China lowers goal for trade growth

Costs of labor, materials and land pressure manufacturers

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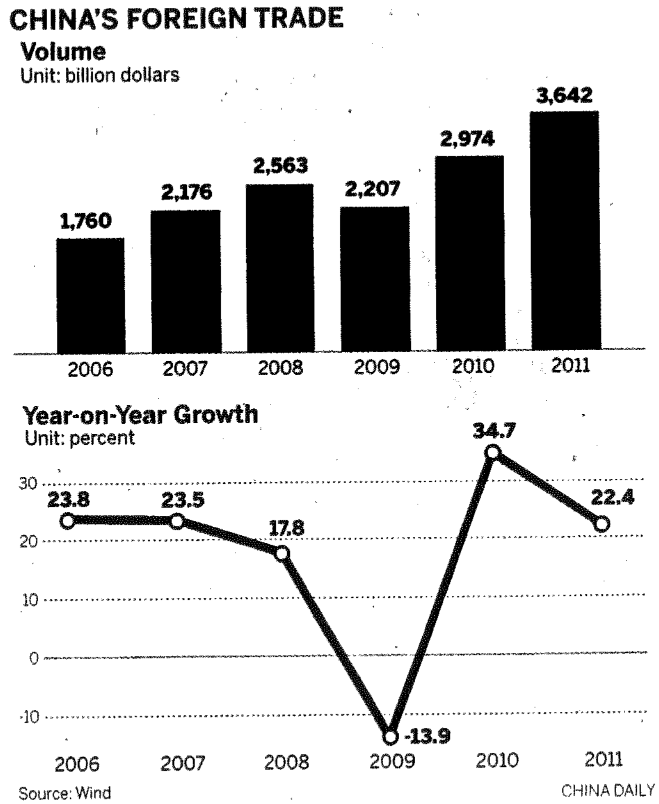
CHEN YEHUA / XINHUA

Visitors pass a ceramics booth at the China Import and Export Fair in Guangzhou, Guangdong province. The country aims for annual growth of 10 percent in its foreign trade in the coming years, well below the average of recent years.



COMMERCE

Reacting to slower world economic growth and rising domestic costs, China has set itself a lower goal for increasing its trade and says it expects a larger share of its trade to occur with emerging economies.

China said it expects its trade to increase by 10 percent a year and be worth $4.8 trillion by 2015, according to a trade plan for the country's 12th Five-Year Plan (2011-15) period. The plan, released on Thursday, did not set specific goals for exports and imports.

The new target is significantly lower than the rate trade increased at during China's 11th Five-Year Plan (2006-10), when it went up by 15.9 percent a year on average.

The lower expectation reflects the country's slower economic growth. The rating agency Moody's Investor's Service said in a Thursday report that China's real GDP growth will fall from the annual average increase of 10.3 percent seen in the past decade to somewhere in a range between 7.5 percent and 8.5 percent in 2012 and 2013.

Besides the world's grim economic prospects, modesty contributed to the plan's lower target, an official from the Ministry of Commerce told Xinhua News Agency.

"We reserved some room for growth when making the plan," said the official, who was not identified. "The target reflects the government's goal to have trade increase faster than economic growth and the world's average trade growth."

Li Yushi, vice-president of the Chinese Academy of International Trade and Economic Cooperation affiliated with the Ministry of Commerce and a guest economist for China Daily, said China's growing economy is another reason why it will be difficult to maintain the previous rate of increase.

Its rising labor, raw materials, energy and land costs are also putting Chinese manufacturers under more pressure, the plan said.

"Chinese enterprises, especially those in traditional industries and small and middle-sized businesses, face diminishing cost advantages, weakening external demand and capital shortages, and are caught in the dilemma of surviving and upgrading products and moving up the value chain," the plan said.

The plan foresaw demand remaining weak as a result of lackluster growth among big economies. China's trade with developing countries, meanwhile, is expected to go from 53 percent of its total trade to 58 percent by 2015.

The plan also said China will urge developed countries to loosen the controls they place on exports of high-tech products, and import more energy, resources, raw materials and advanced equipment.

To that end, the plan called for reductions in tariffs charged on energy, raw materials, essential components and advanced equipment, and for "appropriate" tariff reductions on consumer goods.

To increase exports, the plan said, the government will consider reforming its tax rebate system.

Currently, local governments are partly responsible for providing the rebates. That system, at times, gives rise to a discrepancy between local governments' rights and obligations.

The plan also encouraged domestic enterprises to move into the upstream of the supply chain. Enterprises are encouraged to take on more clout in the international pricing of energy, resources and commodities.

Economy still being buffeted, ministry warns

By TUO YANNAN and WANG XIAOTIAN

The economy still faces downward pressure and domestic and external situations are "grim" as industrial output posted its slowest growth in nearly three years, the Ministry of Industry and Information Technology warned on Wednesday.

Difficulties faced by companies and the consequences of sustained "sluggish" external demand should not be underestimated, Zhu Hongren, the ministry's chief engineer, said.

Industrial output grew by 11.6 percent year-on-year in the first quarter of 2012, the slowest growth since July 2009, according to figures released by the National Bureau of Statistics.

The figure hit 20 percent a year ago.

China's economy expanded 8.1 percent in the first three months from a year earlier, the smallest expansion in almost three years and the fifth straight quarterly deceleration.

Data this week showed manufacturing may shrink for a sixth month in April and a leading index rose in March at a slower pace, adding to evidence growth is moderating.

Chinese companies are facing increasing operational difficulties, the ministry said. Higher electricity and fuel prices are pushing up costs and average wages across the nation this year may increase by 20 percent, it said.

The ministry said in December it would set an industrial output growth target of about 11 percent for this year, the same goal as 2011 when production actually expanded 13.9 percent.

The lower target will ease environmental pressure which was caused by rapid economic growth and induce industries to produce higher quality products, Zhu told a news conference organized by the State Council Information Office.

"We need to pay more attention to the possibility that the economy might weaken further," Zhu said.

To propel the growth of small and medium-sized enterprises (SMEs), the State Council introduced a package of supportive measures in February.

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However, rising costs and difficulty in securing finance are still causing problems for firms. Increasing labor costs will further squeeze margins as "the average salary is predicted to rise 20 percent this year", Zhu said.

China has more than 10 million SMEs, accounting for more than 95 percent of the country's companies.

They are responsible for about 80 percent of national employment and 60 percent of GDP, according to data from the All-China Federation of Industry and Commerce.

The end of last month saw loans extended to the industrial sector, with a maturity of more than one year, increase by 7.3 percent year-on-year. But this increase was 2 percentage points lower than three months earlier, according to data released by the People's Bank of China on Wednesday.

New lending to SMEs, in the first three months of 2012, hit 153.2 billion yuan ($24 billion), 69.7 billion yuan less than a year earlier.

Growth in outstanding middle and long-term loans to heavy industries declined by 3.3 percentage points from the end of 2011.

Zhao Xijun, deputy head of the School of Finance at Renmin University of China, said liquidity demand from enterprises remained weak, and the government should strengthen efforts to guide capital flow to the right sectors instead of injecting more liquidity into the overall market.

Despite sluggish growth, Zhu said industrial output growth is showing signs of acceleration.

"Production is picking up in the second quarter from the first quarter," he stressed.

"The fundamentals of our industrial sector development remain good. We still have sustainable growth potential and the downward pressure is under control," he added.

Zhu also mentioned that external demand continued to weaken and domestic demand remained basically stable.

Wu Yiyao in Shanghai contributed to this story.