

China Economic Update June 2023

Is China finding new markets for its exports?

NAB Group Economics



Chinese trade data have exhibited some unusual patterns in recent months – including a sharp jump in export volumes in March, at a time demand for goods in most advanced economies has been slowing. Beyond this short-term spike, there has also been a noticeable decline in the share of China’s exports being delivered to its major trading partners since early 2022 – although it is too early to know if this represents a short-term anomaly or a permanent shift in the direction of trade.

Surprise spike in China’s export volumes in March

China’s trade activity accelerated in the early stages of the COVID-19 pandemic – benefiting from the surge in demand for goods (particularly medical supplies, furniture and electronics) in advanced economies at a time where access to many services were constrained. However, tighter financial conditions and the rebalancing in consumption towards services in these countries has reduced global goods demand (at least until more recently).

Until a recent spike, China’s trade volumes – based on the seasonally adjusted series produced by the Netherlands Bureau for Economic Policy Analysis (CPB) – peaked in May 2022, before trending lower through to December 2022 – a decline of around 12.8% over this period. However, in March 2023, export volumes surged unexpectedly – up around 15.3% yoy – rising to a record high. Based on China’s trade index, volumes softened slightly month-on-month in April 2023 – albeit they remained above the May 2022 peak – before likely dropping in May back to levels around those of the start of 2023 (with this conclusion based on estimates from the preliminary data released this month). Falling export prices over this period meant that the volume peak in March 2023 did not correspond with a peak in export values.

Given the apparent decline in export volumes following the March peak, this spike may have reflected the delay of shipments in earlier months – given that volumes were particularly weak across the period from December to February.

China export volumes

March volumes spike following earlier weakness

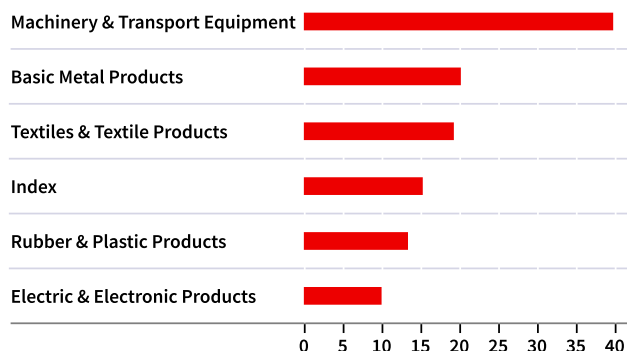


China’s trade index breaks down exports into broad categories – with the increases in export volumes in March particularly strong in transport equipment (up by almost 40% yoy), basic metal products (20% yoy) and textiles (19.3% yoy). While volumes for machinery and electrical equipment grew more modestly than average, this sector (which accounted for over 40% of China’s exports in March) recorded a sizeable year-on-year increase in US dollar terms.

Growth in export volumes

Machinery & transport equipment led the increases in March 2023

Change in volumes, March 2023 (% yoy)



Source: Macrobond, NAB Economics

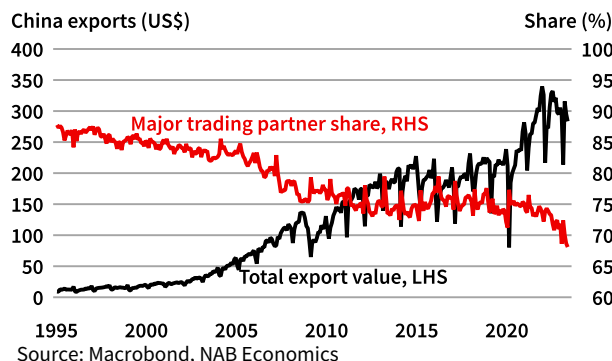
Shifting patterns in exports by country

In recent months, there has been a noticeable disparity between the growth in the value of China’s exports and the value of its exports going to major trading partners. In this case, we define the latter as key advanced economies – such as the United States, the twenty-seven European Union members and the United Kingdom (EU-27+UK), along with a number of markets in Asia (Japan, South Korea, Singapore, Hong Kong and Taiwan). It is worth noting that the inclusion of Hong Kong is problematic, as these data do not accurately represent trade between mainland China and the special administrative region. Some goods exported from China to Hong Kong are subsequently exported elsewhere in the world (without any transparency in the Chinese data), while there have also been historical instances of capital flows being disguised as trade activity via Hong Kong. In addition, there are a range of emerging markets in Asia that are key markets for China’s goods (namely Indonesia, Malaysia, the Philippines, Thailand, Vietnam and India).

In the late 1990s, over 85% of China’s exports (by value) were shipped to these key export markets. This share declined across the 2000s, but the share of exports to these markets remained relatively stable at around 75% between 2011 and 2021. However, from early 2022, the share to the major trading partners started to trend lower – falling to just 68% in May 2023.

China major trading partners

Share has drifted lower from previous decade trend



Source: Macrobond, NAB Economics

There are also different trends between these major trading partners. The value of exports to the United States reached its current maximum in September 2021 while exports to the EU-27+UK and advanced Asian economies peaked in December 2021 respectively. Subsequently exports to these partners have gradually trended lower. These declines have been somewhat offset by increased US dollar exports to emerging Asian markets – with the value of exports rising to a record high in March 2023.

A key contributor to the growth in exports outside the traditional major trading partners has been shipments to the Russian Federation and former Soviet Union states. In part, this may reflect the impact of sanctions on the Russian Federation (following its invasion of Ukraine in February 2022) that have restricted imports of key inputs from advanced economies. Between March and May 2023, the value of exports from China to Russia increased by 133% yoy, while in March and April, exports to Belarus, Kazakhstan, Kyrgyzstan and Uzbekistan increased by 109% yoy.

China exports to Russia

Upward trend since early 2022



Source: Macrobond, NAB Economics

Chinese authorities have not provided a breakdown of exports to Russia by category since December 2022, meaning that we cannot determine if the increase in

exports is broad based, or if it reflects increased shipments of products sanctioned by advanced economies. However, the export value of machinery & electrical equipment and transport equipment was rising noticeably across the second half of 2022. It is also possible – though it is essentially impossible to verify – that shipments from China to Russia’s former Soviet neighbours may subsequently be delivered to Russia.

Other growth in non-major trading partner exports was primarily driven by stronger exports to Middle Eastern countries (including Turkey) and African economies.

Conclusions

The recent spike in China’s trade volumes appears unsustainable – particularly given the slowing activity in China’s major trading partners. Despite the recent shift in the pattern of trade, there is unlikely to be sufficient demand in other markets to offset further weakness in demand from these traditional destinations.

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