China’s share of world markets increased during the recession. It will keep rising

MANY people start the new year by resolving to change their old ways. Not China. On December 27th Zhong Shan, the country’s vice-minister of trade, declared that China will continue to increase its share of world exports. Figures due out on January 11th are expected to show that China’s exports in December were higher than a year ago, after 13 months of year-on-year declines. China’s exports fell by around 17% in 2009 as a whole, but other countries’ slumped by even more. As a result China overtook Germany to become the world’s largest exporter and its share of world exports jumped to almost 10%, up from 3% in 1999 (see chart).
China takes an even bigger slice of America’s market. In the first ten months of 2009 America imported 15% less from China than in the same period of 2008, but its imports from the rest of the world fell by 33%, lifting China’s market share to a record 19%. So although America’s trade deficit with China narrowed, China now accounts for almost half of America’s total deficit, up from less than one-third in 2008.

Trade frictions with the rest of the world are hotting up. On December 30th America’s International Trade Commission approved new tariffs on imports of Chinese steel pipes, which it ruled were being unfairly subsidised. This is the largest case of its kind so far involving China. On December 22nd European Union governments voted to extend anti-dumping duties on shoes imported from China for another 15 months.

Foreigners insist that the main reason for China’s growing market share is that the government in Beijing has kept its currency weak. But there are several other reasons why China’s exports held up better than those of its competitors during the global recession. Lower incomes encouraged consumers to trade down to cheaper goods, and the elimination of global textile quotas in January 2009 allowed China to increase its slice of that market.

How high could China’s market share go? Over the ten years to 2008 China’s exports grew by an annual average of 23% in dollar terms, more than twice as fast as world trade. If it continued to expand at this pace, China might grab around one-quarter of world exports within ten years. That would beat America’s 18% share of world exports in the early 1950s, a figure that has since dropped to 8%. China’s exports are likely to grow more slowly over the next decade, as demand in rich economies remains subdued, but its market share will probably continue to creep up. Projections in the IMF’s World Economic Outlook imply that China’s exports will account for 12% of world trade by 2014.

Its 10% slice this year will equal that achieved by Japan at its peak in 1986, but Japan’s share has since fallen back to less than 5%. Its exporters were badly hurt by the sharp rise in the yen—by more than 100% against the dollar between 1985 and 1988—and many moved their factories abroad, some of them to China. The combined export-market share of the four Asian tigers (Hong Kong, Singapore, South Korea and Taiwan) also peaked at 10% before slipping back. Will China’s exports hit the same barrier as a result of weakening competitiveness, or rising protectionism?

An IMF working paper published in 2009 calculated that if China remained as dependent on exports as in recent years, then to sustain annual GDP growth of 8% its share of world exports would rise to about 17% by 2020. To consider whether that was feasible, the authors analysed the global absorption capacity of three export industries—steel, shipbuilding and machinery. They concluded that to achieve the required export growth, China would have to reduce prices, which would be increasingly hard to manage, whether through productivity gains or a squeeze in profits. In many export industries, particularly steel, margins are already wafer-thin.

However, China’s future export growth is likely to come not from existing industries but from higher-value products, such as computer chips and cars. Japan’s exports also moved swiftly up the value chain, but whereas this was not enough to support durable gains in its market share, China has the advantage of capital controls that will prevent its exchange rate rising as abruptly as Japan’s did in the 1980s. When China does...
eventually allow the yuan to rise, it will do so gradually.

Another big difference is the vastness of China’s economy. China consists, in effect, of several economies with different wage levels. As Japan moved into higher-value exports, rising productivity pushed up wages, making old industries, such as textiles, uncompetitive. In China, as factories in the richer coastal areas switch to more sophisticated goods, the production of textiles and shoes can move inland where costs remain cheaper. As a result China may be able to remain competitive in a wider range of industries for longer.

Foreign hostility to China’s export dominance is growing. Paul Krugman, the winner of the 2008 Nobel economics prize, wrote recently in the New York Times that by holding down its currency to support exports, China “drains much-needed demand away from a depressed world economy”. He argued that countries that are victims of Chinese mercantilism may be right to take protectionist action.

From Beijing, things look rather different. China’s merchandise exports have collapsed from 36% of GDP in 2007 to around 24% last year. China’s current-account surplus has fallen from 11% to an estimated 6% of GDP. In 2007 net exports accounted for almost three percentage points of China’s GDP growth; last year they were a drag on its growth to the tune of three percentage points. In other words, rather than being a drain on global demand, China helped pull the world economy along during the course of last year.

Foreigners look at only one side of the coin. China’s imports have been stronger than its exports, rebounding by 27% in the year to November, when its exports were still falling. America’s exports to China (its third-largest export market) rose by 13% in the year to October, at the same time as its exports to Canada and Mexico (the two countries above China) fell by 14%.

Some forecasters, such as the IMF, expect China’s trade surplus to start widening again this year unless the government makes bold policy changes, such as revaluing the yuan. However, Chris Wood, an analyst at CLSA, a brokerage, argues that China is doing more for global rebalancing than America. Rebalancing requires that China spends more and America saves more. Mr Wood argues that China is doing more to boost domestic consumption (for example, through incentives to stimulate purchases of cars and consumer durables, and increased health-care spending) than America is doing to boost its saving. America’s total saving rate fell in the third quarter of last year to only 10% of GDP, barely half its level a decade ago. Households saved more, but this was more than offset by increased government “dissaving”.

Strong growth in China’s spending and imports is unlikely to dampen protectionist pressures, however. China’s rising share of world exports will command much more attention. Foreign demands to revalue the yuan will intensify. A new year looks sure to entrench old resentments.