

China posts record trade surplus

[Print](#)

By Jamil Anderlini in Beijing

Published: November 12 2007 05:46 | Last updated: November 12 2007 07:55

China's trade surplus rose to a record in October, but fell short of many analysts' predictions thanks to a jump in the value of imported raw materials.

Data on Monday showed the trade surplus rose to \$27.1bn. Imports in October grew 25.5 per cent from the same month a year earlier to \$80.7bn, accelerating from a 16.1 per cent rise in September. That exceeded the growth in exports, which rose 22.3 per cent from a year earlier to \$107.7bn in October.

For more than three years export growth has outstripped that of imports as global manufacturers shifted their production to the workshop of the world. However, soaring prices of crude oil and other raw materials appear to have reversed that trend for now.

China's accumulated trade surplus for the first 10 months of the year reached \$212.4bn, an increase of 59 per cent from the same period a year earlier.

China's trade surplus with the European Union, its top export destination, rose to \$13.9bn from September's \$12.5bn while the politically sensitive surplus with the US, its second-largest export market, was \$15.40bn, slightly higher than September's \$15.35bn.

China's trade numbers have provoked fierce debate in Washington over how to deal with perceived trade imbalances and led to calls for Beijing to move faster to liberalise its currency regime.

Trade partners led by the US say the surplus is a direct result of Beijing keeping its tightly managed exchange rate undervalued to give domestic exporters a price advantage.

The surplus is also partly to blame for a rising flood of liquidity in the Chinese financial system that is stoking inflation already at a 10-year high of more than 6 per cent.

The central bank buys the foreign currency earned by Chinese exporters using renminbi which then enters the economy and feeds into price inflation.

In an attempt to drain liquidity and slow bank lending the central bank said at the weekend that it will raise the proportion of deposits banks must hold in reserve for the ninth time this year, to 13.5 per cent, a record high.

"Rising domestic inflation will lead to further tightening of monetary policy in the near term," Goldman Sachs said in a research report on Monday. "Without a meaningful adjustment in the [renminbi exchange rate], such tightening will likely lead to a slowdown in domestic demand, and therefore import demand."

Copyright The Financial Times Limited 2007