

CHANGES IN THE FLOW OF GOODS SURROUNDING CHINA

— NOTABLE TRENDS AND OUTLOOK WITH A FOCUS ON EXPORTS —

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SUMMARY

- Looking at China's trade in recent years, its export products have become increasingly sophisticated and there has been a significant shift in its trading partners to emerging economies. This is a desirable change for China as it maintains its competitiveness as "the world's factory" and enhances trade stability.
- On the other hand, China is increasing trade with sanctioned Russia, using trade as a weapon to intimidate Western countries, and tightening control over exports of semiconductor materials, etc., creating a situation where Western countries are working together to reduce their dependence on China. Emerging economies are trying to implement import substitution to transform their own industrial structure and address trade imbalances with China.
- The flow of goods surrounding China will continue to change from now on. In order to respond, it is necessary to keep a close eye on current trends, and follow related policies, indicators, corporate activities, etc., to see what lies ahead.

1. INTRODUCTION

1-1. Looking back on 2023

2023 was a year rich in topics for discussion regarding Chinese trade. Exports fell below the level of the previous year for the first time in seven years due to sluggish foreign demand, and total trade fell 5.0% YoY to USD 5,936.8 billion, dropping below USD 6 trillion for the first time in two years¹. On the other hand, some sectors were also strong, with the export value of electric vehicles (EVs), lithium ion batteries (LIBs), and photovoltaic cells², which the Chinese authorities call the "New Three" of export growth, reaching the 1 trillion yuan (approximately JPY 20 trillion) mark³, and the number of automobiles exported reaching nearly 5 million, surpassing Japan and ranking first in the world⁴. Other notable events from the perspective of Chinese trade history include the ratio of ASEAN countries as a trading partner surpassing that of Japan, Korea and Taiwan combined for the first time, and South Korea's statistics showing a trade deficit with China for the first time in 31 years.

¹ The year-on-year decline was due in part to a significant depreciation of the yuan against the US dollar in 2023. On a yuan basis, China's 2023 trade volume announced by the National Bureau of Statistics of China totaled CNY 41.7568 trillion, up 0.2% YoY, with exports rising 0.6% to CNY 23.7726 trillion, and imports falling 0.3% to CNY 17.9842 trillion.

² The "Old Three" are clothing, furniture, and appliances.

³ The export value of the "New Three" in 2023 increased by 29.9% YoY to a total of CNY 1.06 trillion.

⁴ In 2023, China's auto exports grew 57.9% YoY to 4.91 million units, while Japan's exports grew 16.0% YoY to 4.42 million units.

1-2. Aims of this report

Japanese corporations and businesspeople are now faced with the big question and challenge of how to respond to changes in the flow of goods surrounding China resulting from factors such as China's current economic slowdown (despite the fact its economy has grown to 70% of the US GDP) and heightened geopolitical risks. By analyzing China's trade data through 2023 and focusing primarily on exports, this report attempts to highlight notable trends in China's trade over the past few years and provide a perspective on addressing the above issues.

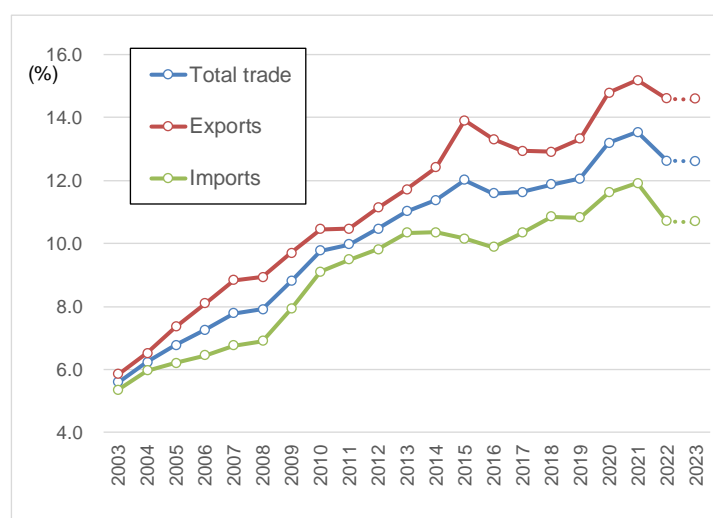
2. NOTABLE MOVEMENTS AND TRENDS

2-1. High share of world trade to be maintained for the time being

"The share of our country's exports in the international market is expected to remain at the high level of around 14% in 2023," said a spokesman for China's customs authorities at a press conference on January 12, 2024. This may be an attempt to signal that China still maintains a high level of competitiveness as "the world's factory" despite the changing global trade environment.

China's overall global share of trade, including imports, leapfrogged that of the US to take the top spot in 2013. After peaking in 2021 on the back of special IT procurement in the COVID-19 pandemic, China's share began to decline in 2022, but still remains at a high level (Figure 1). World trade in 2023 appears to have shrunk by about 5% YoY⁵, and since China's trade was also down by 5% YoY, it is estimated that its global share remained roughly constant.

Figure 1: China's share of world trade



Note: Data for 2023 assumes flat growth compared to 2022
 Source: Compiled by MGSSI based on ITC data, China Customs Statistics, UNCTAD, etc.

Given China's concentration of industry and market size, it is unlikely that its share of trade will drop in the future, but it is also unlikely that it will head back into an upward trend. As for exports, the increasing spread of production hubs for smartphones and other electronic devices from China to other countries, and the fact that Western countries and some emerging countries are trying to reduce imports of items such as automotive batteries and photovoltaic cells from China, will put downward pressure on China's market share. Imports will also face increasing downward pressure from such factors as the growing substitution of high-tech products

⁵ Global trade expected to shrink by nearly 5% in 2023 amid geopolitical strains and shifting trade patterns
<https://unctad.org/news/global-trade-expected-shrink-nearly-5-2023-amid-geopolitical-strains-and-shifting-trade>

for imports due to Chinese technical advancement, declining demand for fossil fuels due to the introduction of renewable energy, and the boom in domestic brands.

2-2. Sophistication of export items

The term the “New Three” of exports (EVs, LIBs, and photovoltaic cells) has been used by the Chinese government since around the beginning of 2022. This may be intended to communicate the message that China’s export items are becoming greener and more high-tech, and that the outlook is bright. Exports of these three items totaled USD 138.6 billion in 2023, a 22.3% increase YoY⁶.

Figures 2 and 3 show China’s top 10 exports in 2023 and 2013, respectively. Furniture and women’s clothing have disappeared over the past decade. The top three categories of telephones, PCs, and IC remain the same, but the third-ranked IC has the highest rate of increase, up 55.4% over 2013. Automobiles, in fourth place in 2023, increased approximately 17-fold, and storage batteries, holding fifth, increased nine-fold. Photovoltaic cells and other semiconductors also doubled in sixth place.

The Xi Jinping administration is advocating “self-reliance and independence” to become a “manufacturing powerhouse,” calling for “greater dependence (of countries on China),” and working to “strengthen the supply chain.” The policy is to increase the number of goods that can be manufactured within China and reduce dependence on foreign countries, while at the same time increasing foreign dependence on Chinese resources and products. Simply looking at the changes in export items, it can be said that these efforts have produced some results⁷.

Meanwhile, China has also increased its IC imports by more than 50% over the past decade. The largest source of imports is Taiwan⁸, on which it relies mainly for advanced semiconductors. In this way, although China’s manufacturing sophistication is still a work in progress, it will continue to advance. But whether or not exports of the resulting products can be steadily increased is another story. Currently, concerns about “China’s export of deflation” are growing, mainly in Europe and the US, in response to China’s export offensive of various industrial products backed by its overwhelming production capacity⁹. Coupled with security concerns, protectionist policies¹⁰ and moves toward friendshoring¹¹ targeting China may be further strengthened in the future. Exports to emerging economies, where there is relatively little political conflict with China, will continue to grow for the time being for products that cannot be produced locally by the partner country due to technology or cost issues.

⁶ Calculated from the total value of HS codes 854143 (photovoltaic cells), 870380 (EV) and 850760 (LIB). In terms of volume, there were 1.2 million units of EV exports in 2023, up 77.6% YoY.

⁷ A symbolic event is that statistics from South Korea show that the trade balance with China fell into deficit in 2023 for the first time in 31 years. In response, some in South Korea expressed pessimism, saying, “We have nothing left to sell [to China]” (Chosunilbo). While there are several factors contributing to the deficit, it is suggested that in addition to a decline in the market share of Korean brand products in China, China’s technological capabilities and production capacity have increased, and the substitution of Korean product imports may have progressed. On the other hand, as brand-name manufacturers such as Samsung and Apple increase their production outside of China, the destination of South Korea’s intermediate commodity exports is switching from China to other countries.

⁸ Taiwan accounted for about 40% of China’s IC imports in 2023.

⁹ The EU launched an anti-subsidy investigation into Chinese EVs in October 2023.

¹⁰ As an example of protectionist policies, the US has taken steps to ensure that tax credits for EVs under the Inflation Reduction Act (IRA) are not applicable if EV manufacturers source battery materials or extracted critical minerals produced by a “Foreign Entity of Concern,” such as in China.

¹¹ Moves toward friendshoring can be seen not only in the US but globally. According to the United Nations Conference on Trade and Development’s (UNCTAD) “Global Trade Update (December 2023),” when looking at global trade based on an investigation covering from 2022, trade between “geopolitically close” countries (i.e., allies and friends) is generally growing, and trade between distant countries is declining.

Figure 2: China's top 10 exports in 2023

*Colored cells indicate items that were not in the top 10 in 2013

Ranking	HS code	Item	2023 export (\$100 mn)	Growth rate compared to 2022 (%)	Growth rate compared to 2013 (%)
—	—	Total exports	33,887	-5.7	53.4
1	8517	Telephones (smartphones, etc.)	2,196	-7.8	25.6
2	8471	PCs	1,499	-20.2	-7.3
3	8542	IC	1,366	-11.6	55.4
4	8703	Passenger cars and other automobiles	777	73.8	1579.7
5	8507	Storage batteries (automotive lithium-ion batteries, etc.)	699	22.1	807.2
6	8541	Semiconductor devices (transistors, etc.), optoelectronic semiconductor devices (photovoltaic cells, modules, etc.), and LEDs	614	-6.8	120.3
7	8708	Automobile parts	533	7.2	109.0
8	2710	Petroleum products (jet fuel, etc.)	484	0.2	97.5
9	8504	Electronic parts (transformers, converters, etc.)	466	-1.8	64.9
10	9405	Lighting equipment	412	-10.6	67.1

Source: Compiled by MGSSI based on ITC data

Figure 3: China's top 10 exports in 2013

*Colored cells indicate items that are not in the top 10 in 2023

Ranking	HS code	Item	Export (\$100 mn)
—	—	Total exports	22,090
1	8517	Telephones	1,749
2	8471	PCs	1,617
3	8542	IC	879
4	9013	Liquid crystal devices, lasers, and optical devices	386
5	8473	Machinery (PC, etc.) parts	294
6	7113	Accessories	289
7	9403	Furniture	289
8	6104	Women's clothing	283
9	8504	Electronic parts	283
10	8541	Semiconductor devices	279

2-3. Shift of trading partners to emerging economies

Figure 4 shows the composition of China's trading partners. In 2023, ASEAN countries overtook Japan, Korea, and Taiwan combined to become China's largest trading partner¹². In 2010, the share of Japan, Korea and Taiwan combined was 21.9%, the EU 16.1%, the US 13.0%, and ASEAN countries 9.8%. In 2023, this was 15.6% for ASEAN countries; 15.2% for Japan, Korea and Taiwan combined; 13.3% for the EU; and 11.3% for the US. The share of Brazil, Russia, and India combined increased from 6.0% in 2010 to 9.4% in 2023.

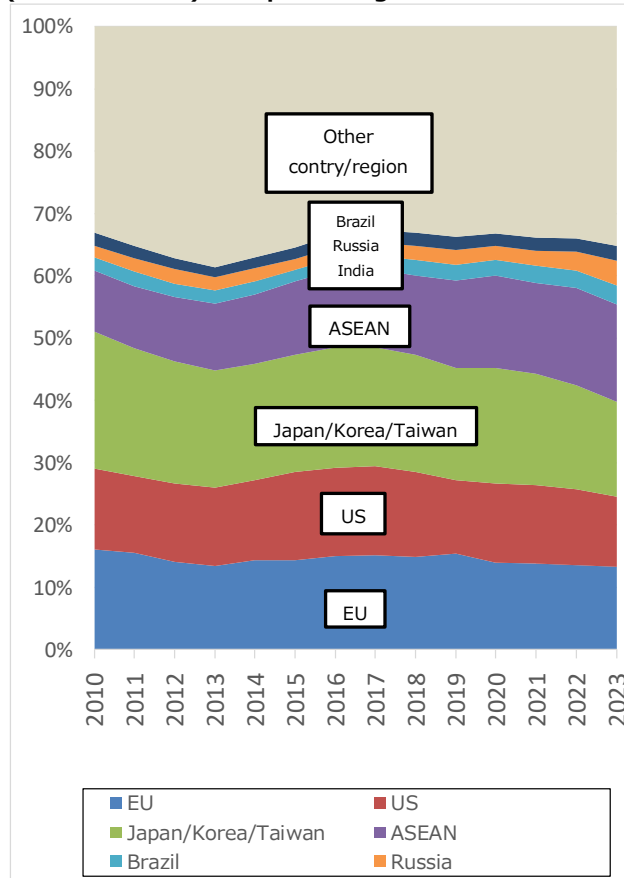
The trend of shifting to emerging markets is likely to continue for the following reasons: (1) Increasing business costs and intensifying market competition in China, (2) growing concerns over China's domestic politics and geopolitical risks (Taiwan Strait and South China Sea situation), (3) progress in de-risking and protectionist policies against China by the US, Europe and other countries¹³, (4) market expansion in emerging countries due to growth, (5) strengthening industrialization and import substitution policies in emerging countries¹⁴, etc. In response to this changing environment, it is expected that foreign and Chinese companies will diversify their production and procurement hubs to emerging countries, and that Western companies will increasingly remove China from their supply chains for critical goods such as advanced semiconductors and the equipment for manufacturing them.

¹² Japan, Korea, and Taiwan still comprise China's largest customer in terms of imports, but the share is trending downward. As for exports, ASEAN countries overtook the EU as China's top export destination in 2022, and the gap widened in 2023.

¹³ The EU, while recognizing that complete decoupling from China is unrealistic, is pursuing de-risking to reduce its dependence on China from the perspective of economic security, etc. In June 2023, the EU announced its first economic and security strategy, which aims to improve the EU's industrial competitiveness, enhance investment and export regulations, and strengthen ties with allies and friends. Legislation such as the Critical Raw Materials Act is also being developed to reduce dependence on China for such minerals.

¹⁴ Indonesia, for example, is strongly promoting domestic production of EVs and batteries. The country has set the target of increasing the domestic production rate of EVs to 40% or more by 2026. Contemporary Amperex Technology Co. Limited (CATL), the largest automotive battery company in China, is responding to Indonesian government policy by investing in the Indonesian battery supply chain.

Figure 4: Composition of China's trading partners (in value terms) as a percentage of total trade



Source: Compiled by MGSSI based on ITC and China Customs Statistics

2-4. Expansion of trade with Russia and Central Asia

Trade between China and Russia and Central Asian countries, especially exports from China, grew strongly in 2022 and continued to grow at a high rate in 2023 (Figure 5). While China's overall exports fell below the previous year's level in 2023, those to Russia and major Central Asian countries increased by from 30 to nearly 70%¹⁵.

The background to this is Russia's invasion of Ukraine from February 2022. Russia's trade with Western countries has been restricted, as well as its ability to make payments in dollars or euros, due to sanctions imposed by Japan, the US, Europe, and other countries. The withdrawal of Western companies from the Russian market has also limited access to products not subject to sanctions (such as clothing). Sino-Russian trade has expanded accordingly. In fact, Chinese exports to Russia of items sanctioned by the West, such as construction equipment and trucks, have increased significantly since 2022¹⁶.

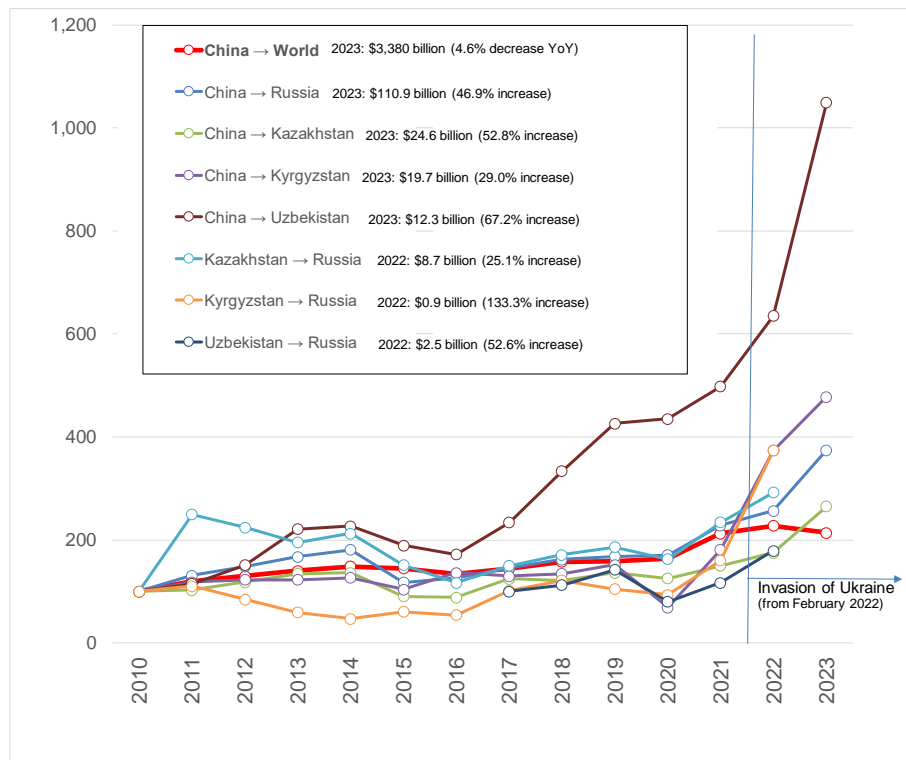
Also, looking at China's exports to Central Asia, exports of clothing, footwear, and fabrics to Kyrgyzstan, for example, multiplied by several to a dozen times between 2021 and 2022, depending on the item. During the same period, exports of fabrics and footwear from Kyrgyzstan to Russia increased several to tens of

¹⁵ As well as exports to Russia, China has greatly increased its imports of energy and aluminum from the country since 2022. The size of Sino-Russian trade grew from USD 146.8 billion in 2021 (11th largest country for China) to USD 240.1 billion in 2023 (6th largest).

¹⁶ In April 2023, Russian Finance Minister Siluanov said that 70% of Sino-Russian trade settlements are made in the local currency (ruble or yuan).

thousands of times. Exports of some machinery, electrical equipment, and metal products from China to Central Asia and from Central Asia to Russia are similarly growing in tandem. Although it is difficult to accurately track the flow of goods, it is natural to assume that products that cannot be directly shipped from China to Russia (seen to include products from third countries) due to the impact of sanctions and the like are entering Russia via Central Asia.

Figure 5: Exports between China, Russia, and major Central Asian countries (2010 = 100)



Note: Exports from Uzbekistan to Russia in 2017 = 100 due to limited available data

Source: Compiled by MGSSI from ITC data and China Customs Statistics

2-5. Economic coercion and strengthening of export controls

Trade restrictions on specific countries are one of the most powerful tools of economic coercion. A report published by the Australian Strategic Policy Institute in February 2023 listed examples of coercive diplomacy by China from 2020 to 2022. Thirty-five of the 73 cases involved trade restrictions, and around 90% of these were import restrictions. The partner country was a Western country in almost all cases (Figure 6)¹⁷.

The trend, seen as coercion, continued into 2023. When TEPCO's Fukushima Daiichi Nuclear Power Plant began to discharge treated water into the ocean on August 24, China immediately suspended all imports of marine products originating from Japan. The only countries that strengthened restrictions after the discharge were China and Russia¹⁸. On December 21, just before the Taiwan presidential election (January 13, 2024), China announced that it would suspend some of the preferential tariff measures it had granted Taiwan¹⁹, and

¹⁷ Import restrictions by China are characterized by frequently being items for which substitutes are easy for China to find and important for the partner country, such as agricultural products and food products.

¹⁸ According to information compiled by the Ministry of Agriculture, Forestry and Fisheries. Hong Kong and Macau, which are under Chinese rule, are also tightening restrictions on imports from Japan.

https://www.maff.go.jp/j/export/e-shorisui/kaiyou_houshutsu.html

¹⁹ In response to the announcement, on January 1, 2024, China suspended tariff reduction measures under the Economic Cooperation Framework Agreement (ECFA) on 12 petrochemical products of Taiwanese origin, including propylene and paraxylene.

on January 9, it indicated that it would expand the scope of the suspension²⁰.

Export controls were also strengthened in 2023. Gallium and germanium-related items were newly added to items licensed for export in August, and graphite-related items were added in December. Since these items are also used for military supplies, China explains that these moves are “national security measures,” but as licensing can be a means of coercion, the future implementation of licensing will be closely monitored²¹.

Figure 6: Examples of economic coercion by China using trade as a weapon

Date	Party subject to coercion	Details of coercion	Events seen to be the cause	Remarks
2020 April 25	Lithuania	Export license for Lithuanian wheat to China revoked	Lithuania's “value-based foreign policy” and its stance on opposing China and increasing its involvement with Taiwan	Lithuania then authorized the establishment of a “Taiwanese Representative Office in Lithuania” in its capital Vilnius (opened in November 2021). China increased restrictions, banning imports of Lithuanian beef and liquor on the grounds of “insufficient documentation” and halting imports of industrial products containing Lithuanian-made parts.
2020 May 12	Australia	Beef imports from four Australian slaughterhouses banned	Australian Prime Minister called for an international investigation into the origins of COVID-19	Many other items such as coal, barley, wine, and logs also subject to trade restrictions (assigning high tariffs, etc.). After diplomatic talks, the restrictions were lifted, with some exceptions, by the end of 2023.
2020 September 12	Czech Republic	China requests its citizens to refrain from travel to the Czech Republic	Visit by Senate President Vystrčil and others to Taiwan	Ostensibly, the reason was “signs of a rebound in the COVID-19 epidemic in the Czech Republic.” The Czech Republic continued its relationship with Taiwan. In March 2023, Lower House Speaker Adamová visited Taiwan and gave an address at the Legislative Yuan (equivalent to the parliament or diet)
2021 July 16	Sweden	Sharp decline in Ericsson's share of contracts for the rollout of 5G mobile in China (11% in 2020 → 2% in 2021)	Swedish government's exclusion of Huawei from the country's 5G network	Ericsson continues to collaborate with Chinese companies and local governments, including announcing the implementation of a 5G-based natural disaster preparedness project in China in August 2022.
2022 August 2	Taiwan	Ban on import of 2,066 types of Taiwanese food products	US House Speaker Pelosi's visit to Taiwan	Taiwan is also subject to numerous other import restrictions by China, mainly on agricultural and marine products. Suspension of imports of Taiwanese mangoes, etc. immediately after Vice President Lai Ching-te's visit to the US in August 2023.
2023 August 24	Japan	Suspension of imports of marine products originating from Japan	Discharge of treated water from TEPCO's Fukushima Daiichi Nuclear Power Plant into the ocean	Although the direct trigger was the discharge of treated water, some in Japan believe that the suspension may have been sanctions or a sign of coercion in response to Japanese restrictions on the export of semiconductor manufacturing equipment to China.

Source: Compiled by MGSSI from Australian Strategic Policy Institute's “Countering China's coercive diplomacy” and various media reports

3. CONCLUSION

There has been a significant increase in the sophistication in export items and shift of partners to emerging economies over the past decade or so of trade under the Xi Jinping administration. This is a desirable change for China as it maintains its export competitiveness as “the world's factory” and enhances trade stability. On the other hand, China is increasing trade with Russia, which is under sanctions by Western countries, and

²⁰ In response to these moves, Taiwan's Ministry of Foreign Affairs accused China of intervening in Taiwan's democratic elections by means of economic blackmail.

²¹ These tighter controls have prompted calls among countries at risk of political conflict with China to stockpile related supplies, diversify procurement sources, and accelerate the development of alternative materials.

using trade as a weapon to coerce them. It is strengthening control over exports of materials used in semiconductors and EV batteries, etc. to alarm Western countries, creating a situation where these countries are working together to reduce their dependence on China. Emerging economies are motivated to transform their own industrial structures and correct trade imbalances with China through domestic production of EVs etc., and will not continue to increase imports from China for products that can be produced domestically from a technological or cost perspective. How the Chinese government and companies will respond to the risk of trade friction with other countries, some of which has already actualized, is an important aspect of the future of Chinese trade, and worthy of continued observation and analysis.

For Japanese companies, responding to changes in the flow of goods surrounding China will continue to be a key issue. It will be necessary to first identify current trends, and then look ahead by following the implementation of policies and regulations in China and related countries, trade statistics, and the trends of foreign and Chinese companies in Europe, the US, and other countries.

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