



Spillovers from China's reopening

Dora Xia

The 13th Annual International Conference on the Chinese Economy

Hong Kong, October 2023

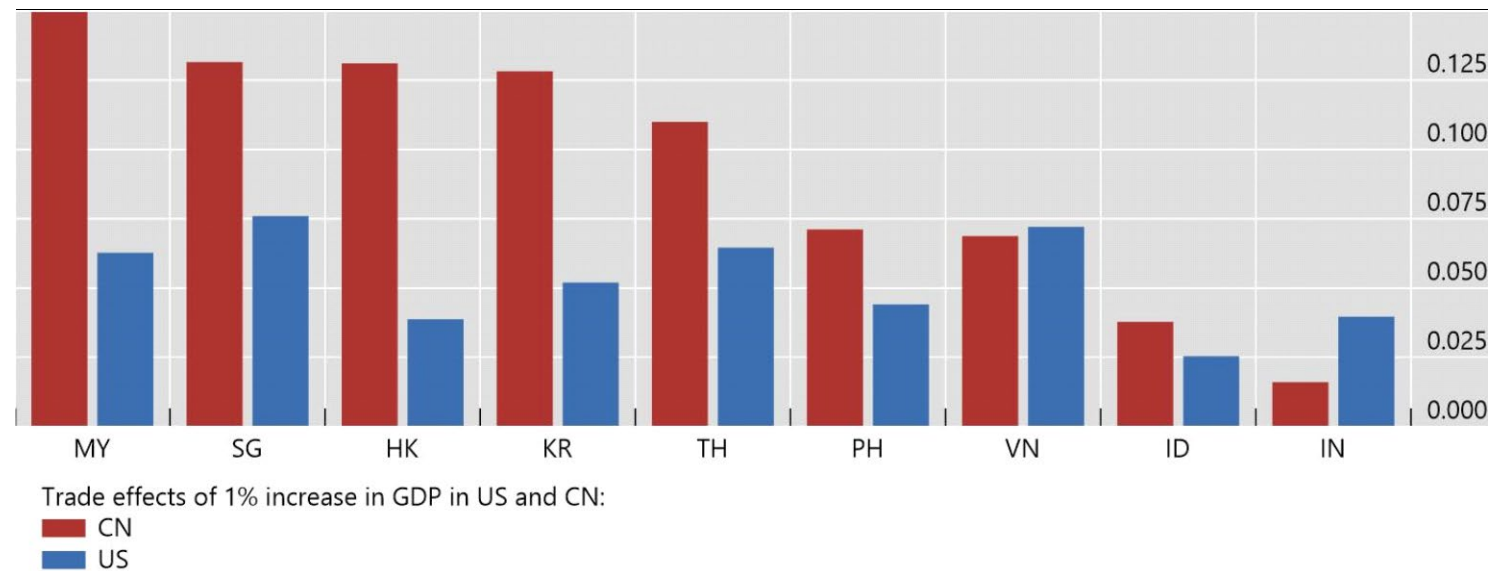
Disclaimer: The views expressed in this presentation reflect those of authors and are not necessarily those of the BIS.

What happens in China does not stay in China ...

- ... given its role in global trade (→ growth spillover) ...

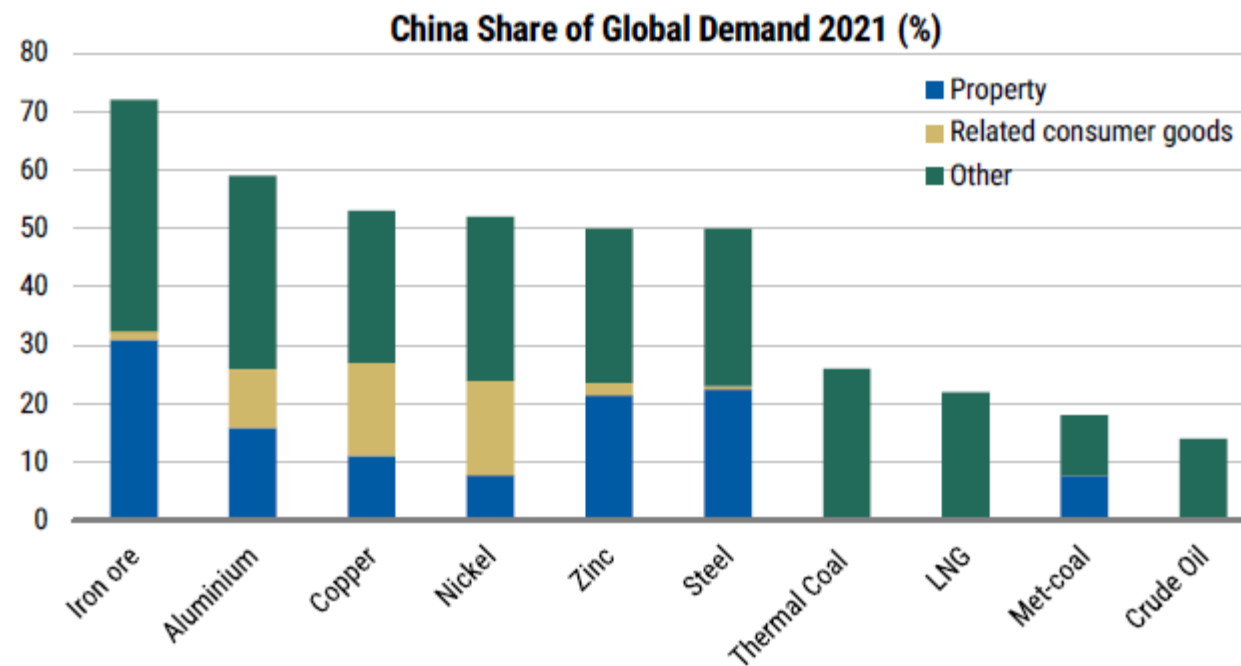
Trade effects from China or US on Asian EMEs

In per cent



Sources: OECD; World Bank; BIS

- ... and commodities (→ inflation spillover).



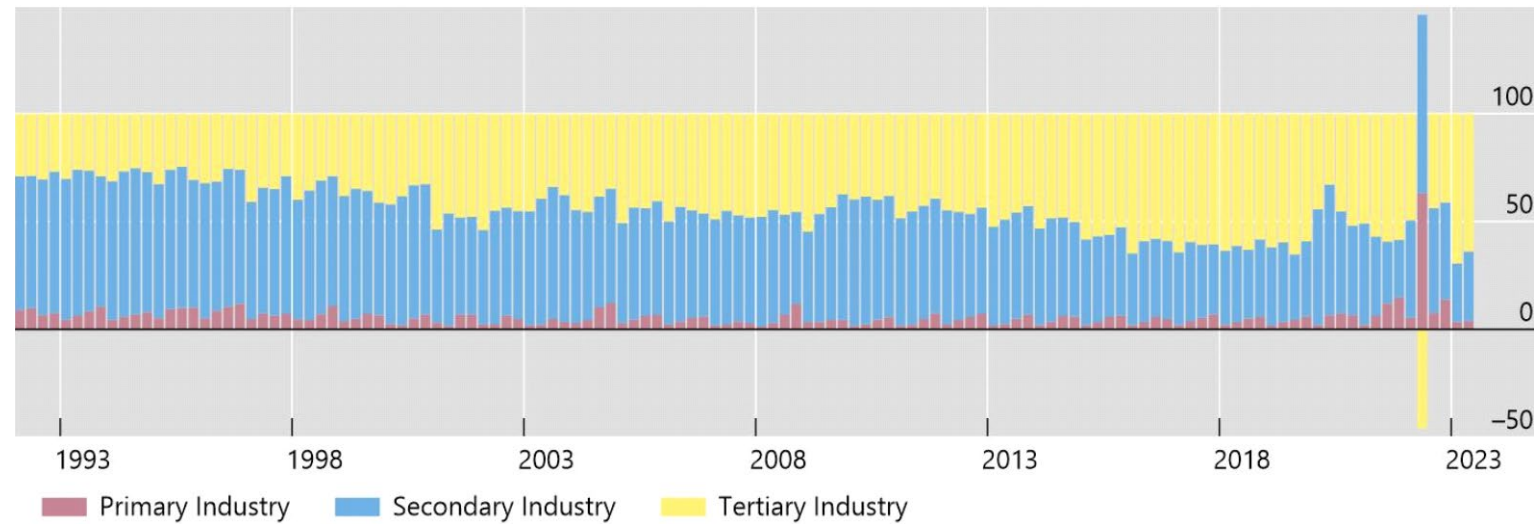
Source: ICA, IAI, ILZSG, WSA, Nickel Institute, IEA, Morgan Stanley Research

What is different this time?

- Growth in China after re-opening has been mainly driven by services.

Contribution to China GDP growth by sector

In per cent

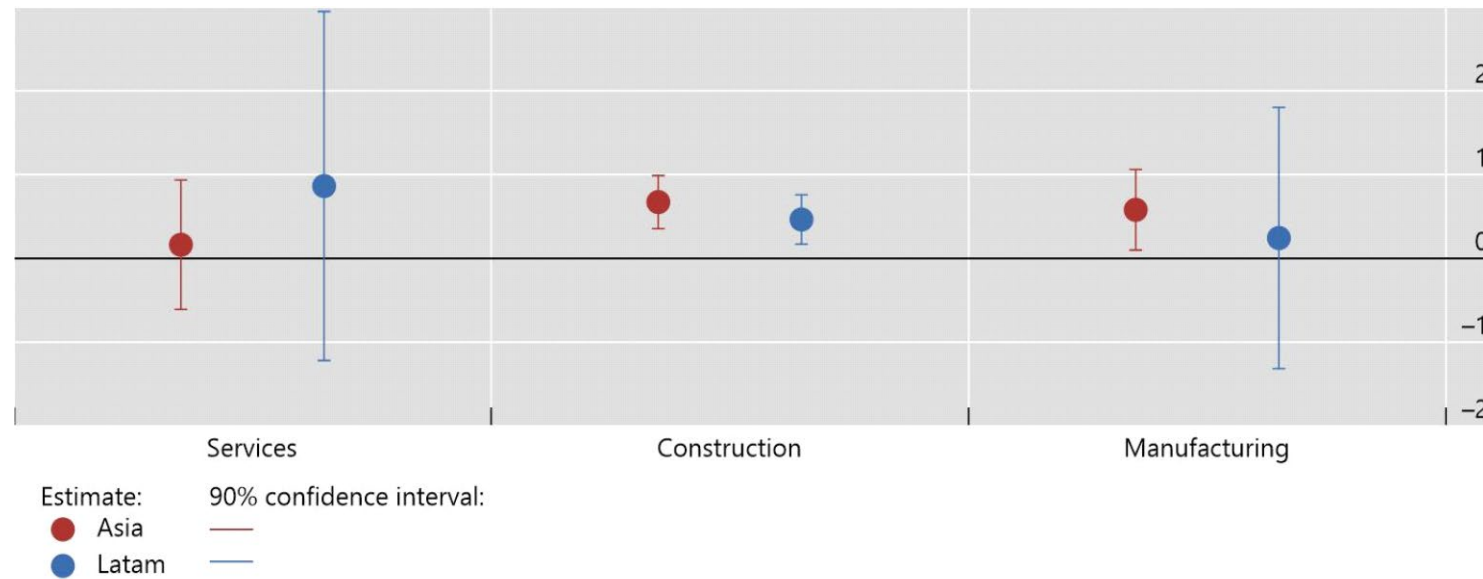


Sources: National Bureau of Statistics of China; BIS

- Service-driven growth has limited spillovers (BIS Annual Economic Report 2023, Chapter 1, Box A).

Impact of China's sectoral output on exports by foreign countries

yoy change, in per cent



Each dot shows the impact of 1% quarterly growth in China GDP components on real export growth in other countries using local projection method. The model employs the quarterly average of the cumulative real exports growth between the quarter when China GDP components increase and the third quarter after the increases as the independent variable. The control variables are the same as in Hofmann et al (2023). Asia countries include ID, IN, JP, KR, MY, PH, SG and TH. Latam countries include BR, CL, CO and PE.

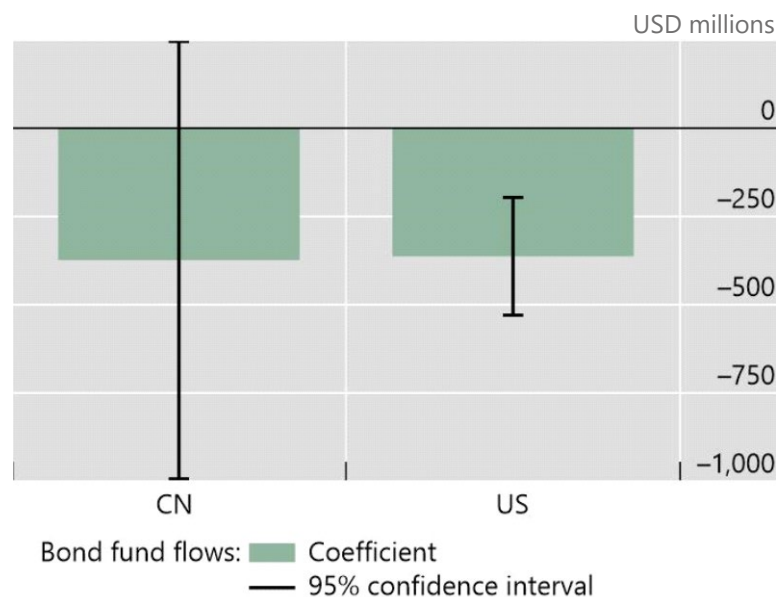
Sources: national data; BIS

- Other factors may further reduce the magnitude of the spillovers, including geopolitical tensions, trade-related restrictions, and China's evolving role in global value chains.

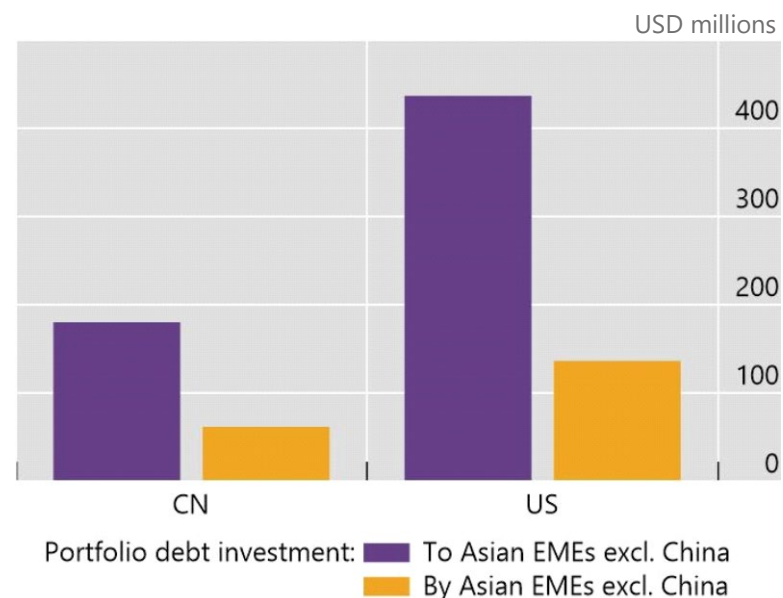
Financial spillover?

- In contrast to economic conditions, financial conditions, such as capital inflows, in other countries are less affected by China, as opening-up of China financial sector is still in process.
- Limited economic spillover would further weaken financial spillover this time.

Impact of US/CN 5-year sovereigns yields on Asian EMEs¹



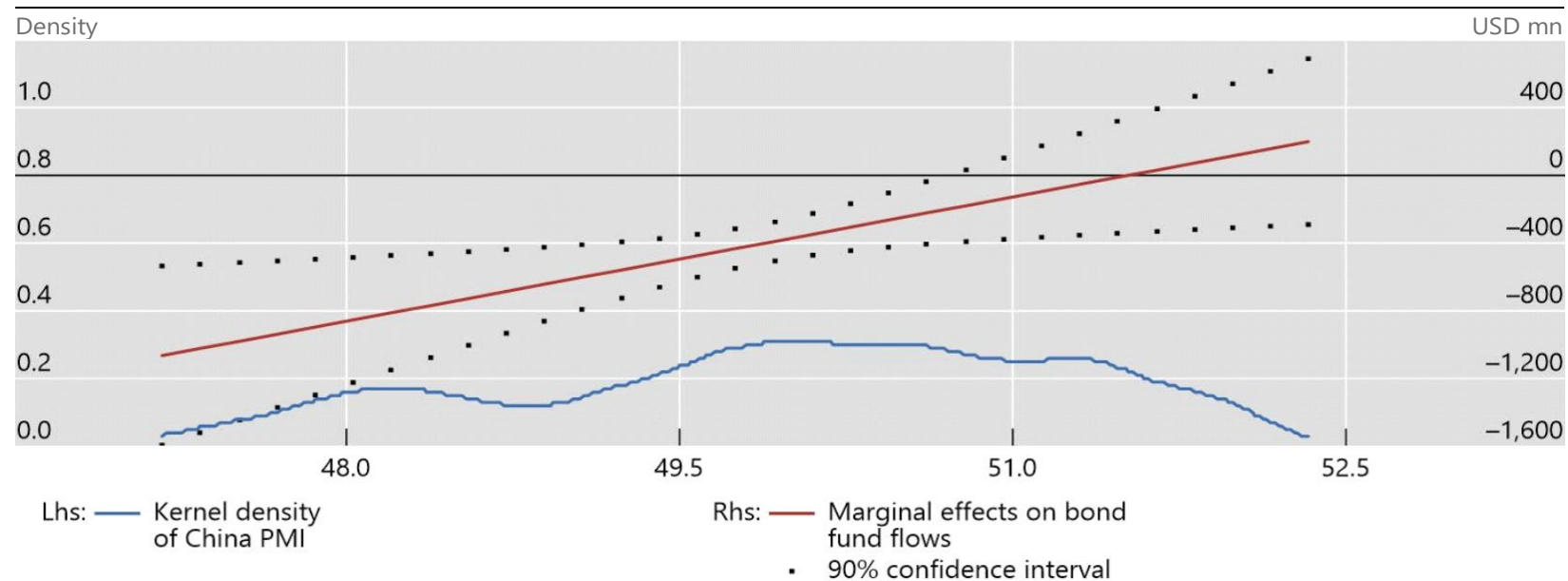
Asian EMEs' debt from and to US/China



¹ The left-hand panel shows 1-month lagged response of bond fund flows (USD millions) to an Asian EME (excl. China) to a 1%p increase in US/CN 5-year yield.

- Growth momentum in China used to attenuate bond outflows from Asian countries in response to higher US rates. The shielding effect is likely to be weaker this time.

Marginal effects of 100 bps increase in US 5-year yield on bond fund flows to Asian (excl. China) EMEs conditioning on China PMI



Sources: Bloomberg; EPFR; national data; BIS