

# China' s Policy to Curb the Processing Trade, and Korean Exports to China

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Intermediate goods exports account for 73% of total Korean exports to China. In view of this, it is expected that the Chinese government' s policy of curbing the processing trade may have had considerable impacts on the recent slowdown in Korean exports to China. However, there is almost no material that has analyzed this empirically. This paper thus analyzes the impact of the Chinese policy on Korean exports to China, using a panel analysis approach while controlling for major factors such as the global economy and Chinese exports.

The results of analysis show Korean exports to China to have close connections with the policy curbing the processing trade, with Chinese exports to the world, and with the Chinese government' s policy of increasing its self-sufficiency. The processing trade control policy is estimated to have slowed the rate of growth in Korean exports to China in the quarter when the policy was announced, as well as the following quarter. The rate of growth in Chinese exports to the world has also had a positive relationship with Korean exports to China, although the correlation between them has weakened greatly since 2012. In particular, the rate of growth in petroleum product exports has slowed considerably since that time, showing that the Chinese government' s policy of increasing the degree of the country' s self-sufficiency in this area has had significant impacts in reducing Korean exports to China.

These findings imply that it is vital to identify the items that the Chinese government has designated as new items under control, for which the degrees of Chinese self-sufficiency need to be increased, to estimate the resulting impacts, and to devise micro response measures depending upon the items concerned.

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