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by Khushi Kimothi for Team ORCA

Issue 11: Analysing the Slowdown in China's Export and Import Growth

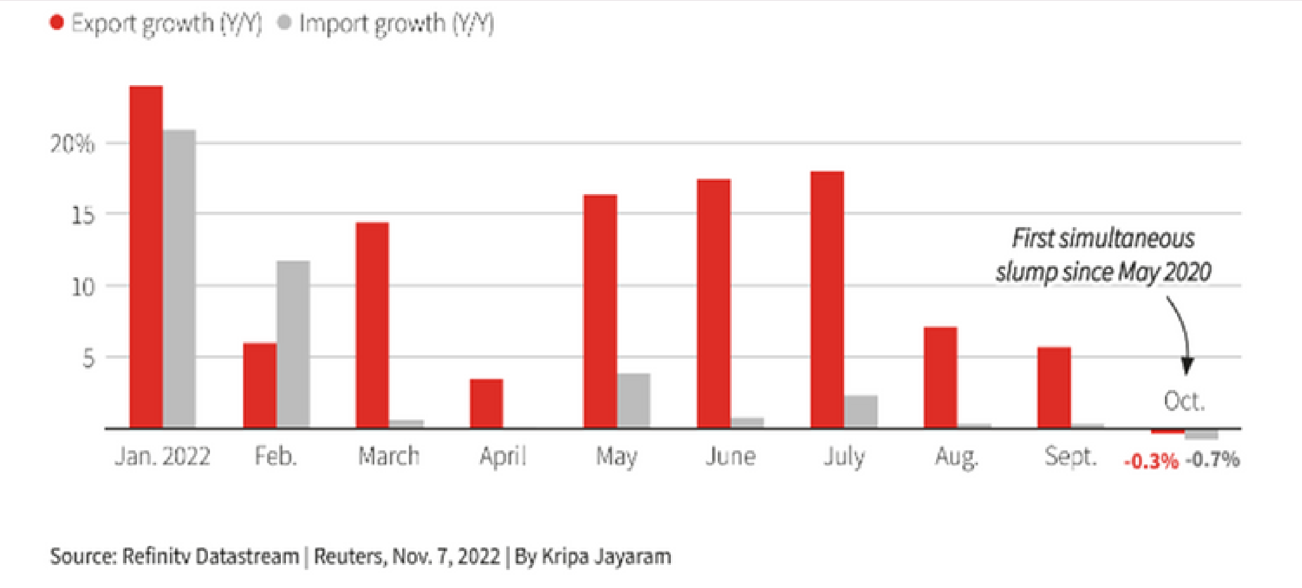
Analysing the Slowdown in China's Export and Import Growth

Introduction

- China is a country with one of the most remarkable economic development narratives in modern history. The nation's economy has experienced extraordinary growth over the last few years, pulling 800 million people out of poverty. This would not have been possible without China's exceptional transformation from a trading powerhouse to the world's trade titan.
- The COVID-19 outbreak has further illustrated China's crucial position in the world economy. Early in 2020, as COVID-19 outbreaks began to spread across the nation, problems suffered by Chinese suppliers caused production processes worldwide to slow down.
- Despite the challenging situation, China was able to quickly recover from the pandemic in terms of exports. The country has also enabled further growth across a number of export industries, even while those sectors as a whole were facing losses. As a consequence of China's high levels of export resilience, the country's part in global trade expanded, reaching around 15% by 2020. China's trade recovery from the crisis has been impressive in 2021 as well. Its exports increased by over 50% year over year to $710 billion in the first quarter of this year.
- According to the General Administration of Customs (GAC), the country's foreign trade volume increased by 10.4% annually in the first seven months.

Slowdown in Growth Rates of Exports and Imports

- However, for the first time in over two years in October 2022 China was at crossroads as the country’s export growth faced simultaneous slumps as a result of sluggish external demand, rising comparison base and the zero-Covid policy. As noted in the 7 November newsletter, China's exports decreased by 0.3% in October compared to a year earlier; down from 5.7% growth in September for the first time since May 2020, while imports decreased by 0.7% in October compared to the previous year, down from 0.3% growth in September, according to figures issued by China Customs.



The Economic Implosion of China

- The above figure also highlights the challenge facing Chinese policymakers as they continue to undertake pandemic prevention measures while juggling pressure from other sources, including general pressure from rising prices, broad increases in global interest rates and a worldwide slowdown. The government has already modified the Covid Zero policy to lessen its impact on the economy, but policymakers may need to inject more stimulus.
- When Shanghai was placed under lockdown, businesses were prevented from loading products onto ships, closing factories and closing highways, which led to the decline. The downturn occurred just as exports should have been sharply increasing in anticipation of the Christmas and holiday seasons abroad. According to the General Administration of Customs, the fall in imports widened to 10.6%, leaving a smaller trade surplus of $69.8 billion in November.
- Even as domestic spending struggled as a result of a housing collapse from last year and then increasing Covid outbreaks and lockdowns this year, record increases in exports gave Chinese businesses stable demand.
- The Politburo, the top decision-making body of the Communist Party in power, declared that it will work to reverse the economy's downward trend by promising to maintain an active fiscal policy and "forceful" monetary instruments in the next year. The Politburo also committed to prioritise increasing domestic demand while fully recognising the important roles of consumption and investment.

1. *Sluggish Demand*

- The reduction in international demand is expected to continue for at least the next few months, with few evidence of a recovery in worldwide demand. Due to the Lunar New Year holiday season, which closes most Chinese businesses for weeks, January has a reputation for being a sluggish month.
- While local governments work to manage the shift from Covid Zero to the unexpected emphasis on easing and reopening, Chinese businesses have also had trouble staying open. Due to workforce and supply chain interruptions, manufacturers of automobiles, mobile phones, and industrial goods have had to halt or reduce output.
- In the first eleven months of the year, exports of home appliances fell the most from a year earlier, down 12.6%, according to a breakdown provided by the customs authority. China's imports of cotton yarn fell this year to their lowest level in ten years, reflecting a global downturn in the demand for garments. Exporting nations like India were compelled to look for new markets. This year's shortfall in yarn imports from China is equivalent to around 3.5 million bales of cotton lint throughout the first three quarters of the year. As China undergoes an arduous reopening process, exports are probably going to remain poor over the coming few months. In 2023, China will have to rely more on domestic demand as global demand declines.

2. *Zero-Covid Policy*

- Economic activity across industries has been harmed by covid outbreaks in a number of cities, including manufacturing centres like Shenzhen and Tianjin. Additionally, people are not spending money on items like shopping, travel, or food and beverages, which puts strain on major services. The National Bureau of Statistics reported that industrial activity in the manufacturing sector appeared to have increased yet again in September, reaching 50.1. The increase in government investment on infrastructure may be the reason for the recovery. However, it did so after two months during which manufacturing did not increase. It has sparked concerns, particularly in light of the fact that a private poll revealed that manufacturing activity actually decreased in September as a result of the impact of demand on output, new orders, and employment.

The Effect on the Supply Chain

- The distribution of workers worldwide shows that the effects of the lockdown on Chinese and foreign companies will vary according to the industry. Moving production overseas is no easy task for electronics manufacturers since China, for example, has a domestic industrial chain for parts and materials that is unmatched in scale and density from any other place else in the world. Automobiles and other products, for which China is a major market, must be produced domestically to maintain market share. Although the lockdown has a severe negative impact on these industries, it is unlikely that production centres will move immediately offshore as a result of the COVID zero policy because of how difficult it is to do so.

- However, sectors that are not required to be based in China have begun moving overseas. They can do so if the conditions are right (for instance, final assembly of tech products) as a result of skyrocketing production costs, labour shortages, and a greater emphasis on economic security. The most recent string of occurrences is just another drawback of carrying on with operations in China for these sectors.
- Despite the government's best efforts, any more outbreaks in those sectors where a presence in China is not required might push investor perceptions of the country's business climate too far in the wrong direction and hasten these companies' exit from the country.
- Since unexpectedly ending its zero-COVID policy in December 2022, China's economy, which had previously suffered from tremendous pressure from restrictions meant to keep the virus at bay, is now dealing with the effects of a rapid reopening and spiralling outbreaks in major cities. Just weeks after the government started to ease President Xi Jinping's anti-Covid efforts, as many as hundreds of millions of individuals may have contracted COVID-19 by late December. Hospitals in Beijing and other large cities are being overrun by a surge of old and vulnerable patients, and antiviral and fever drug supplies are running low.
- Following a protracted period of economic fragility, manufacturing activity declined in December, marking the fifth month in a row of decreases for the Caixin manufacturing PMI. Near the end of 2022, other variables, such as retail sales, a critical indicator of consumption, also declined.

Steps China is Taking to Combat the Slowdown

- China will put in place a number of measures to stabilise and raise the calibre of international commerce in the second half of the year to strengthen its resilience in the face of persistent uncertainties. China has already begun to take steps to positively affect the rest of the world through programmes like the Global Development Initiative and the International Import Expo. A total of 73.52 billion dollars' worth of goods and services were officially agreed upon during the fifth China International Import Expo, which took place from November 5 to 10, 2022, an increase of 3.9% from the year before. The country will continue to host international trade shows like the China International Import Expo and the China Import and Export Fair, and officials will encourage localities and industry associations to host online exhibitions. The country will also work to help foreign trade companies explore and expand the global market.

- China's overseas trade with the Belt and Road Initiative (BRI) nations and the members of the Regional Comprehensive Economic Partnership (RCEP) increased by 20,4% and 7,9%, respectively, in the first eleven months of 2022. China's proposal for the Global Development Initiative has also received support from over 100 countries and international organisations, and China has signed cooperation agreements for the Belt and Road with 150 countries and 32 international organisations.
- The Customs Tariff Commission of the State Council announced on December 29, 2022, that China will alter import and export tariffs on a selected number of items in 2023 in an effort to encourage high-quality development and opening up under the dual circulation policy. The statement on Adjusting the Tariffs in 2023 states that China will increase tariffs on 8,948 tax products in 2023 while lowering its total tariff rate from 7.4 percent to 7.3 percent. As of January 1, 2023, 1,020 products, including anti-COVID medications, are subjected to provisional import tariff rates that are lower than the tariffs for the most favoured country (MFN). China will begin implementing the eighth stage of the MFN duty rate reduction on 62 information technology products on July 1, 2023, bringing China's overall tariff level even lower. To support the demands of industrial development and scientific and technical advancement, China will also add a few tax items in 2023.
- Additionally, since 2020, China has intensified efforts to support industrial clusters in vital industries like next-generation electronic information, autos, and smart home goods, making it difficult for other nations to substitute goods made in China.

What should China Anticipate in 2023?

- The World Bank Group predicts that a global economic downturn may occur in 2023. China's second and third most popular export destinations are the US and Europe, respectively, therefore the timing of the recession should not coincide with China's fourth-quarter export peak. However, it is still unclear whether export demand will bounce again following the recession. The consumer markets in the US and Europe are also important for China's trade with the Association of Southeast Asian Nations (ASEAN), which is its top export market, and the rest of Asia. In the first half of 2023, imports and exports may both begin to shrink annually due to weaker external demand. When the domestic and international economies recover in the second half, trade may start to increase.

- As China has significantly loosened its COVID-19 restrictions, both domestic and international travel are expected to rise in 2023. Although it's difficult to predict when, the current COVID-19 wave should also subside in a few months, reducing the chance of supply chain problems and stabilising retail sales.