

Chinas foreign reserves between 1993-2013 research paper samples

[Technology](#), [Development](#)



Introduction:

Over the last decade, 1993-2013, China has become the world's largest holder of foreign exchange. According to China Business News (28, March 2006), China's foreign reserves had increased up to \$853.7 billion. Foreign exchange reserve accumulation was useful to the country during the process of economic reform. It greatly boosted foreign trade and investments. Macro-econometric data explains the differences in trade performance between China and the developed countries based on comparative and analytic framework. China and India, for instance, adopted different development strategies. Over the last two decades, China has been adopting export-led development strategy that has been consistent with its comparative advantage derived from endowment of natural resources. Over the last two decades, China has retained a consistent economic growth rate of about 11% compared to other developed countries. India, for instance, has maintained a rate of growth at about 8%. Currently, China accounts for 10% of all world exports, becoming the largest exporter in the world. Some of the developed countries such as India have their world exports at 1%. This places China at a competitive advantage compared with other developed countries. This has seen China's foreign exchange reserve increase rapidly between 1993 and 2013.

China's population was the largest in the world at 1.3 billion compared to Indian's 1.1 billion. China's population is economically empowered with high purchasing power. China had also embraced heavy industry oriented development strategy and has kept a centrally planned economy. The country also embraced trade liberalization in 1990s reduced over-reliance on

imports. China had a higher openness ratio in comparison to the rest of the other developed countries at 72% in the year 2007, (World Development Indicator, The World Bank), compared to India's openness ratio which stood at 50.7% in the same year. This places China at a competitive advantage and explains why China's foreign reserve ratio has remained very high in the last two decades. Whereas China has huge trade surplus; India, for instance has trade deficit. In 2008, India's exports were \$179 billion whereas China's exports reached 1.43 trillion in the same year. India's exports accounted for 12% of China's in 2008. This explains why China has maintained a high foreign exchange reserve in the last two decades compared to other developed countries such as India, for instance. China's current account ratio in 2008 shows China making significant trade surplus. The ratio of exports to GDP was 23.3% in 2000 compared to 20.9 import ratio in China in the same year. China had a trade surplus of 2.41% and by the year 2008, China's trade surplus had increased by 8% despite appreciation of RMB in 2005. India, however, had a trade deficit of 5.35% during the same period. China also exports more complicated and sophisticated products than the rest of the world. China has higher export sophistication index ranging between 4252 to 14534 compared to the rest of the world. This explains China's use of high technology. The country exports more high technology products to the rest of the world, in terms of money value and relative market share. Productivity growth has played a significant role in trade growth in China, as compared to the other developed countries. Labor productivity is higher in China compared to India and the rest of the developed countries. The country also has growth friendly policies compared

to other countries. China has export promotion policies while other countries have import-protection policies.

On assuming free market economy in 1990, China started liberalizing the economy and the import-weighted tariff started declining. There was removal of trade quotas and revenue quotas. China's tariffs declined from 42% in 1992 to 17% in 2000. This tariff reduction was in line with the policies set for the GATT members. China is a member of GATT. On the other side, India's import weighted tariff was at 87% in 1990. This has always placed China at a favorable advantage compared to the rest of the world's developed economies.

Data on imports and exports between China and the rest of the world's developed economies between 1993 and 2013 show that in China, imports increased from 2.7 billion in 1993 to 10 billion in the year 2012. This is in comparison to India's imports which increased from 0.6 billion from 1993 to 2.7 billion in 2012. This shows China at favorable competitive position with the rest of developed economies of the world, and it explains why China's foreign reserve has grown rapidly in the last two decades. A comparison of exports between the same period shows China's exports increasing from 2.5 billion in 1993 to 11.4 billion in 2012. This was in comparison with India's growth in exports between 0.6 billion in 1993 to 1.6 billion in 2012.

In 1994, China pegged the RMB at 8.28 Yuan per \$ dollar. This rate was then kept constant till 2005. Pressure mounted from trading partners that allowed the RMB to appreciate for three years before it was halted again due to the global economic crisis in 2008. By 2013, the RMB had appreciated by 34% to

11. 00 Yuan per \$ dollar on a nominal basis and by 42% on real basis to 11.80 Yuan per dollar.

Conclusion:

China's rapid growth in its foreign reserves is as a result of proper and coordinated policy formulation and implementation. The government also has created a suitable environment for growth. Embracing modern technology and entrepreneurial spirit has greatly contributed towards the rapid growth in the foreign reserves.

References:

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