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**TITLE: OUTSOURCING AND CHINA'S VIRTUAL WATER TRADE BALANCE**

**AUTHORS: YANG, CUIHONG ; DIETZENBACHER, ERIK**

**EMAIL: chyang@iss.ac.cn**

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**ABSTRACT:**

Abstract China is a country with serious water shortage in terms of water resource per capita. Especially in recent years, China's foreign trade grows volume very rapidly. How about the water embodied in China's foreign trade (virtual water trade balance), does China actually export (or import) a lot of water? China has very different trade structure with its main trade partners, how about the virtual water trade balance between China and its main trade partners? The trade structure of China is quite different from many countries, as one of the most important outsourcing destinations, processing trade accounts for a high proportion, around 50% of total exports value of China. How about the virtual water content in processing trade, is it quite different from non-processing trade? Does processing trade help China to save water? In this paper, we employed a non-competitive input-output table of China capturing processing trade to research the water consumption through foreign trade in order to answer these questions. Since processing trade use a very high proportion of imported materials, its intermediate use structure is quite different from other products. In this table, China's domestic production is divided into three parts, i.e., production for domestic use only, production for processing trade, production for non-processing trade and other FIEs. The results show that China is a 'net exporter' of virtual water, esp. from the perspective of goods in bulk, like wearing apparel, textile goods. With its main trade partner, China is exporting water, esp. with US, EU15 and Japan, esp. due to the large amount of bilateral trade on food, textile and clothes. Since most of the intermediate material are imported, processing trade is less intensive in using China's water resource.