

The Impact and Mechanism Research of China's Foreign Trade by the Global Financial Crisis

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Abstract: This paper emphatically analyses the impact of China's foreign trade by the global financial crisis from the import and export scale, corporate finance, trade friction and explores its mechanism from the demand, exchange rate, the price, trade policy, then on this basis puts forward the corresponding Suggestions.

Keywords: financial crisis; China's Foreign Trade; influence; mechanism;

1. Introduction

The global financial crisis in 2008 caused the world economic growth showing a slowing trend and gave the world trade a great impact. To china, a highly dependent on international trade in the process economic development, its foreign trade was unavoidable affected. In this context, to promote the stable and rapid development of China's economy, researching the impact and mechanism of China's foreign trade by the global financial crisis has important theoretical and practical significance.

2. The Impact of the Global Financial Crisis on China's Foreign Trade

2.1. Import and Export Scale Fell Sharply and the Contribution of Net Exports to GDP Dropped

Since the accession to the WTO, the relationship of China's economic with the world economy has become more and more closely. The Chinese economy is increasingly integrated into the global economy. Foreign trade continued to grow rapidly in 2002-2007. It is more than 20 percent for six consecutive years. The growth rate of China foreign trade gradually was declined by the impact of the subprime mortgage crisis.

After the outbreak of the international financial crisis in September 2008, the downward trend further accelerated into negative growth in November, which caused China's import and export trade to the first negative growth in seven years (China import and export trade last negative growth was at the 2001, Asian financial crisis). According to Chinese customs statistics, the growth of China's exports in the fourth quarter of 2008 was increased by only 4.4 percent. The growth rate of total imports and exports in 2008 dropped to 17.8%. After entering 2009 the scale of China's import and export declined further by the impact of international financial crisis consistently worsening and spreading, for 10 consecutive months of negative growth. It happened 13.9% the largest negative growth in 30 years since reform and opening up throughout the year.

China's economy is in increasingly close contact with the international economy, at the same time, the contribution of external demand to economic growth is also rapidly expanding. We use the expenditure approach to measure the contribution of net exports to GDP. The average contribution is 1.3 percentage

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points and the contribution rate is 12.4% from 2002 to 2008. Especially the average contribution is 2.0 percentage points and the contribution rate is 18.1% from 2005 to 2008. However in 2009, import and export contribution to GDP is minus 3.9 percentage points, showing that the decline in import and export scale would undoubtedly affect the Chinese steady and rapid development.

2.2. Foreign Trade Enterprise's Financing Were Difficult

The international financial crisis caused the trade finance environment extremely harsh. It was estimated that international trade, about 70% -90% transact was by trade finance. Trade finance had a great multiplier effect on trade. Therefore, trade finance would directly affect the changes in world trade. Since the U.S. subprime mortgage crisis in 2007, more than 70 percent of the bank had raised the price of the letter of credit and 90 percent of banks had raised the price of credit. While 90% of the current international trade based on cash and short-term credit basis. Bank credit crisis had led to trade financing more difficult, a direct impact on the development of international trade. Moreover, some foreign financial institutions as the main body of trade finance business itself had been plunged into crisis. Many financial institutions in Western countries faced the plight of the bankruptcy, an increasing number of *problem banks*. Since the financial crisis happened, China had stepped up efforts to the financing of enterprises. From 2009, China has implemented a proactive fiscal policy and moderately loose monetary policy. Currency credit has grown rapidly; the liquidity of the banking system is ample. For example, in the second quarter of 2009, the liquidity sentiment index of large enterprises in Hubei Province rose to 111.8, but the small business's dropped to 68.7. It had become the liquidity shortage period in recent years.

2.3. The Profits of Foreign Trade Enterprises Were Coming Down and Unemployment Was Going Up

The profit margins of Chinese foreign trade enterprises continued to be narrow by the worsening global financial crisis spread, international trade protectionism, and appreciation of the RMB and other factors. The same time Chinese foreign trade enterprises exist many questions such as part of the foreign trade enterprises lack of industry self-regulation, the existence of vicious competition among enterprises, lack of investment in R & D, technology, advanced equipment, weak capacity for independent innovation, export products being labor-intensive products, the technical content not high, lack of integrity, only concerted immediate benefits, not paying attention to their own image and other problems, coupled with rising labor costs and environmental costs, the profit margins of foreign trade enterprises continued to narrow. Its survival became more and more difficult. Many businesses were forced to shut down or lay off employees... Under the weight of the global financial crisis, more than 670,000 small businesses were forced to close in 2008, and about 6.7 million jobs were evaporated. The report released by the Chinese Academy of Social Sciences said that China's urban unemployment rate climbed to 9.4 percent, employment difficulties in the proportion of the 6.1 million college graduates in 2009 may account for 1/4.

2.4. Trade Protectionism Was Rising

Due to the impact of the financial crisis on global trade, countries were expected to protect their own economy by stimulating domestic demand and import substitution etc. trade protectionism became the first choice of national trade policies and measures. In foreign trade, China was mostly exporting labor-intensive, low value-added and easily substitutable products, so Chinese products bore the brunt of the national trade barriers. The world trade organization data show, anti-dumping investigation number initiated in 2008 than 2007 increased the 39 percent over the same period .A new implementation of the anti-dumping measures compared to 2007 also increased 6 percent, while China still was the main target of the other WTO members initiated anti-dumping investigation. The new anti-dumping investigations initiated in the first half of 2008 were 85. 37 against Chinese exports, accounting for 43% of the total number. China implemented new anti-dumping measures more than any other country. 13 times of the 54 new measures was against Chinese exports. In addition, in the field of technology trade, the more countries setting up ultra-rigorous standards made Chinese exports facing a severe test. For example, Norway proposed the PoHS regulations disable certain dangerous chemical substances in consumer products. New Zealand improved children's nightwear labeling standards. Therefore, under the influence of the financial crisis, limiting the means and rules would become increasingly severe to china foreign trade. China faced more complex trading environment.

3. The Mechanism of The Global Financial Crisis on China's Foreign Trade

3.1. The Demand Effect

From the point of Export demand's view, since China's accession to the WTO, foreign demand in the role of China's economic growth has become more and more prominent. The global financial crisis led global economic grow slowdown. The world economic slowing down would lead to the demand of China's main export country reduce. According to the IMF World Economic Outlook report, the 2008 global economic grew 3%. It was a decrease of 2 percentage points more than in 2007. In 2009, world economic growth declined to -0.8%, -2.5% in the U.S., -3.9% in the euro area, -5.3% in Japan. The financial crisis caused a more severe recession in U.S., EU and Japan and other developed countries, resulting in reducing GDP, rising unemployment, lowering per capita income. In the United States, the projections of the authority indicated that U.S. economic growth every one percentage point reduced due to the financial crisis, China's export growth will be reduced by 5 percentage points, while import growth rate of the United States from China would eventually decrease 6 percentage points. Therefore, the contraction of external demand result in exports reduced.

From the point of import demand's view, on the one hand, China focused on the development of export-oriented economy. Many enterprises imported raw materials, components, etc. to produce products and then sold back to the foreign. The reduction in export demand had also led to imports of scale decrease; the other hand, many enterprises due to the narrow export market focus on from the previous export to domestic sales. Xu Kunyuan, the China textile industry Association vice president on the Chinese garment Industry Development Forum in May 2009 disclosure that by the impact of financial crisis, the 80% export of export enterprises in Chinese garment industry changed into domestic sales. The increase in the supply of domestic goods was bound to have a squeeze effect on import related goods.

In addition, the global financial crisis affects consumers' expectations. In the global economic downturn, the domestic consumer demand would decline.

3.2. The Exchange Rate Effect

The exchange rate is the price of one currency expressed in another currency. The frequent fluctuations of a country's currency exchange rate are bound to affect a country's foreign trade carried out smoothly. Response to financial crisis, governments adopted different policies, such as the Fed continued to low interest rates, which injected liquidity to the banks, but this was a contradiction with the 2001-2008 China's tightening domestic monetary policy. The U.S. dollar interest rates decreased, RMB interest rate increased. Which caused RMB interest rate much higher than the U.S. dollar interest rates, resulting in a lot of hot money inflow into China, that accelerated the dollar depreciation and RMB appreciation, and thus the price advantage of Chinese exports further decrease. Exports to the U.S. experienced serious challenges. For industry and trade structure, the price advantage was still one of the most important factors in the formation of China's export competitiveness of enterprises. The erosion of RMB appreciation on the price of competitive advantage for Chinese exports had always been a big threat. And increasing the exchange rate risk of foreign trade enterprises could not avoid.

3.3. The Price Effect

Since the U.S. subprime mortgage crisis, the international market prices fluctuations, especially raw material price fluctuations were big. Price volatility was not conducive to the development of export industries. Substantial price fluctuations would cause more serious impact to the export enterprises. In the first half of 2008, Chinese special steels such as copper, aluminum and other nonferrous metals and silicon steel were in high-priced running state. To copper, for example, in February and March 2008, the price was 65750-66200 Yuan per ton. It dropped to 32,400 Yuan in October, below the 30,000 mark in December, dropped to below 25,000 Yuan. The biggest decline was in more than 65 %; to aluminum, for another example, 19,650 Yuan per ton in March 2008, fell below 14,000 Yuan in October, November to 13,130 Yuan, 10,550 Yuan in December. The biggest decline was as much as 46%. Many electrical companies (such as cable companies) which undertake a large number of orders in the high price of the raw materials, and purchased raw materials ahead of schedule considering the production cycle, encountered this raw material

prices significantly decline in a short period of time, so it fell completely into a passive position. The stock material has shrunk, more serious in the plunge of the prices of raw materials, a large number of users that would rather give up the advance payment paid to the supply side tear up the original order contract, which made the supply suffer huge losses. That raw material price rises and falls is extremely detrimental to the healthy development of export business and industry.

3.4. The Trade Policy Effect

Foreign Trade Policy is a behavior in its overall goal of socio-economic development strategy, a Government uses economic, legal and administrative means to manage and regulate foreign trade activities. It is a general of a country's economic and political relations policies and measures to foreign country. And it is part of the superstructure. Externally, it is to serve a country's external economic and political policies; internally, for the development of economic services, change with the changes of domestic and foreign economic base and political relations. Its purposes are to protect their own markets, expand the market of national exports, adjust domestic industrial structure, accumulate capital and funds and develop their own foreign economic etc. The combined effect of financial crisis made economic growth in many countries declined, domestic consumption weak, business investment declined, profits fell. It is bound to be reflected on a country's trade policy, fuel protectionist sentiment. In the United States, on the one hand, America's huge trade surplus between China and the United States on the grounds, forced the RMB exchange rate appreciation; the other hand, the protectionist sentiment in the United States further intensified. It was in the name to protect consumers, labor and the environment, to be trade protection in reality. Chinese steel pipes, Chinese tires, Chinese coated paper, U.S. chicken, auto parts, America's proposed carbon tariffs etc. were events as evidenced. At the same time the means of trade protection in the United States was reconditioned, such as green barriers, technical barriers, and anti-dumping and intellectual property protection.

4. Some Effective Action to Keep a Lookout of the Global Financial Crisis

4.1. Continuing to Take Effective Measures to Promote Domestic Demand Growth and Effectively Change the Mode of Economic Development

Contribution to GDP growth in China in 2009, the three major demands, the pull of final consumption to GDP was by 4.6 percentage points. Capital formation, stimulating the GDP was by 8.0 percentage points. The pull of net exports to GDP was -3.9 percentage points. From the data, the highest contribution rate is investment, the pull of economic growth is also the largest, followed by the final consumption and net export plays a drag effect. The two major domestic demands are the key to promote the Chinese economy out of the global financial crisis. Of course, this is mainly due to the timely and effective manner, a package to stimulate the economy plans. At present, to expand domestic demand is still particularly important. We need to further improve the contribution of the consumer demand to GDP .on the one hand, it will help to change our growth pattern of over-reliance on exports and investment, improve the mode of growth,; on the other hand, to increase consumption, to reduce the high level of savings will help to narrow the trade gap, reduce the trade surplus, thus ease the pressure of RMB appreciation.

4.2. Enhancing the International Competitiveness of Export Enterprises

In response to the crisis, the country has taken a series of measures, such as continuous increasing the export tax rebate rate and export subsidies used to increase the profits of foreign trade enterprises to prevent its collapse; supporting competitive enterprises in the import and export taxes and foreign exchange management, encouraging and supporting the financing activities of export credit, trade finance and trade insurance policy banks. In the coming period, the countries need to strengthen the support of the export policy, such as encouraging independent innovation, cultivating products with independent intellectual property and international competitiveness, and promoting the structural optimization of export products; enhancing export enterprises production capacity and competitiveness, and help enterprises to restore their confidence, out of the woods.

4.3. Steadily Improving the RMB Exchange Rate Formation Mechanism and Reducing the Trade's Exchange Rate Risk

In the future, the People's Bank of China will continue to evolve based on market supply and demand with reference to a basket of currencies, a managed floating exchange rate regime, continue to follow the initiative, controllability and gradual progress in the principle. And maintain the RMB exchange rate at a reasonable and balanced level the basic stability. Relevant departments should prudently and flexibly grasp the RMB exchange rate fluctuations, do properly risk warning to prevent shifting the crisis by exchange rate movements, to mitigate exchange rate risk to the negative impact of China's export enterprises. It also can reduce the risk of exchange rate on trade from the long-term perspective by accelerating the process of RMB regionalization, internationalization, speeding up the ways to promote the RMB settlement pilot, and gradually increasing the scope of application of the RMB settlement in China's foreign trade.

4.4. Strengthening the Communication and Coordination of all Levels to Effectively Resolve the Foreign Trade Friction

Actively responding to international trade friction, the government should assume the strategic lead, such as macroeconomic coordination, consultation and communication, information transfer, to maintain high-level economic dialogue between the major countries, actively promote the process of global free trade negotiations, advocate international trade system reform, strengthen the supervision of the policy of trade protection in developed countries, and create the atmosphere of public opinion against the trade protection. Industry should assume the concept of coordination, communication, coherence, and hold together for warmth and other aspects of a link, to provide enterprises with effective and timely consulting services to help export companies familiar with the trading partner, industry, trade policies, laws and regulations. To avoid disadvantages and trade disputes. Enterprises should take up the proficient rules, scientific management; manage enterprises according to the law, integrity management model and the main force to curb low-cost sales and vicious competition. For the export tax rebate policy currently in place, should not fluctuate significantly, in order to avoid an adverse impact on enterprises' normal production and operation, and to avoid a substantial increase to the part of the export price cuts Competition of the space, the increase may lead to trade friction.

4.5. Participating in Regional Economic Integration and Strengthening International Economic Cooperation

For a long period of time, the countries which do not participate in any regional integration of countries in international trade will be faced with increasing difficulties. To China, if it continues to divorce from regional economic cooperation, it will be discriminated, and then will face the existing market diverted by members of the region and the risk of difficulty to open new markets. Under the surroundings Blocked in the process of liberalization of world trade and new trade protectionism, strengthening cooperation to promote regional economic integration will help create a stable international trading environment. Therefore, only through active participation in regional economic cooperation which the Free Trade Area is as the center, china can expand the share of Chinese goods on the world market. Compared with the 1998 Asian financial crisis, it is because china participating in regional economic integration that China's response to the financial crisis was significantly improved. It is not only to promote two-way trade between China and relevant countries, but also to reduce trade disputes. In addition, in the era of globalization, any country must comply with in coordination with the international community, symbiotic win-win principle, and only considering their own development, regardless of the interests of neighbors will surely fall into the isolated position. Development of foreign trade and economic relations should always adhere to the principle of mutual benefit, and let the international community deeply feel the pragmatic results. The maintenance of international trade security is inseparable from the international community to work together in cooperation and development, also needs to seek security through cooperation, and goes the road of *cooperative security*.

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