

## China's trade surplus 'unsustainable'

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Published: June 11 2007 17:09 | Last updated: June 11 2007 17:09

China's ballooning trade surplus was on Monday described as "unsustainable" by the European Union's trade chief after figures showed it had risen by almost 75 per cent, year on year, in May.

Peter Mandelson, the trade commissioner, said he would demand action from Bo Xilai, China's commerce minister, when they met on Monday after Beijing said the surplus had grown strongly in May to \$22.45bn (£11.41bn, €16.82bn), a 73 per cent increase on the same period last year.

Echoing US officials, he said the figures would add weight to mounting protectionist pressures in the west.

The US Congress is considering legislation to force a speedier revaluation of China's currency, while there are calls for new curbs on textiles and steel imports in Europe.

The Chinese Customs Bureau said exports rose in May by 28.7 per cent year on year, while imports were up by 19.1 per cent over the same period. In the five months to May, China's trade surplus reached \$85.76bn, 84 per cent higher than in the same period in 2006.

China's business with the developed world is growing fastest with Europe, where bilateral trade grew by 29 per cent year on year in the five months to May. Mr Mandelson said it was increasing by €15m a second and would hit €170bn by the end of the year, with skewed government policies responsible for much of that growth.

Unnecessary customs regulations and protection of China's domestic services market were unacceptable, he said. Only six of 20,000 telecommunications licences had gone to foreigners, for example.

Beijing has said for more than a year that it wants "more balanced" trade, but none of the numerous measures it has taken gradually over the past 12 months to discourage exports has had any substantial impact.

Beijing has cut a host of small incentives for overseas sales, such as tax rebates and, in a number of product categories, including some steel products, it has even imposed export taxes.

The measures have been unable to tame an export machine driven by a powerful combination of low cost of capital, lax environmental and regulatory controls and a burgeoning entrepreneurial class, with greater freedom to do business offshore than ever before.

Mr Mandelson said Beijing had not done enough and relations were "at a crossroads". While he favoured co-operation and dialogue, patience among EU governments and businesses was running out, he said.

Cheap labour was only part of the reason for booming exports, he said. "The rest of the explanation is that it is due to unnecessary barriers and restrictions.

"If China wants to keep our trade relationship on an even keel then it is going to have to recognise the misgivings that exist in Europe about those policies which in our view restrict European companies entering its market," he said.

He added that China had made no progress in tackling piracy despite an agreement to tackle infringement of intellectual property rights.

Mr Mandelson said there were no easy alternatives but the EU would take China to the World Trade Organisation if necessary or impose anti-dumping tariffs. He accused it of overproducing steel and dumping it on the world market.

Export growth is unlikely to slow as China has invested heavily in ports and transport, especially in Shanghai and Guangzhou in the south, an important factor in making it a reliable supplier to export markets.

"We expect export growth to remain robust, supported by firm global demand and the undervalued currency, while the trade surplus continues to widen," said Goldman Sachs in a research note on Monday.

Capital Economics, in London, said that at the current rate of increase, the trade surplus for the year could reach \$320bn, "10 times its level in 2004".

The surpluses with the US and Japan were up by 18 and 16 per cent respectively.

The fastest rate of increase was with India, where trade over the same period rose by 54 per cent.

China's swelling trade surplus has taken over in the past year as the prime driver of the country's mounting foreign exchange reserves, which now exceed \$1,200bn.

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