Zhang-Monan writes on Project Syndicate: Last year, China ostensibly reached another milestone in its meteoric rise, surpassing the United States to become the world's largest trading country, with its total trade turnover valued at CN¥25.83 trillion ($4.16 trillion). But this achievement is largely illusory – and should not be allowed to obscure China's need to transform its trading model.

Since the 1990s, China's has been building up its "processing trade" – whereby it imports intermediate inputs from other countries, processes or assembles them, then exports them – causing the ratio of intermediate-product trade to overall external trade to grow rapidly. Intermediate inputs comprise around 28% of global exports, but 40% of China's total exports. Given that traditional trade accounting is based on country of origin, the resulting global segmentation of value added and the multilayered international division of labor can distort trade figures.

For example, the "triangular trade" model – whereby China imports significant quantities of intermediate inputs from East Asian countries like Japan and South Korea, then exports the assembled products to the US – allows for substantial redundancy in trade records. In 2010, more than one-quarter of the world's $19 trillion in exports was counted more than once.

China's dependence on low value-added activities like processing and assembly is rooted in its historical lack of capacity to invest in research and development. For a long time, the country was able to overcome this deficiency by capitalizing on its abundant labor force to become a global leader in low-cost, labor-intensive manufacturing.

But China's low-cost advantage in manufacturing is diminishing rapidly, owing to rising wages and a declining demographic dividend. And its low position in global value chains means that its actual profits on exports remain far lower than those of advanced countries like the US, which specializes in high-technology, high-value-added production.

This combination of rising labor costs and low value added is clearly unsustainable. If China is to transform itself from a large trading country into a powerful one, it must raise its productivity, with the manufacturing sector adding more value to exports (and, increasingly, to goods for domestic consumption).

To be sure, China's enduring comparative advantage in processing and assembling industrial products has enabled it to retain its status as the world's largest exporter. As massive quantities of labor-intensive processing and assembly work have been transferred to China from Japan, South Korea, Singapore, Taiwan, and Hong Kong, so have these economies' trade surpluses. Moreover, this has contributed to large – and widely criticized – trade imbalances with the US and the European Union, the primary end markets for Chinese-processed industrial products.

But, again, the data may not be what they seem. Consider China's growing re-import trade, whereby goods that have been exported to nearby countries, particularly Hong Kong, return to the mainland.

China’s re-imports have increased more than 12-fold since 2000, and now dwarf those of other re-importing leaders as a share of total trade.

Given Hong Kong’s advanced logistics and infrastructure, it is a relatively inexpensive and efficient conduit through which products can be shipped. In 2011, Hong Kong handled about 14% of mainland China’s exports and 13% of its imports, with more than 60% of Hong Kong’s total re-exports originating from the Chinese mainland. Meanwhile, by exporting products through designated export-processing zones, companies gain access to export-tax refunds and, once the intermediate cargo is imported and processed, advantageous export tariffs.

Re-imports from China’s trading partners are counted as part of total imports – and, in this context, China treats Hong Kong as a trading partner, rather than as a free-trade zone. In this way, re-imports serve to inflate China’s trade data, meaning that the trade imbalance between China and the advanced countries has been exaggerated significantly.

Furthermore, model simulations show that the Chinese export sectors that have greater ratios of value added abroad are concentrated in the manufacturing industry – the industry upon which China’s economy is most dependent. Indeed, 26% of the value added by the primary manufacturing sector is not created by China.

Taking this into account, China’s trade surplus with the US declines by 36%. China’s surpluses with Europe and India also fall considerably, and its deficit with

Japan grows even larger. These figures carry the unmistakable message that the amount of "filler" in China's total trade volume should not be underestimated.

Given the importance of moving up the value chain to China's future industrial competitiveness – not to mention the challenge posed by "reindustrialization" in advanced countries like the US – China's leaders must act now to give the economy a new edge that can replace abundant, low-cost labor. To this end, they should promote investment in research and development, as well as in the health and education of the labor force.

Likewise, China should cultivate its own transnational corporations to engage in worldwide manufacturing and sales. While these activities may seem like the simple cross-border export of intermediate products, they amount to the deployment and extension of domestic production, enhancing the home country's role in shaping global value chains.

Finally, China should participate actively in the global movement toward bilateral, trilateral, and regional free-trade agreements, accelerating negotiations for agreements with Japan and South Korea, and with the Association of Southeast Asian Nations. At the same time, in order to elevate China's position in the revenue distribution of global value chains, China should seek negotiations for agreements with the US and Europe.

Before any of this can occur, however, China's leaders much change their perspective. China's recognition as the world’s largest trading country is not the fetchingly redundant “landmark milestone” that its leaders declared. That charmed point will be reached when Chinese industry raises its position within – and influence over – global value chains.