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Trade Gains Put China in Quandary

By KEITH BRADSHER

HONG KONG — After months of weakness in overseas demand, especially from Europe, Chinese exports finally seem to be recovering. But now the country's domestic economy is looking a little less robust.

Exports surged last month, helping to produce an unexpected trade surplus of $5.35 billion in March, according to government data released Tuesday.

But imports grew lethargically, a warning sign for a domestic economy where government policies have aimed to deliberately deflate a real estate bubble and as a growing number of wealthy Chinese appear to be moving money out of the country.

Slowing domestic demand is a concern in any economy, except when deliberately engineered to slow inflation, as is the case to some extent in China. But the Chinese government faces a particularly difficult balancing act because strong economic growth at home has been its main claim to political legitimacy.

Qu Hongbin, a China economist in the Hong Kong offices of HSBC, said that the trade figures added up to a clear signal. "The underlying message is that domestic demand is still slowing," he wrote in a research report.

Chinese officials have been uncertain about how much to stimulate the economy in response to the weakening of domestic demand, particularly as inflation remains a problem. Consumer prices were up 3.6 percent in March from a year earlier, according to official data. And inflation might actually be worse than that, as economists inside and outside China say that the official index represents as little as half of actual inflation because of methodological problems. Aware of that criticism, China's National Bureau of Statistics is looking for ways to improve its data collection on prices.

Despite the inflationary forces, real estate developers and other corporate borrowers have been pressing for an easing of government lending restrictions, complaining that the economy has already slowed too much. But Tang Min, a senior economic policy adviser to the State Council, the Chinese cabinet, expressed caution in a rare column Tuesday in People's Daily, the Communist Party's official newspaper.

"Due to the severe situation of rising prices, there still cannot be a substantial easing of the monetary policy," he wrote. "At the same time, we also see that there are inevitable factors behind rising prices, so there is no need to adopt an overly tight monetary policy."

Various economic statistics are due from China this week, most notably the growth figure for the first quarter, to be released Friday.

Private economists are predicting that China will post growth of 8 to 9 percent in the first quarter — formidable by international standards, but slower than the double-digit growth the country has enjoyed for most of the last decade.

China's trade surplus has gradually narrowed over the last several years, as economic weakness in Europe and North America has hurt Chinese exports while soaring auto sales in China have produced a boom in oil imports.

The International Monetary Fund has been forecasting in recent years that China's medium-term current-account surplus — the trade surplus plus net earnings on overseas investments — would rise again to 7 percent of Chinese economic output as economies in the West recover. But China's current-account surplus was a little less than 3 percent last year.

The I.M.F. is widely expected to reduce the medium-term forecast to 5 or 6 percent when it issues its World Economic Outlook in the coming days, said Eswar Prasad, a former head of the I.M.F.'s China division who is now the Tolani senior professor of trade policy at Cornell.

The I.M.F., the United States and other Western nations in recent years have periodically accused China of deliberately keeping its currency, the renminbi, weak as a way to stimulate exports.

But shrinkage in China's current-account surplus, notwithstanding the modest trade surplus in March, is making it harder for the I.M.F. and others to press for China to allow further appreciation of the renminbi, Mr. Prasad said.

The result has been a shift by many international economists toward encouraging China to address internal imbalances like its heavy reliance on investment instead of consumer spending. But weak growth in imports could be a signal of longer-term difficulties in China's domestic economy.

Chinese leaders are trying to deflate a real estate bubble by banning most purchases of second and third homes, a policy that has brought an abrupt slowdown in residential housing construction, with the exception of public housing projects, a national priority to provide more affordable housing.

Many Chinese exporters have been looking to the country's domestic market in response to tepid growth overseas for the last several years, but are finding the Chinese market an even bigger challenge now.

"The buyers are very aggressive in asking for price discounts and the right to return unsold products," said Peter Chen, the sales manager at the Hua Hai Toys factory, which makes water pistols in Chenghai, China. "At least our overseas customers have never asked to return products back to us."

The recovery in Chinese exports last month, up 8.9 percent from a year earlier, suggests that a long-predicted shift in manufacturing to other Asian nations has not yet taken place on a meaningful scale.

Blue-collar wages have nearly tripled in the last seven years or so in China, but heavy investments in ports, highways, telecommunications and other infrastructure have helped to offset the extra labor costs by making it less expensive and easier to ship goods to markets.

A study released last month by Panjiva, a New York consulting company that advises 2,000 mostly American importers on how to locate overseas suppliers, found that slightly more than half of the importers interviewed had expressed a desire to increase purchases from other Asian nations, notably India, Vietnam and Thailand.

But that has not yet translated into shifts in outsourcing.

"When it comes to moving manufacturing beyond China, there's still more talk than action," Josh Green, the chief executive of Panjiva, wrote in an e-mail on Monday.

One of the biggest mysteries now in China involves the strength of domestic investment, for which the government will release figures late this week. The People's Bank of China, the central bank, is expected to release in the next week its quarterly figure for changes in the country's foreign exchange reserves, the best proxy for how much cash is flowing in or out of the country.

There have been many signs the last few months, although most are anecdotal, that capital is starting to flow out of China. But foreign exchange reserves, at $3.18 trillion, give the country ample ability to counter any run on the renminbi.

Bankers and lawyers say that Chinese companies doing initial public offerings abroad increasingly want to keep the proceeds offshore instead of repatriating them to China. Chinese businesses have been more aggressive in making offshore acquisitions, particularly related to natural resources, although this has been partly driven by government policy.

Also, wealthy Chinese have been pouring huge sums into real estate in havens like Hong Kong and New York, even as real estate prices tumble in mainland China. They have also become very active users of a wide range of offshore trusts and tax shelters in places like the Cayman Islands, far from the Chinese tax authorities and fraud investigators.

Many of the new financial structures being created are so aggressive and creative in hiding assets from the Chinese government that “10 years ago, they’d have gotten shot for it,” said James Corbett, partner of Kobre & Kim, a London law firm that specializes in tracing assets.

Hilda Wang contributed reporting.