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Isabel Alexander, I.E.Canada chair: “China to focus on reducing exports”

Brampton, ON, Jan. 17, 2007 – “In 2007, China will likely focus on increasing its imports and restricting its exports in an attempt to reduce both a high trade surplus and the growing concerns of its trading partners,” said Isabel Alexander, chair of the board of directors of the Canadian Association of Importers and Exporters (I.E.Canada).

Alexander is also president of Phancorp Inc., a global chemical wholesaler with a head office in Brampton, Ontario, and an office in China.

“The indicators coming from China are that we will likely also see an appreciation of China’s currency, the Renminbi (RMB), sometime this year, although it will probably be restricted to under 5%,” said Alexander.

“This may result in higher prices for products we import to North America from China,” she said. “Phancorp Inc. will be watching the indicators closely in the months ahead. As the Distributors’ Partner™ our ability to take the pulse of the global economy enables us to help our customers make informed decisions.”

The People's Bank of China announced Monday that China's balance of foreign exchange reserves had exceeded one trillion US dollars in 2006 to reach US\$1.0663 trillion, an annual increase of \$247.3 billion.

The historic high was a result of the Chinese trade surplus. China’s Ministry of Commerce (MOC) reported a record surplus in 2006 of USD177.4 billion, up by 74% over 2005. In February 2006, China overtook Japan as the country with the largest foreign exchange reserves in the world.

Also on Monday, the MOC quietly released a report suggesting that RMB is undervalued perhaps by as much as 15%. It even went on to predict further appreciation of 4-5% against USD by the end of 2007.

The MOC has historically been opposed to RMB revaluation because of its mandate to promote Chinese exports by any means. Still, MOC cautioned against any rash moves and indicated 5% is the upper limit tolerable annually.



“The data from 2006 show that China’s trade surplus has been increasing, and if this situation continues, then I think the flexibility of the exchange rate will be increased,” People’s Bank of China Governor, Zhou Xiaochuan, told media in Switzerland recently.

China's widening trade surplus has been cited as a reason for U.S. and the European Union to pressure China to revalue its currency, Zhou said.

According to reports in China Daily, cutting the structural trade surplus will take at least two years despite the government's determination. Economist Fan Gang was quoted as predicting China's exports will continue to grow stronger than imports this year, which means the surplus is likely to increase but at a slower pace.

Sources inside MOC had the Minister set priorities for 2007 at a national planning session, Monday. These are: 1). Lower foreign trade surplus; 2). Raise domestic consumption and 3). Foster the home market.

China Daily reports that "Cutting the huge trade surplus is the priority task for 2007," Commerce Minister Bo Xilai said yesterday. If it grows at the same rate this year, the trade surplus will mount to \$300 billion, which is "likely to transform an economic problem into a political one".

Bo said an overly-large trade surplus is not good for China's sustained economic growth; therefore, the government will "decisively" reduce exports of high-energy-consuming and low-value-added products to restructure the sector.

Last year, a package of industrial and taxation policies were implemented to rein in exports of energy-consuming products, in particular exports of processing trade, which contributed around half of the trade surplus but yielded slim profits.

To boost imports, the government will relax restrictions and announce taxation and financial incentives. "We will largely increase imports which have high demand in China," Bo said without giving details. Bo added, however, that the central government would continue to encourage exports from central and western China.

About Phancorp Inc.

Phancorp Inc. is a global chemical wholesaler serving distributors across the North American chemical industry. In the intensely competitive business of chemical distribution, Phancorp provides strategic advantages and award winning service to chemical distributors. ISO 9001:2000 certified and emergency-response enabled, Phancorp is truly The Distributors' Partner™. For more information about Phancorp visit www.phancorp.com.

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