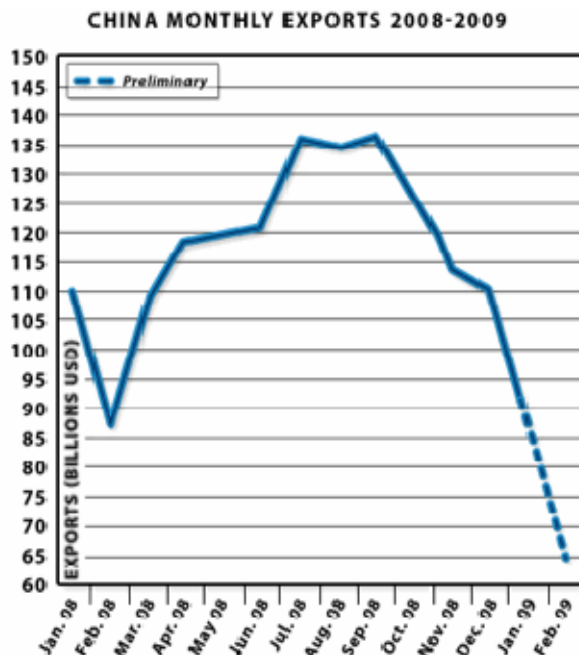


China's exports in February fell by 25.7 percent from a year earlier, dashing expectations that the country's crucial export sector would hold up better after January's 17.5 percent slowdown in export value, according to China's customs bureau on March 11. The sudden and sharp drop reveals that China's most critical source of business and government revenues are far from recovery and are running dry due to depressed global demand.

In the past few weeks, the Chinese government and state press have drawn attention to signs that the domestic economy is improving. [Bank lending](#) increased substantially in January and February in support of struggling businesses and consumers, as well as [government-prompted development projects](#). The purchasing managers index (PMI), a rough measure of overall manufacturing activity, climbed for the last 3 months to a reading of 49 in February, and the government is predicting positive growth of 54 percent in March. (A reading above 50 indicates growth, while one below 50 indicates contraction.) Even in the February export news released March 11, the losses are allegedly offset by a 26.5 percent increase in January's and February's fixed asset investment, slightly over the 2008 growth rate of 26.1 percent, possibly indicating that fiscal stimulus policies [are having an effect](#).



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Nevertheless, exports are vital for the [Chinese economy](#), comprising about 40 percent of gross domestic product (GDP). By means of robust trade surpluses, China manages its day-to-day expenditures and puts away foreign currency reserves in case things get worse. February's trade surplus, however, fell to a mere \$4.84 billion, down from \$39.1 billion in January. China still retains its nearly \$2 trillion in reserves [to resist](#) the economic

downturn, but it is reluctant to tap this last resort and prefers to rely on trade surpluses — which are now dwindling.

February's export numbers do not bode well for China's recovery — the similarly drastic 24.1 percent drop in imports also indicates how badly domestic demand has been struck, especially given the vast amount of effort Beijing has devoted to trying to increase that demand. China's latest trade data, while not complete, reveal the increasingly high toll that the global recession is taking on the Chinese economy. Ultimately, the pain in China's export sector will contribute to social problems that are already bubbling up from unemployment. This in turn will increase the heat on the [Communist Party](#) as it steps up [security efforts](#) and tries to maintain order.