

Despite surging Chinese exports, chips shortages and Covid-19 raise supply chain risks

China's trade continued to rebound in April, but unfortunately, the risk of supply chain disruption in Asia is increasing with semiconductor chip shortages and more Covid-19 cases in the region



Visitors observe various kinds of chips are exhibited at different booths by semiconductor companies at the 18th China International Semiconductor Expo, Shanghai, China

Source: Shutterstock

China's trade continues to recover

China's exports increased 32.3% year-on-year in April from 30.6% the previous month, and imports grew 43.1%YoY from 38.1%YoY.

In April, exports of electronic goods increased 46.7%YoY year-to-date compared with 53.5% in March, while vehicle exports grew by 105.7%YoY year-to-date in April, continuing the high growth rates seen in March.

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One thing worth highlighting is that exports of rare earth metals have diminished, which could result from China's increased domestic use of these elements, with increased technology R&D limiting exports.

The low base in 2020 is a big reason behind these spectacular figures, but also the recovering export demand situation in the US and Europe, as Covid-19 cases begin to subside and vaccination programmes grow.

But there are risks to both production and demand.

Imports recover for export orders and domestic demand

July, like exports, the biggest import item for China is almost always electronics, and this grew 30.1%YoY year-to-date in April, following on from growth of 30.9% YoY YTD in March.

The strong growth in electronic imports partly relates to China's own export orders but also partly stems from Taiwan.

Given the continuing global chip shortage, we may see price increases in many goods, e.g. home appliances, cars, computers

Taiwan's chronic ongoing [water shortage](#) may have pushed some Taiwanese semiconductor companies to move production to Mainland China. We believe that this has already begun. Suppose Taiwan's chip production does not soon return to normal. In that case, we may see price increases of many goods such as home appliances, cars, and computers, given the continuing global chip shortage. The alternative is that we learn to live with goods with fewer chips and fewer functions.

Some automakers have already begun removing some optional electronic functions from new vehicles due to the lack of chips.

[Asia: What went wrong in India?](#)

Risk of supply chain disruption, again

Covid-19 cases are growing again in Asia. Not only in India, but also in Japan, South Korea, Vietnam, and a few new cases have also been seen in Singapore and Taiwan.

These economies, together with Mainland China, form a supply chain network in Asia. Further deterioration in the Covid-19 situation could disrupt production in the region. Though Mainland China is large in terms of production capacity and the variety of parts and products, it could still be affected if supply chains in other parts of Asia operate below normal levels.

There are risks not only on the production side but also on the demand side. Covid-19 can come back [if there is a relaxation in Covid-19 prevention measures](#). We need to closely monitor the situation in Asia to forecast the next months' trade situation.