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Comments on "Spillovers from China"



Three papers with broadly similar message(s)

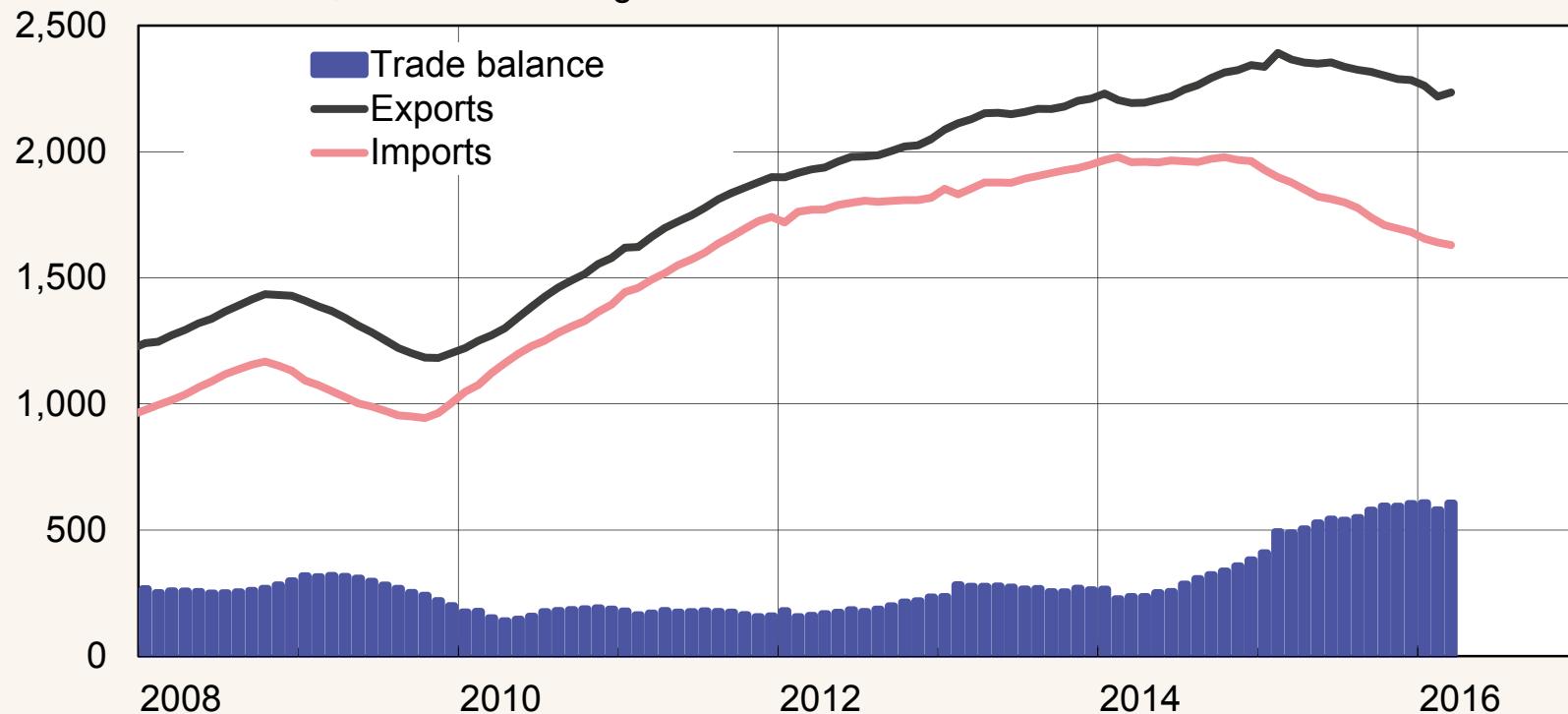
- THE question: What happens to the rest of us if China decelerates and buys less of our stuff?
- Trade linkages from China to the rest of the world are important, and have grown in importance over the time
- Those countries that are closer to China have bigger effect, and also commodity producers have seen bigger declines in their export growth
- Two of the three papers look at trade-to-trade spillovers, third one at GDP-to-GDP



In value terms we are already seeing a big adjustment

China's foreign trade

USD billion, 12 month moving sum



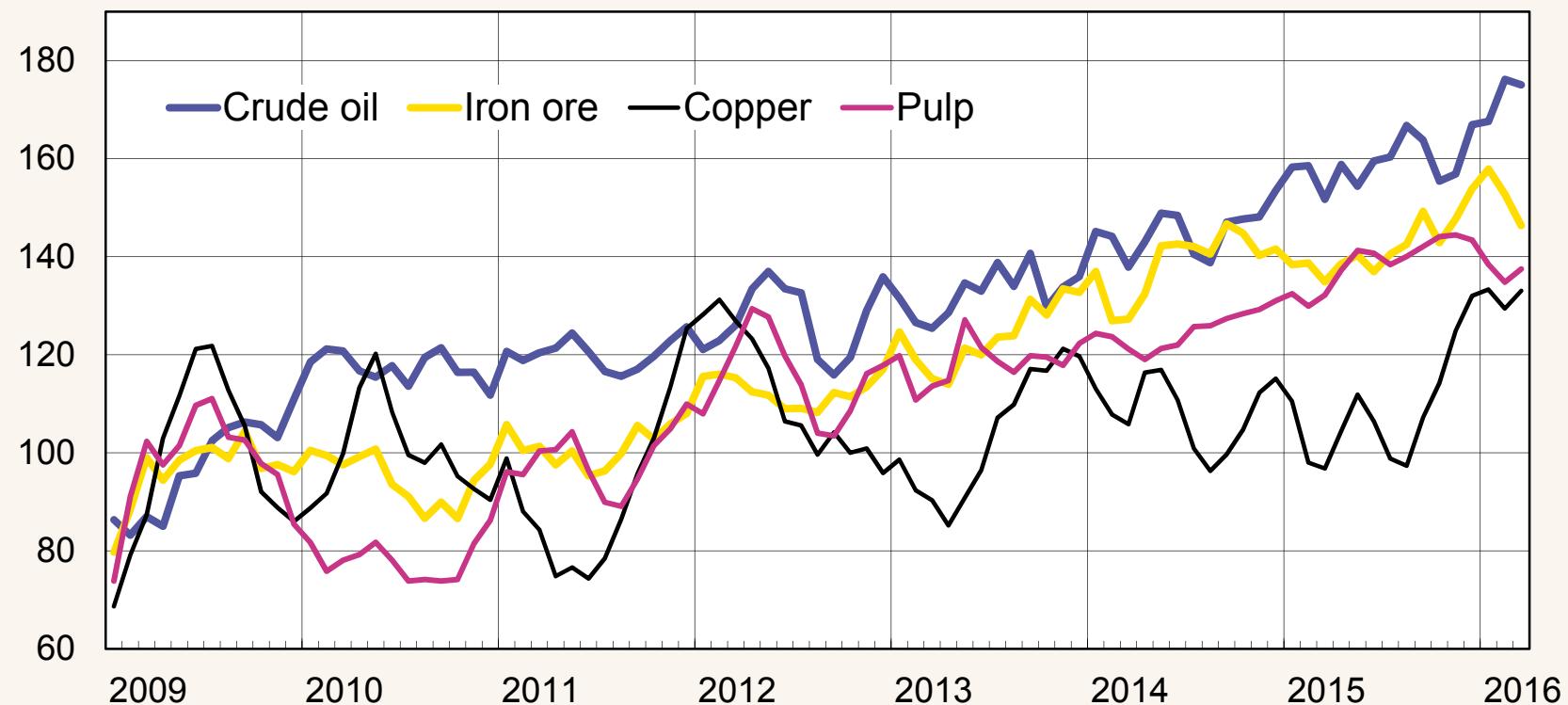
Source: Bloomberg.



But in volume terms things might be different, at least partly

Chinese raw material imports, volume

Index 2009 = 100, 3-month moving average



Source: Macrobond



"China spillovers: new evidence from time-varying estimates" (1)

- Empirical exercise where 148 countries' GDP growth depends on lags of their own past growth and "China growth shock"
- Effect felt within 1-2 years, on average one percentage point China growth shock has 0.3 percentage effect on GDP growth of others
- Trade linkages most important in transmission: biggest effect on China's Asian neighbors and commodity exporters



"China spillovers: new evidence from time-varying estimates" (2)

- Some further comments:
- China's importance increased clearly in 2000? WTO membership? Size of this effect for other countries?
- Authors have 148 countries, perhaps impact of "China shock" depends on some other factors?
 - More developed financial markets could offer way to self-insure, for example
 - Exchange rate regime, fixed vs. floating?
 - Other policy variables?



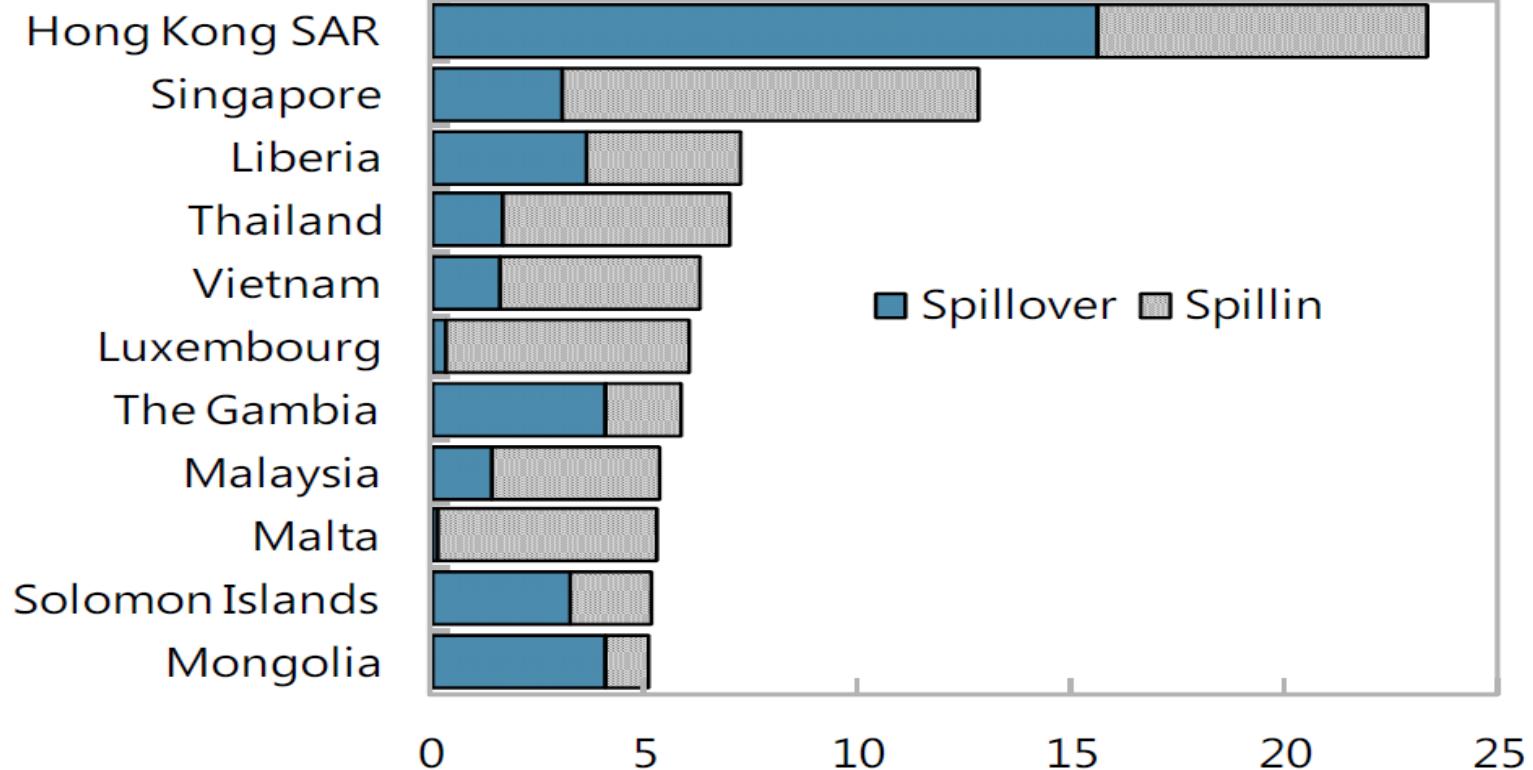
"Global trade spillovers: insights from a complex network model" (1)

- Model based on network theory, allowing division to spillovers from the epicenter country (China), spillins among the other countries resulting from the original spillover, and spillbacks to the epicenter country
- Shock: 10% decrease in China's imports 2016-2017, is transmitted (spills over) to other countries, and then this decrease in those countries' exports is further transmitted as smaller imports for all the other countries (2013-14 trade weights)
- Some countries are shock-amplifiers, some shock-absorbers and some shock-stoppers
- Important caveat: No policy response to spillover – Does this mean we are seeing, in fact, upper bound of trade effects?

"Global trade spillovers: insights from a complex network model" (2)

Figure 5. Static Network Effects, 2017
(Percent of GDP)

a. Most affected countries





"Global trade spillovers: insights from a complex network model" (3)

- Some further comments:
- What is the role of shock-blockers? Almost all have pegs of some sort, and the same goes for larger countries among shock-absorbers with small β
- All adjustment happens through trade
- What is the role of processed trade in Chinese exports and imports? In much of the previous literature they behave somewhat differently, data could allow gauging their separate effect
- Role of Hong Kong as entrepôt?



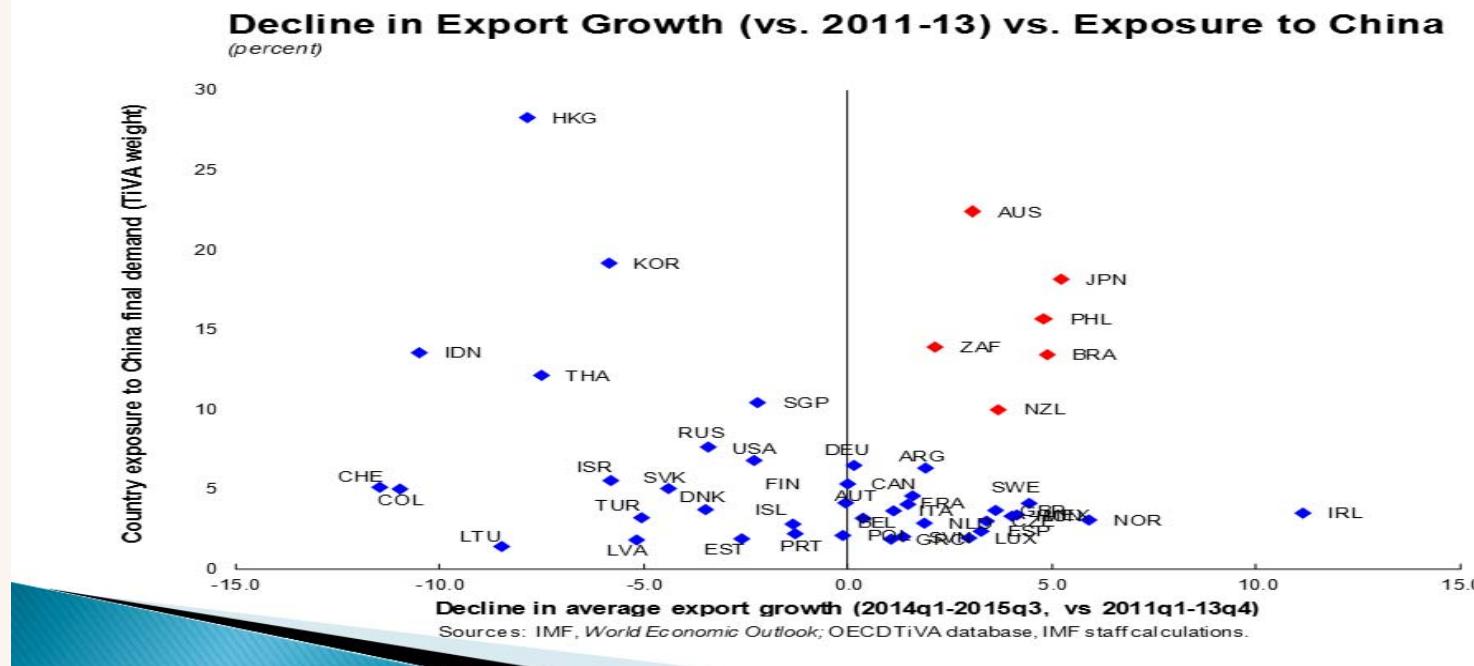
"China's slowdown: Implications for international trade" (1)

- Estimate effects from "China shocks" to other countries/country groups with panel VARs: One percentage point shock to China demand shock induces higher export level (in terms of value-added), from 2.5% in Emerging Asia to 0.5% in Eastern Europe
- Also growth-accounting, forecast exercise where extra information (in addition to naive one-step ahead forecast): Not surprising that Emerging Asia has suffered the most from demand weakness in China

"China's slowdown: Implications for international trade" (2)

- Some further comments:
- Do coefficients develop differently in different countries/regions?
- First part in value-added, second partly in nominal values?

China exposure vs. Export slowdown





What to think about all of it?

- Papers seem to be more or less in consensus on the size of the economic effects from "China shock"; Kireyev and Leonidov has probably the highest estimates, but I discussed why they might be more of an upper bound
- While the papers don't much discuss previous work in the same area, these estimates are not terribly far from other contributions: For larger economies one percentage point slowdown in China's growth seems to slow down growth between 0.1 and 0.3 percentage points, many smaller Asian countries clearly above that
- Connection between export and import volume and value makes interpretation sometimes tricky...