

## China: a good year ahead for exports

China's exports grew in 2020, taking market share from other export-oriented economies. Although other export economies are likely to see a stronger 2021, the global recovery should still support China's export growth. Imports could also rebound, buoyed by the phase-one trade deal. Technology exports remain the main wild-card.



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### Trade in 2020 was not too bad

China's exports grew by 3.5% in 2020. But imports contracted by 1.1%. That is not bad considering that around the world Covid hit demand for goods and services, and disrupted port and worldwide freight services.

Among export categories, those that enjoyed the highest rates of growth were related to Covid. For example, medical appliances (+41% in 2020), textiles (+29% - for PPE), and home appliances (+24%). The highest export value item, automated machinery and parts at \$211 billion, grew 11% from a year ago. This is a good result bearing in mind that some Chinese technology companies were banned from selling their products to major markets, in particular, the US.

Imports also varied by product. Products under the phase-one trade deal grew strongly. For example, meat (+59% in 2020), soybeans (+12%). Covid limited international travel and spending and resulted in a jump of cosmetics imports by 29.4%. Imports of integrated circuits, the biggest

import item in 2020, that serve exports as well as domestic demand, grew 14.6% in the year.

The report card on trade is really not bad.

## A different trade story in 2021

Covid should subside as global vaccination progresses, and we expect the global economy should recover partially in 2021. Trade will also follow this recovery. At the same time, other Asian export economies will also recover. Some export orders will shift from China to other economies in the region. That said, we still expect net growth of exports from China in 2021 as the global export pie gets bigger.

The key difference will be the export items that grow fastest will probably no longer be Covid-related items. Exports should gradually revert to a more normal pre-Covid export pattern. For example, we expect China to export more consumer electronic parts and products, though this will partly depend on whether there are changes in attitudes from the incoming US administration on such products.

We expect imports to return to positive growth in 2021. There will be two big drivers for imports this year. The first is the phase-one trade deal. We expect that China will fulfill this deal, and will therefore continue to import US products, especially agricultural products. The second driver will be the global recovery, which by boosting export growth, will also require China to import more raw materials and parts for production. China is also itself an important end-market these days, and we expect imports of items serving domestic demand will also continue to grow, especially whilst international travel remains depressed, and households have spare disposable income to spend on other things.

## Export competitiveness is not to be affected by strong yuan

The strong yuan will not be the most challenging factor for Chinese exporters. For one thing, other Asian economies are also seeing an appreciation of their currencies. So in terms of regional export competitiveness, the exchange rate is not the most important factor.

Chinese exporters will be more willing to hedge their dollar or euro receipts as the consensus remains that there will be a stronger yuan versus the dollar. We expect USDCNY to reach 6.20 by the end of 2021.

As applications of AI and robotization increase in Chinese factories, and exporters gain competitiveness by increasing the quality of their products and efficiency of production, China's production will gradually shift from its historic role as a low labour-cost producer.

**The main risk to China's trade outlook is on technology exports. It is unclear if the new US government will put more pressure on China's technology exports, or if allies of the US will join forces with them on this.**