

# Why Has China's Exports Grown Rapidly?<sup>1</sup>

Xun Yugen<sup>2</sup> CF40 Guest Speaker

**Abstract:** Currently, China faces a problem of insufficient domestic demand, making the sustainability of external demand particularly important. Since bottoming out in August 2023, China's export growth has shown a consistent upward trend. After excluding price fluctuations, the actual volume of exports has been steadily increasing, outperforming pre-pandemic levels. Over the past two years, the share of China's exports to the U.S. and Europe has significantly declined, while exports to ASEAN has risen to the first place, with ASEAN becoming a new growth point for exports. Some argue that China's exports are being re-routed to the U.S. through ASEAN, but data on ASEAN's exports and U.S. imports do not support this claim. ASEAN is currently in a phase of accelerated industrialization and consumption upgrading, leading to rising demand for high-end manufacturing products. Since ASEAN's high-end manufacturing sector is relatively weak, its reliance on related Chinese products remains high. Moreover, the Middle East also shows a strong dependence on China's high-end manufacturing. China needs to further strengthen its trade relations with these regions to lay the groundwork for future export growth.

Currently, the biggest challenge facing China's economy is insufficient domestic demand. At the same time, there is growing concern in the market about whether external demand can sustain its growth. This article aims to explore why China's export growth has been so strong.

## I. ASEAN Becomes a New Growth Point for Exports

Among all the economic indicators in China this year, export data stands out the most. In the first seven months, investment and consumption growth were around 3%, while export growth, measured in RMB, was about 7%, far exceeding expectations.

During the pandemic, China's exports performed strongly, generally attributed to the supply side, as China's precise pandemic control measures ensured the rapid recovery of production. However, after China

fully lifted pandemic restrictions in 2023, export growth slowed and turned negative.

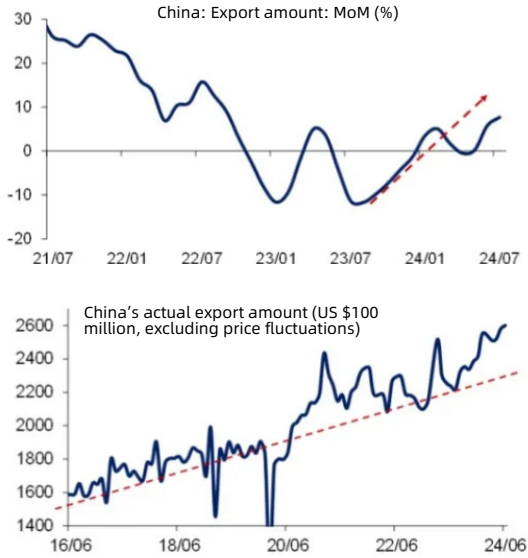
Unexpectedly, in 2024, China's export growth bounced back to positive territory. As shown in Figure 1, not only did the growth rate of exports turn positive, but the export volume, excluding price factors, also significantly exceeded pre-pandemic levels. While consumption and investment have experienced a "scarring effect" after pandemic, making it difficult for them to return to pre-pandemic trends, the post-pandemic trajectory of China's export growth has actually surpassed its pre-pandemic trendline.

In terms of proportion, the share of China's exports as a percentage of GDP has returned to 20%, higher than in 2019, reaching pre-pandemic levels. The right panel of Figure 2 shows that China's share of global exports remains at a high level, around 16%, which is approximately 1.5 percentage points higher than before the pandemic.

1 This article is a keynote speech delivered by the author at the closed-door session on China's Macroeconomic Outlook for the Second Half of 2024 during the 6th Bund Summit on September 6, 2024. It was translated by the Secretariat of CF40 and not reviewed by the author. In case of any discrepancy or ambiguity between the English and Chinese versions, the Chinese version shall prevail.

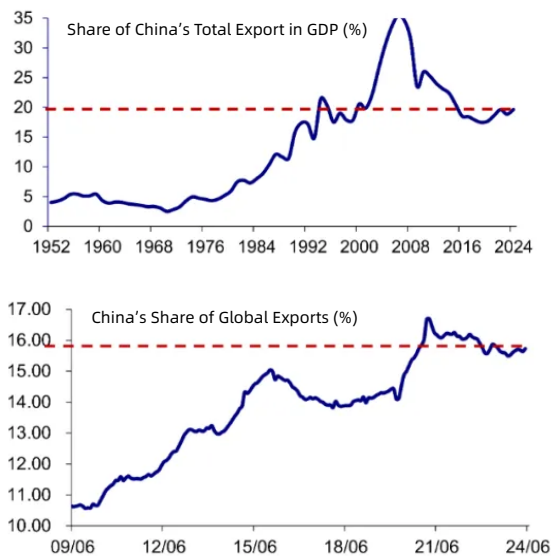
2 The author is the Chief Economist and Director of the Research Institute at Haitong Securities.

Figure 1: Absolute Amount and Growth Rate of China's Exports



Sources: Wind, Haitong Securities Research Institute

Figure 2: China's Total Exports as a Percentage of GDP and Global Export Share

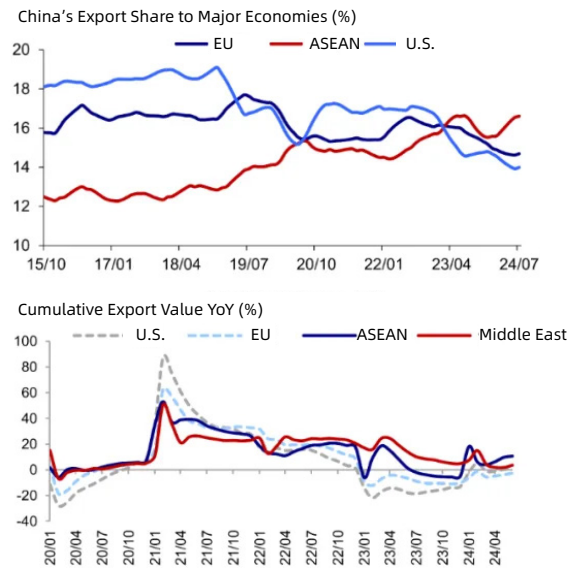


Sources: Wind, Haitong Securities Research Institute, as of June 2024

ASEAN has become a new growth point for exports. The left panel of Figure 3 illustrates the changes in China's export destinations. In the past, the U.S. and the European Union were the main destinations for China's exports. However, since 2018, due to the impact of the China-U.S. trade friction, the share of China's exports to the U.S. and Europe has been continuously declining, especially to the U.S. From 2018 to 2019, exports to the U.S. dropped once, and again from 2023 to 2024, with the U.S. share falling from a previous peak of about 18% to the current level of around 14%.

Meanwhile, ASEAN's share increased from slightly over 12% in 2018 to nearly 17%. The high growth point of China's exports now comes from emerging economies, represented by ASEAN. In the first seven months of this year, China's exports to ASEAN grew by more than 10%. From ASEAN's import perspective, China accounts for 25% of its imports, indicating a high level of dependence on China. Looking at both China's exports and ASEAN's imports, ASEAN has already become a highly important trading partner for China.

Figure 3: China's Export Shares to Major Economies

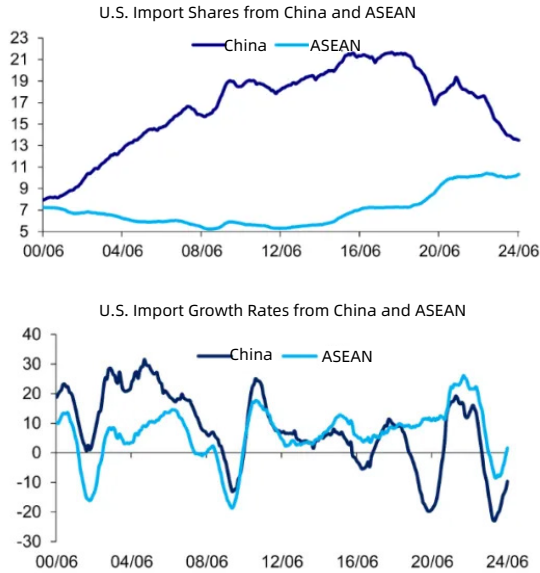


Sources: Wind, Haitong Securities Research Institute

Some believe that the increase in trade between China and ASEAN is due to entrepot trade, where goods are exported from China to ASEAN and then re-exported to the U.S. following the deterioration of China-U.S. trade relations.

However, the data does not support this claim. Figure 4 shows the import situation from the U.S. perspective, where the share of U.S. imports from China has significantly decreased, especially from 2022 to 2024. Meanwhile, the increase in the U.S. share of imports from ASEAN occurred mainly before 2021, with continuous growth from 2018 to 2020, but it has remained relatively stable over the past three years.

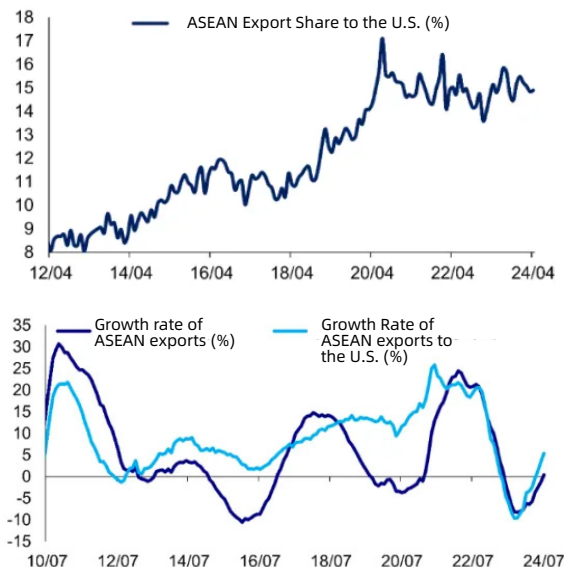
Figure 4: U.S. Import Shares and Growth Rates from China and ASEAN



Sources: CEIC, Haitong Securities Research Institute

If entrepot trade were occurring, U.S. imports from China would decrease while imports from ASEAN should increase. However, the actual data does not support this assumption. Additionally, the growth rate of U.S. imports from ASEAN has been negative over the past two years, mirroring the trend in U.S. imports from China, further disproving the claim of entrepot trade.

Figure 5: ASEAN Export Share and Growth Rate to the U.S.



Sources: CEIC, Haitong Securities Research Institute

From ASEAN's perspective, its export share to the U.S. did increase after 2018, particularly between 2018 and early

2020. In recent years, it has remained mostly stable. The two lines in the right panel show that the overall growth rate of ASEAN exports and the growth rate of ASEAN exports to the U.S. have been aligned over the past two years, indicating that ASEAN has not "extraordinarily" increased its exports to the U.S. These two sets of data further disprove the claim of entrepot trade.

## II. ASEAN is in a Phase of Accelerated Industrialization and Consumption Upgrading, Requiring Imports of Chinese High-End Manufactured Products

In terms of export products, China's exports to ASEAN are mainly medium- and high-end manufactured products, such as electrical machinery and apparatus (25%), nuclear reactors, and mechanical appliances (13%). This contradicts the speculation that China is exporting shoes, clothing, toys, and similar products to ASEAN, which are then re-exported to the U.S.

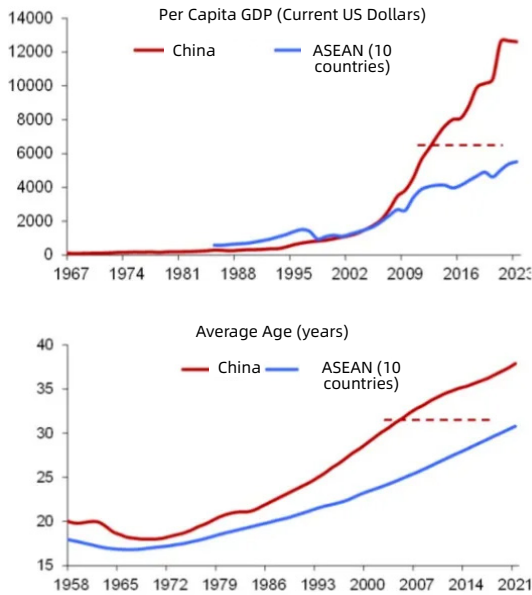
Figure 6: Key Product Categories in China's Exports to ASEAN



Sources: Wind, Haitong Securities Research Institute, as of July 2024

Why does ASEAN need China's high-end manufactured products? To understand this, we can examine ASEAN's stage of economic development. Currently, ASEAN's per capita GDP is about \$5,600, similar to China in 2011. Its urbanization rate is comparable to China's in 2012, and its average population age structure is similar to China's in 2003. These indicators suggest that ASEAN's economic development stage is akin to China's between 2003 and 2010, a period when China was undergoing accelerated industrialization and consumption upgrading.

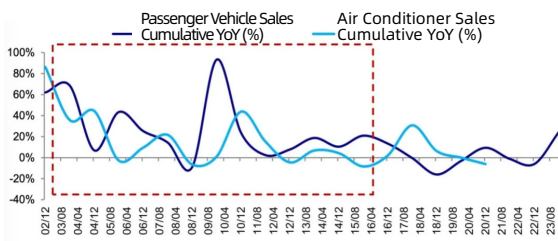
Figure 7: Comparison of Per Capita GDP and Average Age Between China and ASEAN



Sources: World Bank, Haitong Securities Research Institute

In China, passenger vehicles and air conditioners are typical products of consumption upgrading. As people's incomes increased, they began purchasing private cars and installing air conditioners. As shown in Figure 8, between 2002 and 2015, annual sales of both passenger vehicles and air conditioners grew by double digits for over a decade, with private car sales growing at a rate of 25% and air conditioner sales at around 15%.

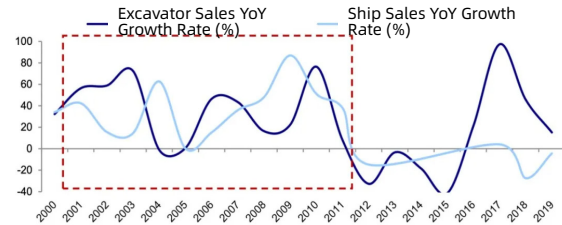
Figure 8: Cumulative Year-on-Year Growth Rate of Passenger Vehicle and Air Conditioner Sales in China



Sources: Wind, ATHM, Chinaiol, Haitong Securities Research Institute

The acceleration of industrialization also spurred rapid urbanization. Between 2000 and 2010, the annualized growth rates of excavator and ship sales in China were 36% and 35%, respectively.

Figure 9: Year-on-Year Growth Rate of Excavator and Ship Sales in China



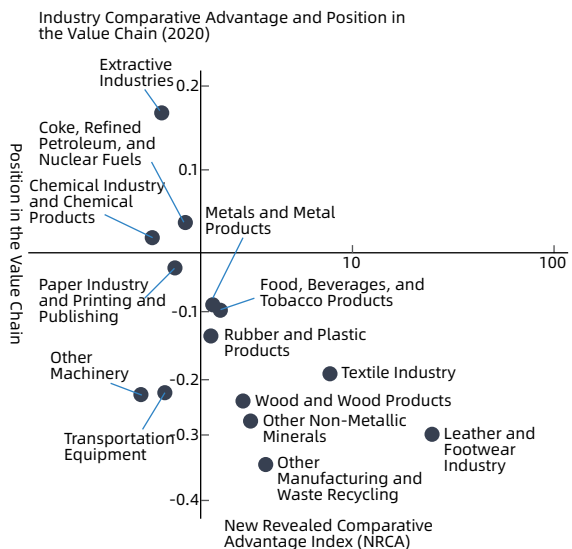
Sources: Wind, Haitong Securities Research Institute

The primary reason ASEAN needs high-end manufactured products is that it is currently in a phase of accelerated industrialization and consumption upgrading.

However, most ASEAN countries struggle to produce these products themselves. For example, in Vietnam, as shown in Figure 10, the horizontal axis reflects the comparative advantages of different industries, while the vertical axis represents the position of those industries in the value chain. Vietnam's key industries are primarily low-value-added sectors at the lower end of the industrial chain, such as leather manufacturing and textiles. It lacks competitive advantages in high-end manufacturing sectors.

The left panel of Figure 11 reveals Indonesia's historical employment structure, where the proportion of

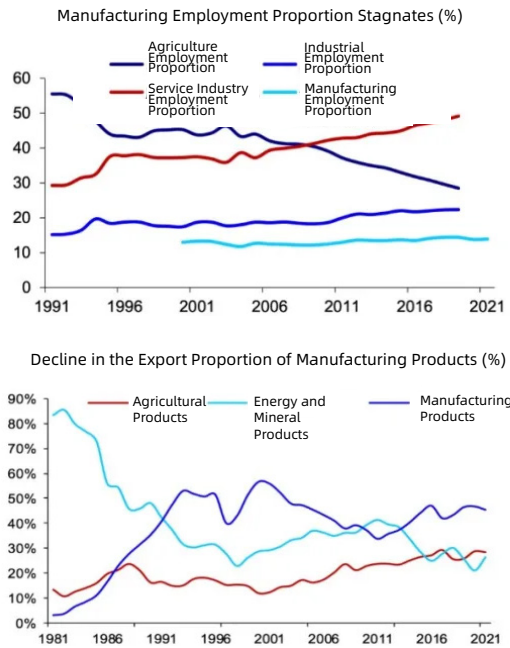
Figure 10: Industry Comparative Advantage and Position in the Value Chain in Vietnam (2020)



Sources: MRIO, Haitong Securities Research Institute

employment in manufacturing is relatively low, while the service sector dominates. The right panel shows the export structure across different sectors, with the share of manufacturing in Indonesia's export structure continuously declining, reflecting the overall weakness of its manufacturing sector.

**Figure 11: Proportion of Employment in Manufacturing and Manufacturing Export Performance in Indonesia**

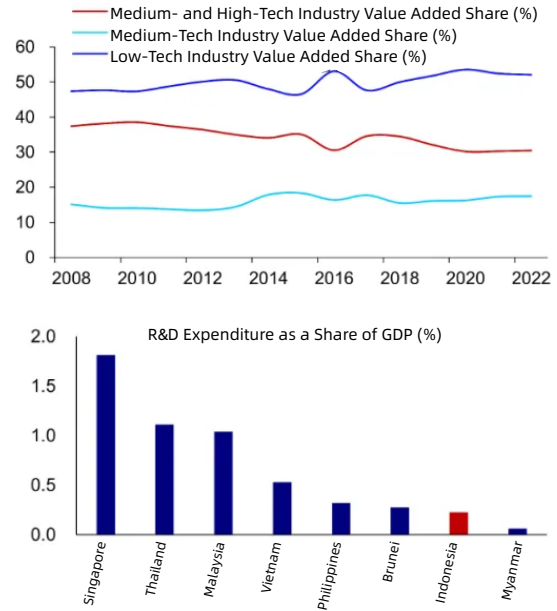


Sources: World Bank, Haitong Securities Research Institute

An analysis of Indonesia's manufacturing structure shows that since 2008, the added value of medium- and high-tech industries has been declining. Indonesia's manufacturing sector is not strong, and the proportion of high-tech industries within it has even decreased. As seen in the cases of Vietnam and Indonesia, ASEAN countries generally have weak high-end manufacturing sectors.

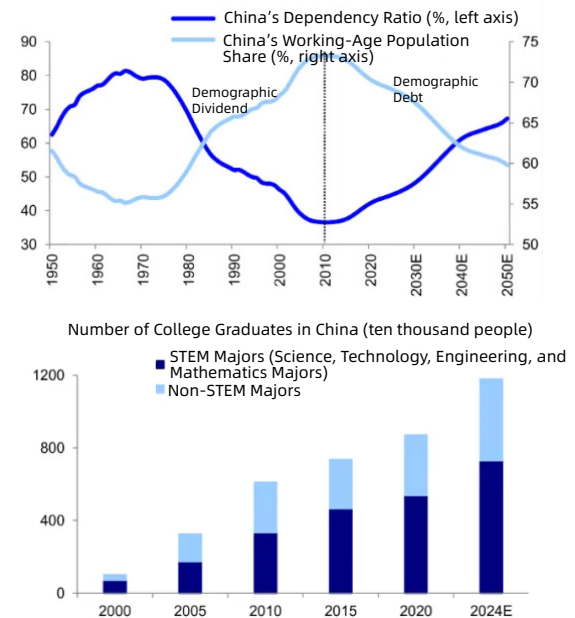
China's high-end manufacturing sector is relatively strong. The left panel of Figure 13 depicts China's population age structure. The 15-64 age group peaked in 2010, accounting for 73.8% of the total population, but has been declining since then, signaling a gradual decline in the demographic dividend. However, from a quality perspective, the talent dividend is rising. In 2024, the number of college graduates in China is expected to reach approximately 11.8 million, with over

**Figure 12: R&D Expenditures in ASEAN Countries**



Sources: World Bank, Haitong Securities Research Institute

**Figure 13: Population Trends and Changes in the Number of College Graduates in China**



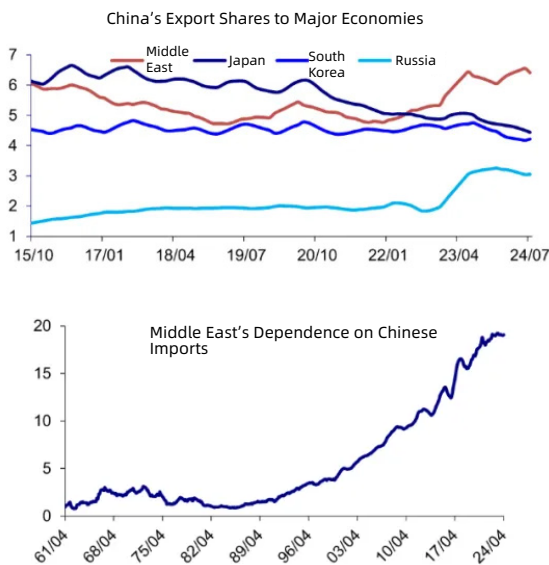
Sources: Wind, United Nations Population Division, Ministry of Education, Haitong Securities Research Institute

60% graduating from an engineering degree. Since the educational reform of 1999, this figure has increased more than tenfold over the past two decades.

### III. ASEAN and the Middle East Are Expected to Become New Drivers of External Circulation

In addition to ASEAN, the Middle East is emerging as a new growth point for our exports. According to customs data, China's exports to 15 countries in the Middle East account for 6% of total exports, surpassing Japan and South Korea's 4%. The dependence of Middle Eastern economies on Chinese manufacturing is quite high, with approximately 20% of their imports coming from China.

Figure 14: China's Export Shares to Major Economies and the Middle East's Dependence on Chinese Imports

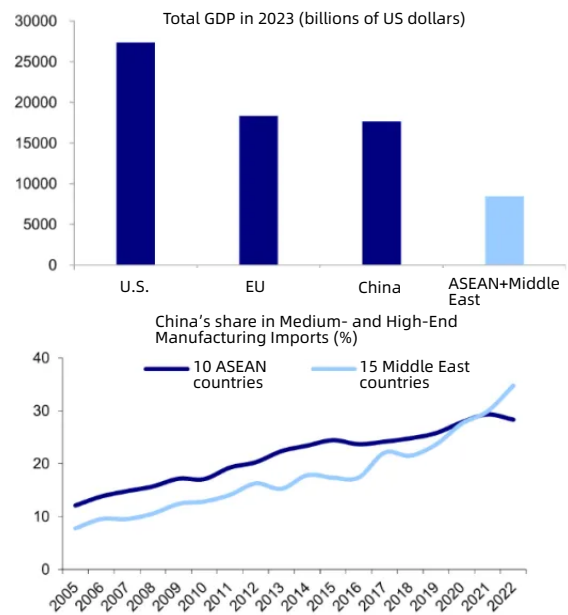


Sources: Wind, Haitong Securities Research Institute, as of July 2024

The new external circulation pattern in China's export market appears to be shifting from a traditional focus on the U.S. and EU to a greater emphasis on ASEAN and the Middle East. Both regions have large

populations; ASEAN has about 680 million people, nearly half of China's total population, while the 15 countries in the Middle East have approximately 570 million people. Together, the combined population of these two regions is significant.

Figure 15: Total GDP for Various Countries in 2023 and China's Share in Medium- and High-End Manufacturing Imports



Sources: Wind, Haitong Securities Research Institute

From the perspective of total GDP, the combined economic scale of these two regions is also close to half of China's. Approximately one-third of the high-end manufactured products imported by ASEAN and the Middle East originate from China, indicating a high level of dependence on Chinese high-end manufacturing in these regions. If trade relations between China and these areas can be further improved, it could provide a solid foundation for the growth of China's exports. 🏗️