

The resilience of Chinese exports during the COVID-19 crisis

Chinese economy | 24 September 2020 | Eeva Kerola

AUTHOR



Eeva Kerola
Senior Economist

China was at the forefront of the COVID-19 crisis. As a consequence, the value of Chinese exports plummeted by 13% year-on-year at the first quarter of 2020.



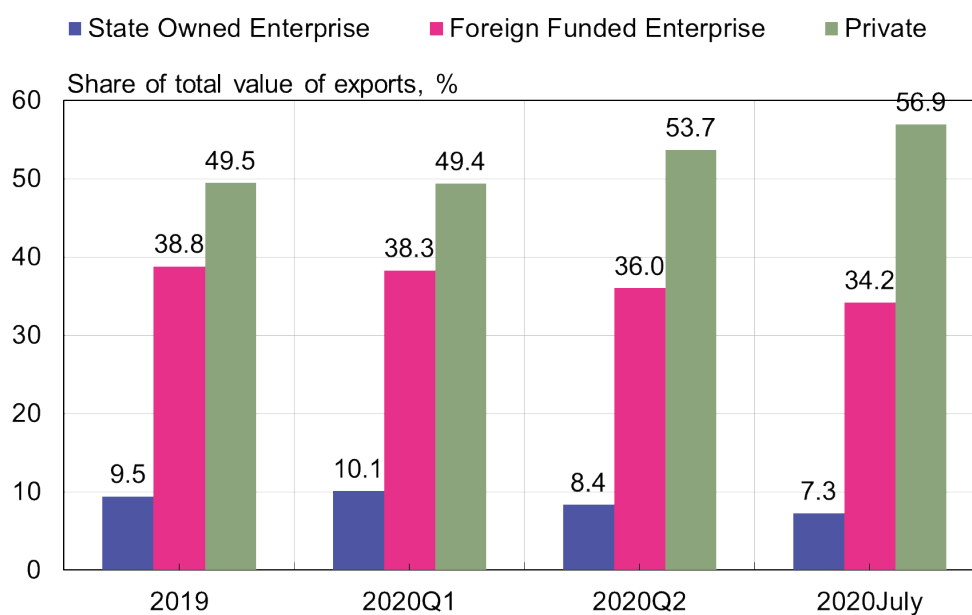
China was at the forefront of the COVID-19 crisis. As a consequence, the value of Chinese exports plummeted by 13% year-on-year at the first quarter of 2020 (-40% y-o-y in February alone). However, it was not until March when other countries started to impose more or less severe restrictions on economic activity and movement of people. The year-on-year drop in exports was historically bad both for the United States and the euro area in April and May, while Japanese export growth was at its lowest in June.

However, the recovery of Chinese exports was way faster than anticipated. In August, the value of Chinese exports soared 10% year-on-year, after a 7% rise in July. Also in volume terms, exports increased 14% y-o-y in August and the total export volume for January-August was already 4% above its 2019 level. What explains the resilience of the Chinese exports?

Chart 1 sheds some light as it depicts the contribution of different export categories to total export growth. In January-March the plunge in Chinese exports was rather broad-based across export categories. However, the subsequent upturn after April was more uneven. For the months of April and July, the bulk of the export growth was due to increased international demand for *machinery and mechanical appliances (ME)*. For May and June, most of the export growth was the result of growth in *textile and textile articles (TA)*.

Chart 1.

The increased role of private firms in total exports



Sources: CEIC and BOFIT.

24 September 2020
bofbulletin.fi

The year-on-year growth of all main export categories was negative during the first quarter. After April, the export categories that continued to decline were *base metal and articles thereof* and *vehicles and other transport equipment*. The category that saw the largest relative decline was *footwear and other accessories*, where the share of total exports dropped from 2.6% in 2019 to 1.8% in 2020 April-July.

The categories that showed the strongest year-on-year growth between April and July were

textile and textile articles (+18%), *optical, medical etc. apparatus* (+11%), *machinery and mechanical appliances* (+6%) and *chemical or allied industry products* (+5%).

Digging deeper at the textile industry, it is especially the *other made up textile article, worn textile articles* that experienced nearly a four-fold growth between April and July (+360%) compared to the previous year. The face masks and other protective clothing fall into this category. Their relative share of the total textile exports sky rocketed from 12% in January-March to 41% in April-July. At the same time other subcategories of textile exports continued to decline. Relatedly, the increase in exports of *plastic and articles thereof* (+10%) is most likely related to the increased international demand for plastic protective visors.

Apart from the protective equipment, the global fight against COVID-19 pandemic has required more medical devices and medicinal products - and China has ramped up production to meet the increased demand. Exports of *optical, medical etc. apparatus* increased by 11% year-on-year between April and July. Also the exports of *pharmaceutical products* grew by 51% year-on-year strengthening their relative share of the chemical industry exports. As the pandemic led tens of millions of employees and students to work from home as well as generally more time spent indoors, there was an increasing worldwide need for new monitors, computers, tablets and other communication equipment. This explains the growth in exports for already the largest export category, *machinery and mechanical appliances* (+6%).

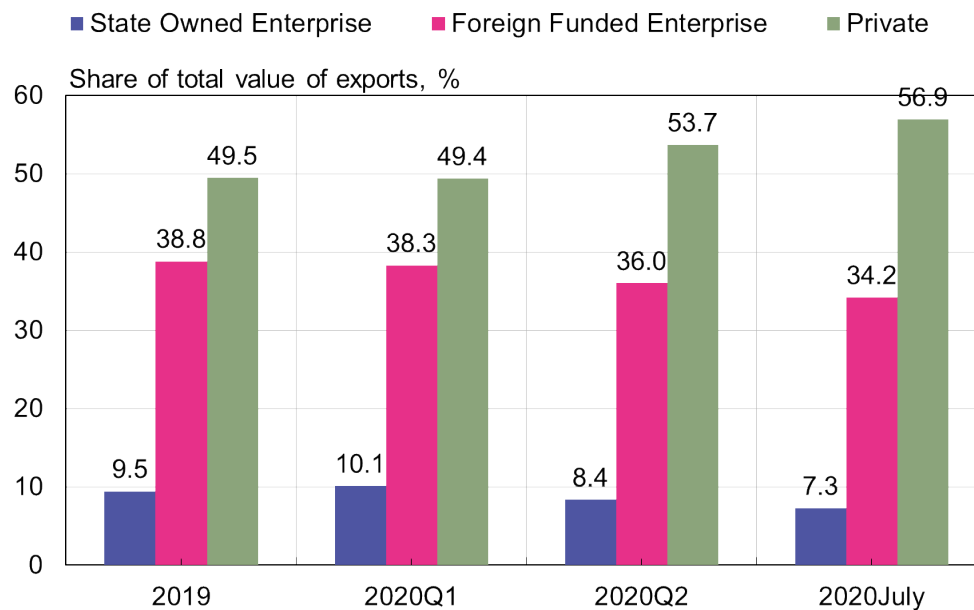
The products exported most during the COVID-19 pandemic were relatively less dependent on imported materials. On average, processing trade accounted for 34% of exports in 2019, and 30% of exports relied on imported materials. Although the decline of processing trade in Chinese exports is a longer-term trend, this trend accelerated in 2020. During July and August the share of processing trade declined to 30% and just 27% of exports relied on imported materials. Most of the increased Chinese exports between April and July headed to Europe (12% y-o-y increase between April and July) and to North America (+5%). Especially European countries saw large increases in Chinese imports of both textile articles and machinery. Respectively, exports to Asia and Oceania remained broadly stable, exports to Africa declined by 5% and to Latin America by roughly 9% y-o-y.

Lastly, an interesting detail about the composition of Chinese exports during the COVID-19 pandemic is the increasing role of privately owned domestic enterprises. As the private firms accounted on average for 49% of the total value of exports both in 2019 and in the first quarter of 2020, this share increased to 54% in April-June and further to 57% in July. At the same time the share of state owned enterprises out of total exports declined from 10% to 7%. Indeed, there are relatively more private firms in sectors benefitting from the demand shift during the pandemic, e.g. textile factories and electronic component manufacturers. Private firms could also be more

able to swiftly adapt their production to meet altered international demand. Furthermore, the most resilient exporters were domestic, as the role of foreign funded enterprises¹ declined from 39% in 2019 to 34% in July 2020.

Chart 2.

The increased role of private firms in total exports



Sources: CEIC and BOFIT.

24 September 2020
bofbulletin.fi

Is the rapid increase of Chinese exports likely to last? Most likely the demand for face masks, related protective gear, medical equipment and pharmaceutical products will normalize as the pandemic is bound to be beaten at some point – and perhaps not even very far in the future. However, global megatrends such as higher prevalence of teleworking will likely to continue long after the pandemic and sustain international demand for the export categories that still account for the bulk of the Chinese exports. At the very least these past unusual months have given Chinese companies valuable know-how in quick production adaptations that is undoubtedly an additional asset in global competition.

Notes

1. Foreign funded enterprises refer to all enterprises registered as joint-venture, cooperative, sole (exclusive) investment enterprises and limited liability corporations with foreign funds. [↑]

Keywords

BOFIT, China, COVID-19, COVID-19 crisis, exports