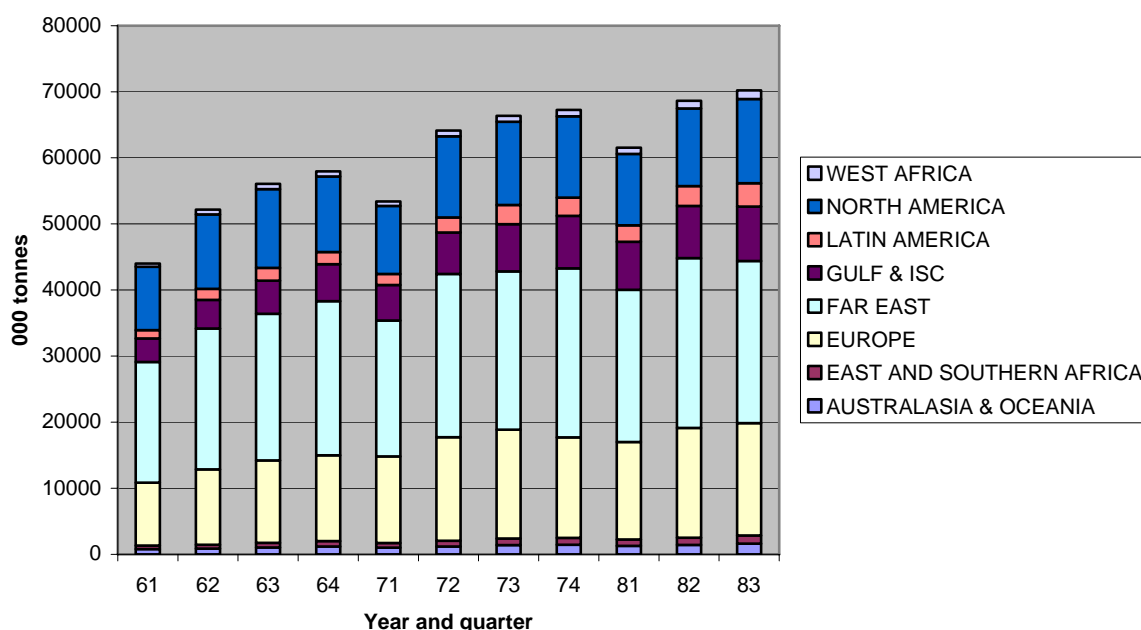


China's trade – lessons from third quarter 2008 trade statistics

MDS Transmodal's estimates of China's trade in unitised tonnes, based on statistics recently released from China, show some interesting developments in China's trade with the rest of the world. In the first 9 months of 2008 China's estimated total containerised exports (based on a consistent 'basket of goods' approach to examining underlying trends in containerised trade) amounted to 200 million tonnes; this represents a 9% growth over the same three quarters of 2007 but is less than the 21% growth between the first three quarters of each of 2006 and 2007. Imports exhibit a similar pattern: slowed growth to 4% between 2007 and 2008, down from 12% between 2006 and 2007. However, overall growth in the third quarter has disappeared.

China's trading partners are maintaining broadly similar shares of its total exports relative to each other but with noticeable trends emerging, as shown in the chart. The largest trading partners in terms of absolute volumes remain the Far East (35%), followed by Europe (24%) and North America (18%). However, the minor trading partners have all increased their much smaller shares with the most significant being Gulf and Indian Subcontinent (from 8% to 11%) and Latin America (3% to 5%). For these smaller trading partners the proportional increase is substantial.

Containerised exports from China; quarters from 2006 - 2008



As the table below shows, the minor trading partners continued to increase their receipt of China's exports, although the rate slowed into the second and third quarters of 2008 with the exception of West Africa.

The picture for North America is quite stark: less volume was imported in Q2 and Q3 of 2008 than the same quarters in 2007, although Q3 2007 shows only a slight dip. However this is not a significant difference from the previous pattern of 2006 versus 2007. Europe, in contrast, experienced significant increases for 2007 over 2006 but the position has weakened very considerably into 2008 with the third quarter showing a fraction of the growth of the previous year.

**Table 1: Chinese exports of containerised goods;
year and quarter percentage increases, 2006Q1 to 2008Q3**

	percentage growth; 2007 versus 2006			percentage growth; 2008 versus 2007		
	Q1	Q2	Q3	Q1	Q2	Q3
Australasia & Oceania	26	37	35	26	20	18
East and Southern Africa	36	48	42	37	26	21
Europe	37	38	32	13	6	3
Far East	13	16	8	12	4	2
Gulf and ISC	51	44	42	35	26	16
Latin America	32	38	50	50	32	21
North America	7	9	6	5	-4	1
West Africa	49	22	15	35	31	46
Grand Total	21	23	18	15	7	6

Source: MDS Transmodal estimates based on trade data from national statistics offices

We focus in the rest of this short paper on China's export trade with Europe and North America in more detail, to examine whether the impact of the global credit crunch and the resultant global economic slowdown, that all observers are commenting upon, is evidenced by actual trade patterns. If we compare the first 9 months of 2006 with 2007 and 2008 we see a 35% growth between the first two years which slowed to 7% by 2008 for exports to Europe. In the case of China's exports to North America: containerised tonnes grew by less than half a percent between 2007 and 2008, following the previous year's growth of 7%. However, whereas growth to Europe has been falling steadily; to 13%, 6% and 3% for Q1, Q2 and Q3 respectively, by contrast, trade to North America rose in Q3 (+1%) having experienced an absolute decline (- 4%) in Q2.

It is particularly interesting to explore differences in the behaviour of individual commodity groups that might shed some light on what is happening to trade. Clearly there are types of goods that relate to the building industry and the housing market and there are those could be regarded as important indicators for consumer spending. We concentrate on the top 20 or so commodity groups that account for over 80% of exports in both cases, and if we examine the tables (2 and 3) of indexed years and quarters for the most significant commodity groups there is a high degree of variability between them and no very clear evidence of trade plummeting, at least to the end of Q3.

The lines shaded in green represent commodity groups that might reflect housing and construction markets. Exports of mineral manufactures to Europe started falling in Q2 whereas exports of cork and wood manufactures and plumbing/heating/lighting goods only began falling in Q3. To North America, there was a decline across the board.

Commodity categories that reflect consumer items: clothing and accessories; footwear; telecom and recording equipment and furniture, are shaded in orange. Exports of textiles and footwear have both continued to grow to Europe and to North America. However, clothing to Europe showed a dramatic fall off in growth in 2007 Q2, which appears to have recovered by Q3 but 2008 shows less growth. North America has seen growth diminishing since the beginning of 2008. Telecom and recording equipment has continued to grow to North America and furniture, which declined in Q1 2007, has recovered to show some growth. Exports of furniture continue to show significant growth to Europe.

Table 2: Chinese exports to Europe; indexed on 2006

Unitised Tonnes		2006 = 100						
SITC 2 digit category	2007		2008		2007		2008	
	Q1	Q1	Q2	Q2	Q3	Q3	Q3	Q3
66 MINERAL MANUFACTURES	142	153	147	140	125	115		
69 METAL MANUFACTURES - OTHER	142	138	145	135	132	132		
89 MISCELLANEOUS MANUFACTURES	110	124	120	123	123	131		
77 ELECTRICAL MACHINERY	129	179	121	160	132	160		
78 ROAD VEHICLES	182	215	153	186	143	165		
67 IRON & STEEL	239	147	236	129	156	179		
65 TEXTILES & MADE-UP ARTICLES	128	172	121	160	134	156		
84 CLOTHING & ACCESSORIES	128	158	105	109	129	118		
05 VEGETABLES & FRUIT, NUTS	131	133	130	129	126	123		
74 GENERAL INDUSTRIAL MACHINERY	143	221	152	205	171	203		
76 TELECOM & RECORDING EQUIPMENT	227	273	219	273	283	260		
82 FURNITURE	99	151	103	140	128	138		
63 CORK & WOOD MANUFACTURES	177	178	166	172	157	136		
51 ORGANIC CHEMICALS	141	150	129	133	124	111		
85 FOOTWEAR	123	167	133	155	121	149		
81 SANITARY/PLUMBING/HEATING/LIGHTING	131	150	141	148	151	150		
52 INORGANIC CHEMICALS	127	128	110	117	97	116		
59 OTHER CHEMICALS	152	159	159	168	116	117		
72 SPECIALISED MACHINERY	172	315	169	354	196	245		
57 PLASTICS IN PRIMARY FORMS	163	168	168	165	127	108		
62 RUBBER MANUFACTURES	171	203	155	177	150	164		
TOTAL	137	155	138	146	132	136		
'consumer goods'								
'building materials'								

Table 2: Chinese exports to North America; indexed on 2006

Unitised Tonnes		2006 = 100					
SITC 2 digit category	2007	2008	2007	2008	2007	2008	
	Q1	Q1	Q2	Q2	Q3	Q3	
89 MISCELLANEOUS MANUFACTURES	110	112	112	108	115	109	
69 METAL MANUFACTURES - OTHER	107	85	110	80	99	86	
66 MINERAL MANUFACTURES	82	80	85	67	80	74	
78 ROAD VEHICLES	125	134	119	121	112	119	
82 FURNITURE	88	106	88	103	101	102	
77 ELECTRICAL MACHINERY	116	141	117	132	117	134	
76 TELECOM & RECORDING EQUIPMENT	217	229	178	226	168	189	
84 CLOTHING & ACCESSORIES	131	110	135	105	122	110	
27 CRUDE FERTILISERS & MINERALS	64	137	94	49	114	110	
65 TEXTILES & MADE-UP ARTICLES	107	125	100	118	110	124	
67 IRON & STEEL	103	72	103	72	78	95	
74 GENERAL INDUSTRIAL MACHINERY	114	122	125	139	129	144	
62 RUBBER MANUFACTURES	124	137	128	128	128	138	
05 VEGETABLES & FRUIT, NUTS	145	134	154	166	125	144	
52 INORGANIC CHEMICALS	92	86	123	129	85	124	
63 CORK & WOOD MANUFACTURES	115	105	104	83	98	78	
85 FOOTWEAR	119	134	113	129	112	147	
64 PAPER & PAPERBOARD	114	129	124	127	125	122	
75 OFFICE MACHINES & ADP EQUIPMENT	65	67	66	72	70	71	
81 SANITARY/PLUMBING/HEATING/LIGHTING	100	92	106	84	106	94	
51 ORGANIC CHEMICALS	115	135	115	142	99	104	
TOTAL	107	112	109	104	106	107	
'consumer goods'							
'building materials'							

The main lessons we can draw from these statistics are:

- 2008 third quarter statistics still show marginal growth in exports from China to Europe and North America – though much reduced from previous years
- Some important commodities such as clothing and accessories are evidencing continuing decline
- The crisis in the housing market in North America is still being evidenced in declining volumes of building materials being imported from China, and that pattern is now emerging to Europe.
- The curious growth of furniture and footwear from China into Europe may be evidence of increasing Chinese goods penetration in a recession environment, reflecting lowering transport costs as capacity chases demand and substitution to cheaper items in a climate of consumer nervousness over spending.