

China trade surplus hits record

U.S. accounts for two-thirds of \$26.9 billion figure; more criticism of currency policy seen.

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BEIJING (Reuters) -- China posted a record trade surplus of \$26.9 billion in June as exporters rushed shipments ahead of tax rebate cuts, handing more ammunition to critics who say Beijing's weak currency gives it an unfair trade advantage.

The result, which easily surpassed economists' expectations of a \$24 billion surplus, was much higher than the previous monthly record of \$23.8 billion, set last October.

Economists said the surge was due at least in part to firms seeking to fill orders before July 1, when value-added tax rebates on more than 2,800 export products were either reduced or scrapped as part of Beijing's efforts to trim the surplus.

But analysts also noted that the most recent result was in line with a series of large monthly surpluses so far this year. The overall surplus for the first six months came to \$112.5 billion, 83 percent more than in the same period last year.

The United States, one of the harshest critics of China's yuan policy, accounted for about two thirds of the figure.

"This level of trade surplus is unprecedented for China or any other major economy in the world," said Hong Liang with Goldman Sachs in Hong Kong, estimating that the surplus would equal about 8 percent of gross domestic product for that period.

"This again highlights the ineffectiveness of the policy tinkering that have so far failed to tackle the root cause of China's bloated trade surplus: the significantly undervalued currency," Liang said in a note to clients.

In addition to the recent cuts in tax rebates, authorities have imposed new tariffs on products whose exports they want to discourage. In an effort to curb capital inflows resulting from the booming trade surplus, they have also stopped providing incentives to firms to remit their forex earnings.

But there is mounting pressure, particularly from Washington, for Beijing to do more to let the yuan appreciate further in order to end what many critics say is an unfair trade advantage.

The yuan has risen by about 6.9 percent against the dollar since it was revalued by 2.1 percent and decoupled from a dollar peg in July 2005, but many analysts say that is not enough.

The currency hit its highest level since the revaluation Tuesday and recorded the highest one-day gain in a month.

Gradual slowing

China's surplus with the United States in the first half reached \$73.9 billion, the Customs Administration said on its Web site.

Zhang Yansheng, a director at the Institute of International Economic Research in Beijing, a think-tank affiliated with the top economic planning agency, said he thought the recent measures would start to bear fruit in the second half.

Annual export growth in June hit 27.1 percent, while imports grew by 14.2 percent. Economists had expected increases of 28.2 percent and 20 percent, respectively.

Xue Hua, an analyst with China Merchants Securities in Shenzhen, said that the recent quickening in yuan appreciation, along with the recent curbs on exports, would take hold - but only gradually.

"You will see a significant change in growth in the trade surplus in the fourth quarter or next year," Xue said.

However, Goldman Sachs's Liang said she did not expect any significant slowing in export momentum in the near future, as the dampening effects of the export rebate adjustments would likely be offset by stronger momentum in global industrial output.

Jun Ma, China economist with Deutsche Bank in Hong Kong, said that while imports could increase on the back of rising oil prices, it was likely that monthly surpluses in the range of \$15-20 billion could be sustained for the rest of the year.

That would probably translate into a significantly larger surplus for the full year than last year's \$177.5 billion. The surplus in the 12 months to June reached \$229.2 billion, up from \$216.6 billion in May.