	10.6	10.6	10
港元存款 In HK\$	11.7	5.1	8.2	6.7
外幣存款 In foreign currency	7	16.2	13	13.3
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	9.6	16.0	21.9	18.9
當地放款 use in HK	7.1	13.8	20.9	17.8
海外放款 use outside HK	16.5	21.4	24.1	21.9
貿易有關放款 Trade financing	10.2	43.8	48.2	35
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.0000	5.0000	5.0000
恆生指數 Hang Seng index	22,657	23,306	22,837	22,151