China's global influence as a major trading nation – a discussion

Joint HKIMR-CIGI conference on China and the world economy: trade and financial linkages

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Summary

- **Comprehensive literature survey**

- **The impact of trade: competition vs. complementarity. The focus here is on the complementarity through supply chains**

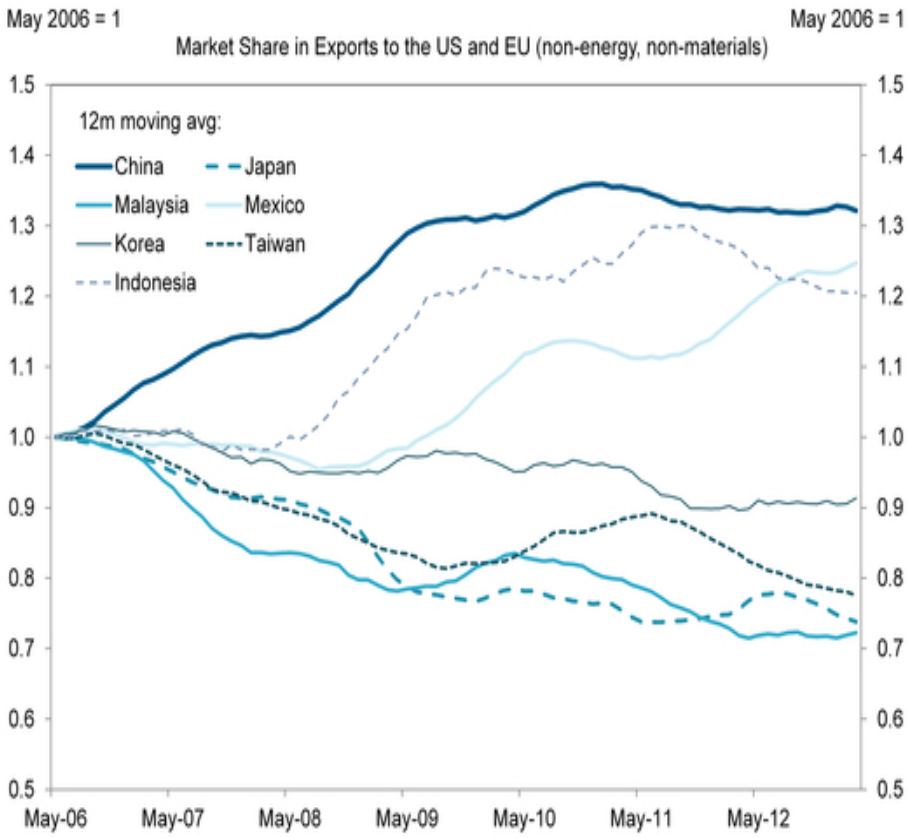
- **Quantitatively assessing the impact of China's trade policy change on partners' trade flows**

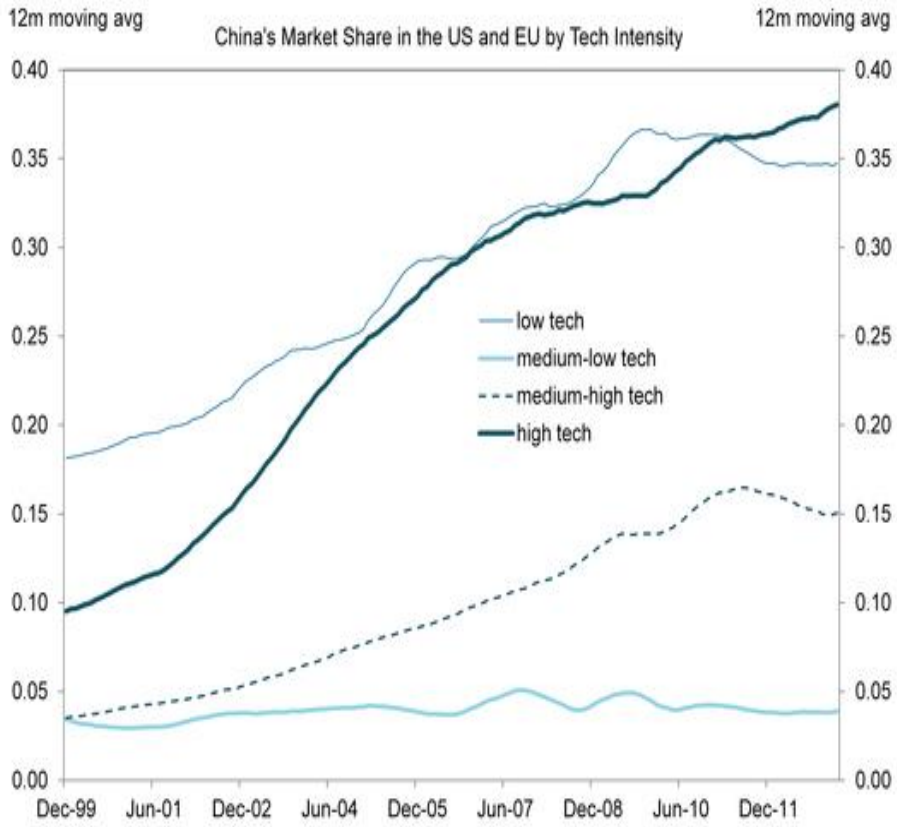
- **The case study chooses a product (rare earth) of which China is almost a monopoly supplier**
  - **Seemingly not representative of most of China's trade, which faces a competitive market?**

Supply chain – new era of globalization (Baldwin, 2012)

- **Before the 1990s: globalization helped by the lower cost of transportation**
- **After the 1990s: globalization facilitated by the lower costs of communication – leading to finer production fragmentation and more geographic dispersion**
- **Nations trade more as income levels converge rather than less**

China's role in international trade – simple measures of competitiveness

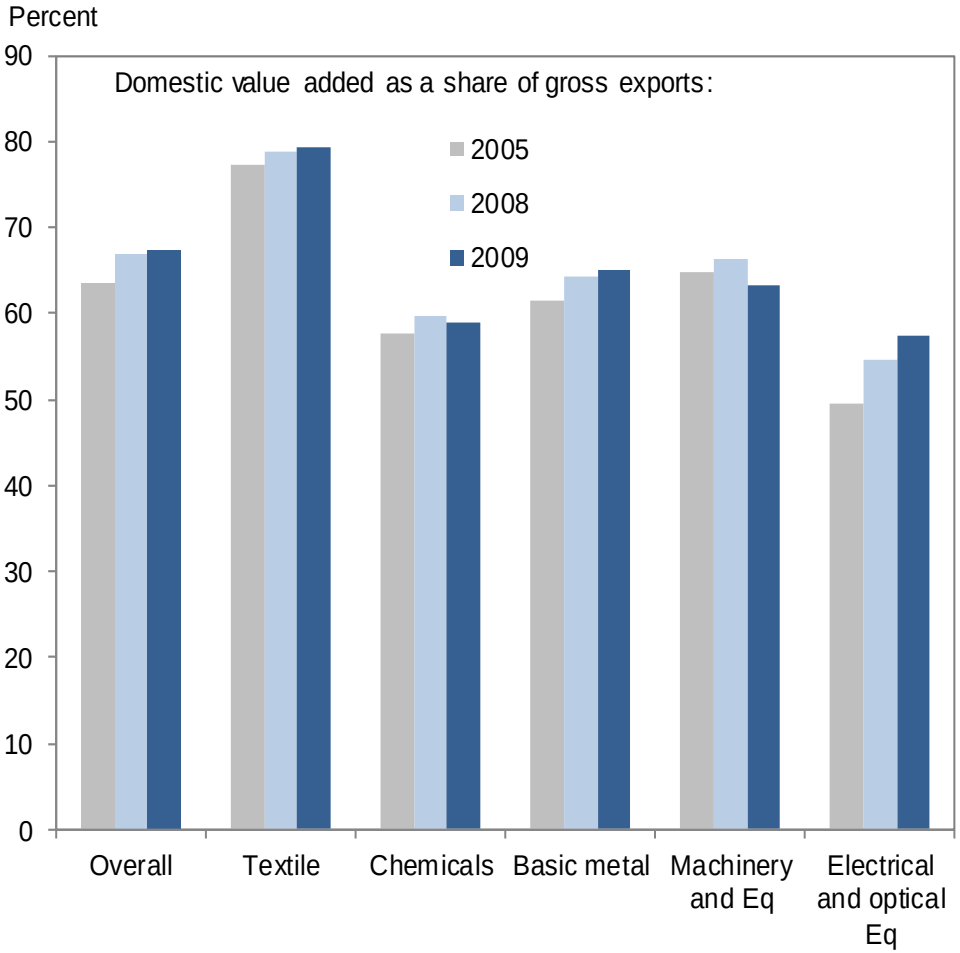




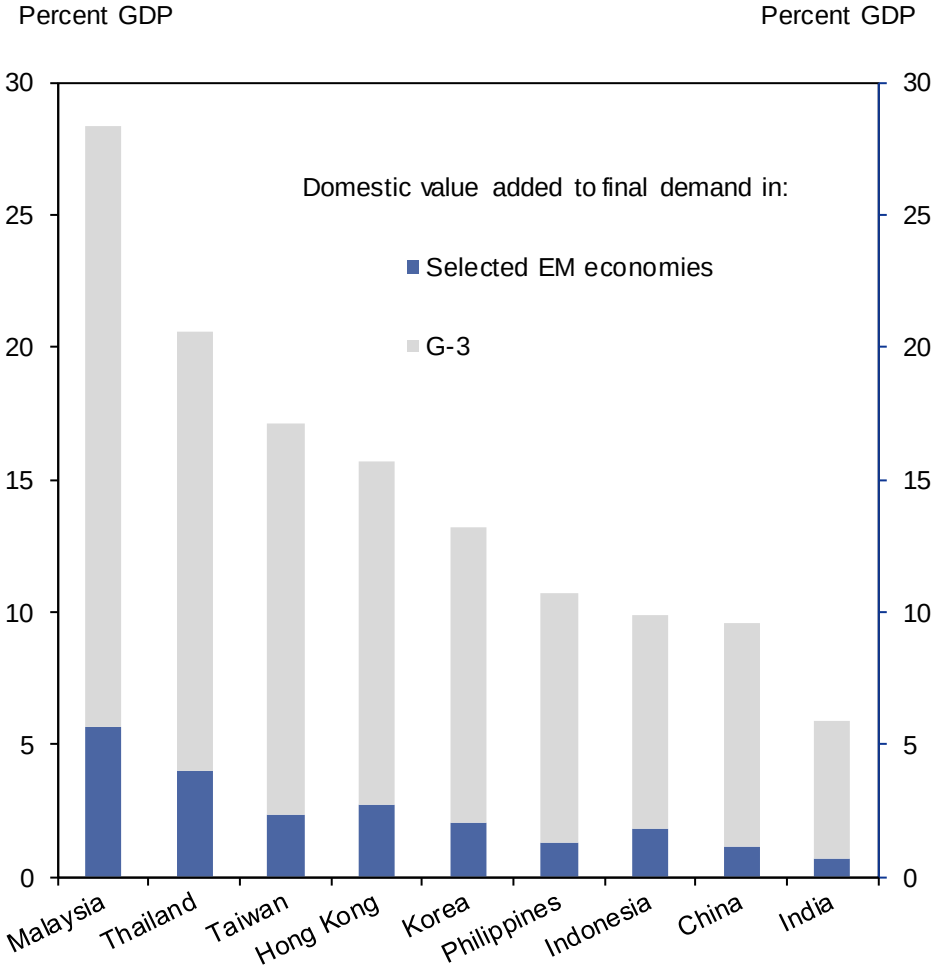
Source: CEIC.

China's role in global trade –measuring the supply chain effect

Domestic value added of exports increased



Exposure to DM demand still meaningful



Source: CEIC, OECD.

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Can the study tell us more broadly about China's impact on other economies through trade?

Yes –

- **Greater domestic value added and sophistication of Chinese exports; exporters may not be simple price takers**
- **Global supply chain more fragmented and specialized across countries. "Trade of tasks" starts to rise. This implies inelastic supply at least within a short period**
- **In fact, the domestic content of rare earth exports is easier to measure (close to 100%) than other intermediate products**

Caveat –

- **Commodity cycles tend to be longer, as supply rigidity more sustained.**

Extension and questions

Macro

- **The impact on value added content of exports of partner countries**
- **How does the impact spread to the rest of the other economies? Welfare effect? Job impact?**

Development

- **Comparative advantage and position in the supply chain. What are the ingredients for moving up the value chain? Is it always optimal to move up the value chain?**
- **Scale effects: does the size of the trading countries matter?**

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