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China’s trade surplus jumps in October

By Geoff Dyer in Beijing

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China’s trade surplus surged again in October to $27.1bn, the second highest level so far this year, putting new pressure on Beijing over its currency policy ahead of the **G20** summit.

The October trade surplus increased from $16.9bn the month before and is one of the largest recorded by China in a single month, raising questions about the pace of rebalancing.

Although economists said that seasonal factors had exaggerated the size of the trade surplus last month, the increase will give ammunition to those governments at the G20 that want China to accelerate the pace of appreciation of its currency. China has, in turn, heavily **criticised the new round of quantitative easing by the US** Federal Reserve and announced on Wednesday it was raising bank reserve requirements by 0.5 percentage points, amid concerns about rising inflation.

“China’s rising trade surplus is yet another sign of a resurgence of global trade imbalances,” said Eswar Prasad, a former International Monetary Fund official now at Cornell University. “It is becoming increasingly clear that China has not made much progress on rebalancing its economy and reducing its dependence on exports.”

He said that while China had the US on the defensive ahead of the G20 over its monetary policy, the new trade data “will rebalance the debate”.

China’s trade surplus has narrowed since the start of the financial crisis and the economy recorded a rare trade deficit in March which Chinese officials argued was evidence the economy was moving away from its dependence on exports and becoming more based on domestic consumption.

The World Bank last week urged Beijing to make a big push for structural reforms aimed at boosting domestic demand and consumption.

● The US trade gap declined by 5.37 per cent in September to $44bn, the commerce department said. Exports outpaced imports, rising by $500m to $154.1bn as the weaker dollar made US goods and services cheaper to the rest of the world. Imports declined by $2bn to $198.1bn.

“Rebalancing will not happen by itself – **it will require substantial policy adjustment**,” the bank said.

China abandoned a dollar peg in June, however over the last quarter its currency has depreciated against a basket of its main trading partners. Chinese exports rose by 22.9 per cent in October compared with the same month last year, despite persistent fears about a slowdown in global growth, while imports into China increased by 25.3 per cent, year-on-year.

China has increased reserve requirements for banks four times this year and also raised interest rates last month for the first time in nearly three years. The latest move comes as economists forecast consumer price inflation last month is likely to have increased to around 4 per cent. Some economists think interest rates will have to rise further this year.

Zhou Wangjun, a senior official National Development and Reform Commission, China’s main economic planning body, said on Wednesday that the recent surge in commodity prices was the result of the Fed’s decision to inject a further $600bn into the US economy. Other Chinese officials have warned that US monetary policy could create bubbles in emerging market economies.

The Conference Board predicted on Wednesday that the Chinese economy could overtake the US by 2012 using purchasing power parity, which takes into account the cost of living in different countries. At market exchange rates, China’s economy is less than 40 per cent of the size of the US.