

# CRNM PRIVATE SECTOR TRADE BRIEF

The CRNM Private Sector Trade Brief is supported by a project funded by  the Inter-American Development Bank Multilateral Investment Fund (MIF) to "Strengthen the Private Sector's Role in the Caribbean Community's External Negotiations." It is a monthly publication which forms part of the CRNM private sector outreach activities to update the CARICOM private sector and solicit their feedback on developments in the external trade negotiations.

## EXPLORING TRADE OPPORTUNITIES WITH CHINA

 Volume 20, April-May 2007

**IN THIS ISSUE:** The spotlight falls on China, the world's fastest-growing economy, as we examine possibilities of CARICOM firms doing more business in this dynamic Asian market. Most CARICOM governments have formal diplomatic relations with Beijing but China remains a largely under-explored market for the region's private sector. At present, CARICOM's exports to China involve just a few products. China's exports to the region, on the other hand, are more diverse. Apart from the existing trade in goods, opportunities also exist for Chinese investment in the region, as well as for the development of opportunities for CARICOM franchises in the People's Republic.

### CHINA'S ECONOMIC PROFILE

China is the world's fourth-largest economy. During the period 1990-2005, Gross Domestic Product (GDP) expanded by an average 10% per year, the highest growth rate for any economy in the world.

Although China's economic growth is projected to remain strong, the Federation of International Trade Agencies (FITA) expects the pace to slow down as measures put in place in 2006 to restrain investment and credit growth begin to take effect. Consequently, economic growth is expected to slow from an estimated 10.5% in 2006 to 9.5% in 2007, followed by 9.3% in 2008. Notwithstanding this relatively minor slowdown, China remains a buoyant economy for consumer spending and raw material purchases. It offers a robust business opportunity where CARICOM exporters are given support to navigate the red tape for market penetration.

Following China's admission as a member of the World Trade Organization (WTO) in December 2001, inflows of foreign direct investment (FDI) into the economy accelerated to reach US\$72 billion in 2005. However, the Chinese Government's emphasis on guiding FDI into manufacturing has led to market saturation in some industries. The services sector, however, remains underdeveloped and offers CARICOM firms an excellent platform for pursuing an expansion of business relations.

### CARICOM - CHINA TRADE

China (i.e. The People's Republic of China) is a large market accounting for over 6% of global import spending in 2005. It is laden with trading possibilities for CARICOM firms. According to the International Trade Centre's Trade MAP database, CARICOM firms shipped US\$238.4 million of exports to China in 2005 and imported US\$616.5mn worth of Chinese products. On a global scale, however, CARICOM importers sourced just 2.5% of their imports from China while, in the case of CARICOM exporters, only 1.4% of their global earnings came from China. It is evident, based on this peripheral trade performance, that there is much more potential for growing bilateral trade.

Notwithstanding the above, CARICOM's trade with China is dynamic. CARICOM firms grew export sales to China by a yearly average of 67% between 2001 and 2005, compared with an average annual growth rate of 16% for CARICOM's total exports over the said period. The pattern signifies an increase in export orientation towards China by some regional firms. There are encouraging signs that some firms are growing their export share into China based on an examination of the 67% regional export growth rate.

Over the said period, Chinese firms also increased market share in CARICOM. Their sales grew by an average 24% per annum. When the export performance of Chinese firms in the CARICOM market is compared with the overall 12% annual growth of imports into CARICOM since 2001, the evidence shows that China's private sector is twice as active as the rest of CARICOM's trading partners in terms of export sales.

It is noteworthy that all of this trading activity is taking place without any government intervention such as via forging trade agreements. It, however, could be supported by these types of interventions.

### CARICOM EXPORTS TO CHINA

Based on 2005 trade data, the top 10 CARICOM exports to China are listed in the table below. Aluminum dominates the region's export performance, accounting for over 95% of earnings. Other major exports included logs, asphalt and ferrous waste/scrap.

Table 1: CARICOM's Top 10 exports to China in 2005.

| Product label                                       | CARICOM exports to China     |                           |                      | China's Imports from World      |                                  |
|---|------------------------------|---------------------------|----------------------|---------------------------------|----------------------------------|
|   | 2005 export sales (US\$'000) | 01/05 export sales growth | % of CARICOM exports | China import spending(US\$'000) | 01/05 annual import sales growth |
| Aluminum Oxide                                      | 223,891                      | 73%                       | 14%                  | 2,594,741                       | 47%                              |
| Logs, tropical hardwood nes                         | 2,070                        | 145%                      | 24%                  | 525,012                         | 15%                              |
| Lumber, tropical hardwood sawn lengthwise > 6mm     | 2,008                        | 33%                       | 10%                  | 345,695                         | 12%                              |
| Bitumen and asphalt                                 | 1,815                        | 77%                       | 29%                  | 141,786                         | 22%                              |
| Ferrous waste/scrap of iron or steel                | 1,653                        |                           | 11%                  | 2,226,341                       | 30%                              |
| Waste and scrap of aluminum                         | 982                          | 156%                      | 15%                  | 1,368,589                       | 64%                              |
| Logs, non coniferous                                | 881                          | -2%                       | 20%                  | 1,067,870                       | 17%                              |
| Poles, piles etc, coniferous, pointed but not sawn  | 672                          | 29%                       | 41%                  | 1,207                           | -48%                             |
| Electric conductors for a voltage >80v to <=1,000 v | 604                          |                           | 8%                   | 385,285                         | 15%                              |
| Copper-zinc base alloys, unwrought                  | 551                          | 128%                      | 98%                  | 112,464                         | 50%                              |
| Total   | 238,385                      | 67%                       |                      | 659,952,762                     | 30%                              |

*Source: International Trade Centre, Trade MAP Database ([www.trademap.net](http://www.trademap.net)) downloaded 27/02/2007.*

Table 1 above shows dynamic growth in demand within China for almost all of Jamaica's top exports. The only exception was coniferous poles/piles etc where import demand actually declined by 48% per annum between 2001 and 2005. However, even here, CARICOM exporters still achieved an average yearly 29% growth in export sales between 2001 and 2005.

An examination of CARICOM's export sales shows that 98% of the region's unwrought copper-zinc base alloys found a market in China. On the other hand, China accounted for only 8% of

the region's export sales of electric conductors for a voltage >80v to <=1,000 v. Greater focus on China's electric conductors market could see an increase in sales.

The 2001-2005 trade figures suggest that CARICOM exporters are not adequately exploiting opportunities in China for selling coffee, rum, pipes/fittings of iron/steel, contact lenses, continuously shaped non-coniferous wood, dried fish, smoked fish, rock lobster, molluscs and waste and scrap of alloy steel. These products have tremendous trade potential (defined as the difference between the global exports of CARICOM firms and their exports to China). Export development opportunities also exist in the area of franchises for CARICOM companies with strong brands. The same can be said for products such as coffee and rums which have a strong Caribbean brand premium.

Even though CARICOM registered an average annual decline of 15% in export sales of rum/tafia to China between 2001 and 2005 (2005 sales amounted to US\$158,000), Chinese spending on global imports of the said product actually rose by 3% per annum during the same period. Similarly, Chinese expenditure on imports of frozen fish fillets expanded by 40% per annum over 2001 to 2005 to reach 3.8 million tons in 2005. However, CARICOM exporters of fish fillets have ignored this market.

Frozen shrimps and prawns represent another export opportunity being overlooked by CARICOM producers. Chinese spending on imports of these two sea foods grew by an annual average of 6% between 2001 and 2005 to reach 29.7million tons in 2005. However, CARICOM shrimp exporters made shipments of just US\$16,000 in 2005.

#### TOP IMPORTS FROM CHINA

Based on 2005 trade data, CARICOM's top imports from China included cargo vessels, tankers, floating docks, refined petroleum oils, footwear, tyres, T-shirts, garlic, and colour television sets.

Table 2: CARICOM's Top 10 imports from China in 2005.

| Product label  | CARICOM imports from China      |                     |                             | China's exports to World     |                     |              |
|--|---------------------------------|---------------------|-----------------------------|------------------------------|---------------------|--------------|
|  | 2005 import spending (US\$'000) | 01/05 import growth | annual % of CARICOM imports | China export sales(US\$'000) | 01/05 export growth | annual sales |
| Cargo vessels and other vessels for the transport of both goods and persons  | 76,101                          |                     | 21%                         | 2,811,636                    |                     | 24%          |
| Tankers  | 29,167                          |                     |                             | 1,104,251                    |                     | 34%          |
| Floating docks and vessels which perform special functions                   | 23,000                          |                     |                             | 184,316                      |                     | 26%          |
| Refined Petroleum oils   | 11,992                          |                     | 31%                         | 6,411,456                    |                     | 31%          |
| Footwear, outer soles/uppers of rubber or plastic                            | 11,065                          |                     | 12%                         | 4,301,991                    |                     | 18%          |
| New Pneumatic rubber tires for buses or lorries                              | 8,904                           |                     | 16%                         | 2,064,837                    |                     | 38%          |
| t-shirts, singlets and other vests of cotton knitted                         | 7,508                           |                     | 16%                         | 3,803,072                    |                     | 24%          |
| New Pneumatic tire of rubber for motor car inc station wagon and racing cars | 7,145                           |                     | 39%                         | 1,217,023                    |                     | 66%          |
| Garlic, fresh or chilled   | 6,212                           |                     | 12%                         | 562,479                      |                     | 25%          |
| Colour televisions receivers   | 5,693                           |                     | 86%                         | 5,850,911                    |                     | 41%          |
| Total  | 616,520                         |                     | 24%                         | 761,953,410                  |                     | 31%          |

Source: International Trade Centre, Trade MAP Database ([www.trademap.net](http://www.trademap.net)) downloaded 27/02/2007.

Re-exports of cargo and other sea-going vessels topped the list of Chinese imports. They are non-competing in the sense that they do not displace local industry. Available trade data also suggests CARICOM may have found China as a new source for imports of drilling docks and tankers.

Not so long ago, CARICOM was a major T-shirt exporter. However, the industry nosedived after an exodus of mostly Asian textiles producers who had invested in the region. The trigger was the dismantling of the Multi-Fibre Agreement which removed guaranteed quotas for CARICOM apparel exports to major international markets. Consequently, CARICOM is now a major importer of T-shirts from China.

Against the backdrop of the aforementioned change in trade policy regarding textiles, plus China's admission to World Trade Organization (WTO) membership, there was an average annual 16% rise in CARICOM import demand for T-shirts from China between 2001 and 2005. Over the said period, Chinese exporters of footwear and garlic achieved significant penetration of the CARICOM market. In 2005, CARICOM sourced 57% of footwear imports and 43% of garlic imports from China.

The top 10 Chinese exports to CARICOM – listed in the Table 2 - are mostly in non-competing categories (i.e. products which are not produced in the region) and outside of government revenue considerations. These product categories represent possible investment opportunities which CARICOM can explore with China to establish capacity to produce some of the said items in the region. Some of these investments can take the form of joint ventures where feasible and, as such, provide opportunities for regional businesses as well.

### **DYNAMIC EXPORTS AND IMPORTS**

Among the most dynamic CARICOM exports to China during 2001 to 2005 were aluminum oxide, tropical hardwood logs, bitumen/asphalt, aluminum waste/scrap and copper waste/scrap. Overall, there was robust Chinese demand in these product categories. The country's total spending on global imports of aluminum oxide grew by 14% per annum between 2001 and 2005, tropical hardwood logs - 137%, bitumen/asphalt - 23%, aluminum waste/scrap - 24% and copper waste/scrap - 14%. This trend suggests these dynamic exports from CARICOM into China can have longstanding import demand and are hardy business opportunities for future trade.

On the other hand, the most dynamic imports into CARICOM from China over the 2001 to 2005 period included refined petroleum oils, pneumatic tyres, colour television sets, motorcycles with reciprocating piston engines displacing >50cc to 250 cc, air conditioning machines window or wall types (self contained), sacks/bags of polymers of ethylene, structures/parts of structures of iron steel, metal furniture, wooden furniture, candles/tapers and the like, fireworks, trunks/suitcases, woven fabrics of textured polyester, men's/boys' trousers/shorts of synthetic fibres knitted, padlocks of base metal, bed linen and rubber/plastic footwear.

### **CARICOM'S TRADE COMPETITIVENESS**

In assessing CARICOM's trade competitiveness in the Chinese market, it is useful to note that CARICOM countries enjoy no trade preferences into China. However, members of the nearby ASEAN trade bloc (i.e. Myanmar, Brunei, Vietnam, Philippines, Thailand) do.

Table 3: Trade Competitiveness of CARICOM's Top 10 exports to China in 2005.

| Product label                                       | CARICOM export price (US\$/ton) | China import price (US\$/ton) | China MFN import duty | Cheapest import duty | Cheapest exporter(\$/ton) |
|---|---------------------------------|-------------------------------|-----------------------|----------------------|---------------------------|
| Aluminum Oxide                                      | 386 (JA)                        | 370                           | 5.5%                  | 5.5%                 | Azerbaijan(308)           |
| Logs, tropical hardwood nes                         | 557(GY)                         | 557                           | 0%                    | 0%                   | Thailand(555)             |
| Lumber, tropical hardwood sawn lengthwise > 6mm     | 804(GY)                         | 804                           | 0%                    | 0%                   | Papua New Guinea(802)     |
| Bitumen and asphalt                                 | 361(TT)                         | 85                            | 8%                    | 5%                   | Venezuela(83)             |
| Ferrous waste/scrap of iron or steel                | 250(JA)                         | 238                           | 0%                    | 0%                   | P.R. Korea(100)           |
| Waste and scrap of aluminum                         | 1,253(JA)                       | 811                           | 0%                    | 0%                   | Rep. of Korea(548)        |
| Logs, non coniferous                                | 327(GY)                         | 327                           | 0%                    | 0%                   | 327                       |
| Poles, piles etc, coniferous, pointed but not sawn  | 298                             | 529                           | 8%                    | 5%                   | Japan(293)                |
| Electric conductors for a voltage >80v to <=1,000 v | 1,319                           | 5,493                         | 6%                    | 0%                   | Israel(1,429)             |
| Copper-zinc base alloys, unwrought                  | 1,749                           | 2,319                         | 1%                    | 0%                   | Kyrgyzstan(1,391)         |

*Source: International Trade Centre, Trade MAP Database ([www.trademap.net](http://www.trademap.net)) downloaded 27/02/2007. Note: MFN refers to "Most Favoured Nation" duty or that duty applied to all trading partners that do not receive any preferential treatment (i.e. duty relief schemes).*

Despite enjoying no preferences with China, CARICOM exporters are competitive in a number of product categories. As can be seen in Table 3 above, exporters of electric conductors, etc. made shipments worth US\$604,000 in 2005 at a per unit value of US\$1,319 per ton. On average in 2005, Chinese importers paid US\$5,493 per ton for similar purchases from other sources.

Just by focusing on the Chinese market, CARICOM exporters stand a good chance to significantly increase export sales if only by negotiating better sales prices (assuming quality and other standards are homogenous). CARICOM producers of electric conductors are price competitive even in comparison with China's cheapest supplier, Israel, which exports at US\$1,429 per ton which is \$100 higher than CARICOM suppliers. So, even with the 6% duty charged, CARICOM exporters can compete for greater export sales of electric conductors.

In the case of another product, bitumen/asphalt, CARICOM exporters are gaining market share even though Venezuela is the cheapest source at roughly US\$83 per ton. In 2005, Trinidad & Tobago exporters supplied Chinese importers with asphalt at US\$361 per ton, and still managed to grow export sales by 77% despite being more expensive and an 8% tariff applied at the border. Because this product is apparently not price sensitive, it seems another export category where CARICOM can compete. However, a reduction of the tariff would make the CARICOM product more attractive for importers in China.

One can probably summarize that in the case of China, price is not the main issue impacting on whether regional exporters can land export contracts since there are many instances of CARICOM exporters making inroads into the Chinese market, even with prices over 4 times the average market price.

## CHINA'S IMPORT REGULATIONS AND CUSTOMS DUTIES

### Regulations

Only companies or institutions authorized by the Ministry of Foreign Trade and Economic Co-operation (MOFTEC) are allowed to carry out international operations. There are two possibilities: either companies of foreign trade or productive companies are entitled to trade on an international basis (import for their personal use conditioned by steady flows of exports). There are currently about 9,000 companies authorized to carry out foreign trade operations in China (compared with 14 in 1979).

More than half of the imports entering China are subject to import licenses. The initial license is issued by various organizations according to the product, but the final license is granted by the MOFTEC. In order to obtain these licenses, the importer must hold an exact reserve of foreign exchange and prove that the import is necessary. The grant of licenses often depends on the domain of activity, being able to be encouraged, allowed, restricted or simply forbidden, according to the rule of investments promulgated by China. The criteria to establish these quotas are not public and it is extremely difficult to get information on this matter.

### Customs duties

China applies the Customs Harmonized System (on the basis of the international 6 figure key). Customs duties are calculated ad valorem on the CIF value and reached an average 22.1% at the end of 1999. The duties can vary from 3 to 80% depending on whether the imports are encouraged or not by the authorities (imports of motorcars, for instance, are discouraged by the authorities).

### Import taxes

There was previously a single tax called the CCIT (Commercial Consolidated Industrial Tax), but it has now been replaced by three taxes based on the turnover. There are five Special Economic Zones (SEZ): Shenzhen, Zhuhai, Shantou, Xiamen and Hainan. Companies located inside these zones benefit from preferential rates. Imports enter under a special license: the Certificate of Approval for SEZ Imports. Imported goods must be intended for producing merchandise meant for export and cannot be sold in China without agreement of the government.

### Distribution

Formerly dominated by a state-controlled system, rules governing the management of trade are not well structured in China. The main business areas in the country are located around Shanghai, Beijing, Guangzhou and Hong Kong. Hong Kong will maintain its status as a free-trade port for 50 years from the date of its reunification with China. In fact, it is the preferred port of entry of goods into the Chinese market of 1.3 billion consumers.

### The Business to Consumer (B to C) market

Disparities exist between urban and rural areas in China: the eastern part of the country accounts for 75% of total export sales. In addition, there are noticeable differences between the urban and rural populations: whereas the former has a per capita income of US\$800, the latter has an income of only US\$270. Retail distribution is well-developed in large cities and towns; hypermarkets are growing strongly in the majority of large Chinese cities and reached 39,089 in 2003.

The mass market is dominated by large Asian groups such as Shanghai Bailin which has 5,000 points-of-sale with a turnover of 6.8 billion euros. However, foreign groups have also successfully settled in China such as Carrefour which is the 5th largest distributor. It opened its 65th hypermarket in September 2005. Other main hypermarkets in the country are: Wal-Mart (55 points-of-sale with a turnover of 307 million euros), Tesco and Park'n shop. In rural areas, traditional trade is still of considerable importance because foreign firms are not yet established there. This could be another opportunity for Caribbean business.

As usual, we invite your feedback. Comments can be emailed to us at [privatesector@crnm.org](mailto:privatesector@crnm.org). Meantime, you are welcome to visit us on the CRNM web site at <http://www.crnm.org>.