Export resilience and trade rebalancing

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- China's exports have shown unexpected resilience this year, despite the imposition of U.S. tariffs.
- This strength cannot be fully attributed to front-loading, rerouting, or transshipment.
- Strong export is a sign of weak domestic demand, …
- …but also got help from market and product diversification, e-commerce expansion, and investment in trade infrastructure.
- The surging global investment boom for AI infrastructure also provided an additional boost.
- More demand-side stimulus domestically and a stronger CNY are necessary to restore balance in China's trade.

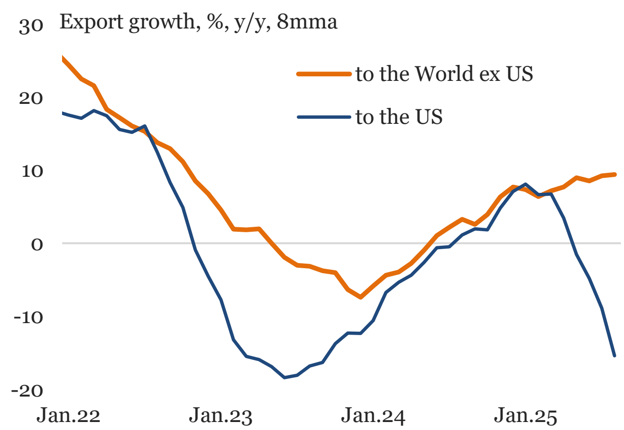
China's exports have remained unexpectedly resilient this year, despite U.S. tariffs. We believe this strength reflects gains from market diversification, a broader array of product offerings, enhanced competitiveness driven by automation and technological progress, and—critically—an undervalued CNY. While voluntary restraint measures may help raise export prices and moderate volumes, more robust stimulus policies are still required to boost domestic demand and rebalance trade. Ultimately, a more sustainable trade balance requires a stronger CNY.

Diversification of exports

Excluding shipments to the United States, China's exports rose by 9.4% y/y in the first eight months of the year (Chart 1). Although exports to the United States dragged overall growth down by 2.2 percentage points, this shortfall was more than offset by rising exports to other markets. Notably, exports to Africa surged by 24.6% y/y ytd (Chart 2). The strength of non-U.S. exports cannot be explained by front-loading ahead of tariffs. While some rerouting and transshipment may have occurred via Vietnam, there is little evidence of similar activity through Mexico this year. This resilience also cannot be explained by the "under-consumption & over-investment" narrative. In the first half of this year, consumption's contribution (2.8 ppts) to GDP growth was three times that of capital formation (0.9 ppts).

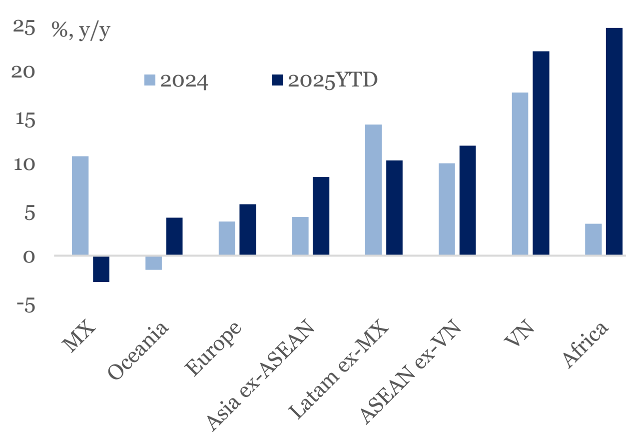
China has been steadily diversifying its export markets away from the United States. The implementation of RCEP (Regional Comprehensive Economic Partnership)—first in 2022 and upgraded in 2025—has strengthened regional trade integration. The Belt and Road Initiative has enhanced trade infrastructure and stimulated demand for Chinese capital goods. For instance, the China-Europe Railway, launched in 2011, now accounts for roughly 10% of China's trade with Europe. Trade with Laos has surged by 60% over the past three years, driven by the new rail

Chart 1. Exports remain resilient



Source: Haver, IIF

Chart 2. No evidence of rerouting through Mexico



Source: Haver, IIF

connection. China's competitive e-commerce platforms—such as Lazada, Temu, and Shein—have also contributed to export growth. Cross-border e-commerce exports rose by 17% in 2024, reaching $300 billion, or 8.5% of total exports.

Over the past 12 months, ASEAN's share of China's exports climbed to 17%, up 10 percentage points from two decades ago. The shares of Latam, Africa, and MENA have each surpassed Japan's, doubling to 7.7%, 5.6%, and 5.0%, respectively (Chart 3). Emerging markets now account for more than half of China's total exports.

In the past two and a half years, consumer goods exports have remained flat following the post-Covid surge. In contrast, capital goods exports have strengthened (Chart 4). For example, shipments of ships and vessels have doubled over the past two years. Intermediate goods exports have also risen, reflecting subdued domestic demand amid the real estate downturn. For example, steel exports more than doubled in 2022–23, despite largely flat domestic output.

The rise in capital goods exports may also reflect supply chain relocation and China's outbound investment activity. For instance, machinery exports have been a key driver of China's trade with Vietnam. The global investment boom in AI infrastructure has further lifted exports of products such as transformers (up 37% y/y ytd), integrated circuits (22%), and copper (12%).

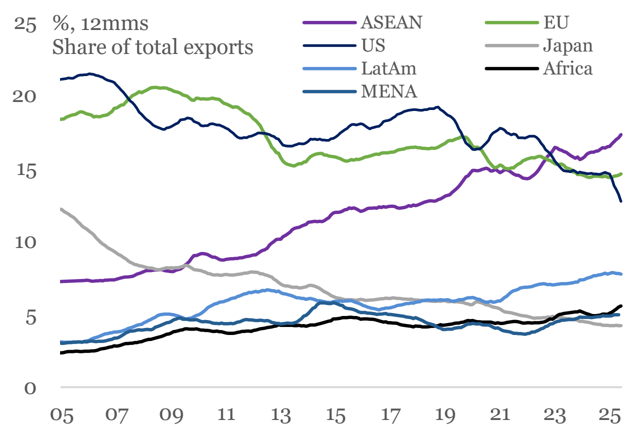
China's advances in technology and product sophistication have significantly bolstered its export competitiveness. The quality and complexity of its export offerings now rival those of many OECD economies. Emerging green technology sectors—particularly batteries and EVs—have played a notable role, contributing approximately 0.8 points to year-to-date export growth.

Surprisingly, China continues to gain global market share in traditionally labor-intensive sectors such as textiles, garments, footwear, furniture, and toys (Chart 5). In Chart 5, bubbles positioned above the dashed line indicate that these products held a higher global market share in 2024 than in 2019. Warm-colored bubbles highlight selected labor-intensive products. This sustained competitiveness is partly due to rapid automation within these industries. Since 2021, China has installed nearly half of all industrial robots globally, significantly enhancing productivity and cost efficiency.

The self-restraining measures

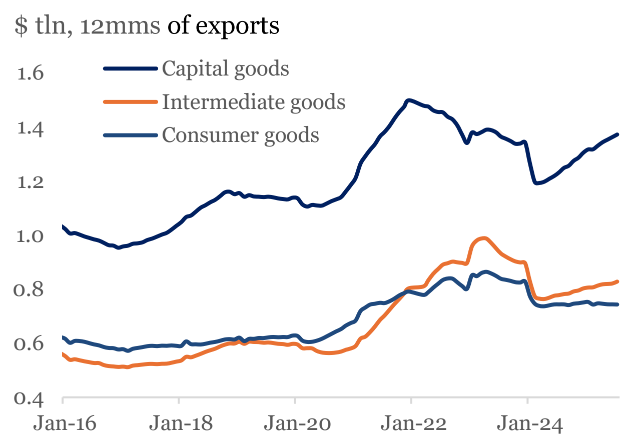
In response to rising tensions with major trade partners, Beijing has introduced a series of self-restraining measures to moderate export growth. Effective last December, the rate of export VAT rebate was reduced from 13% to 9% for over 200 items, including refined petroleum products, solar cells and modules, batteries, and non-metal mineral products such as graphite and silicon carbide. Export VAT rebates were entirely eliminated for aluminum and copper

Chart 3. More exports are going to EM countries



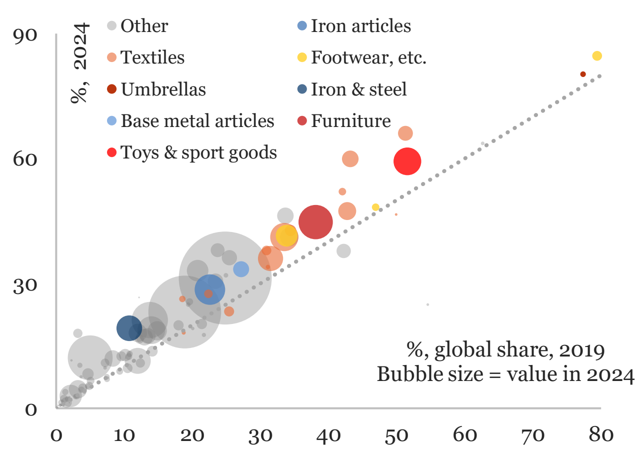
Source: Haver, IIF

Chart 4. More capital and intermediate goods



Source: China Customs, IIF

Chart 5. Taking more global market share



Source: Haver, IIF, Financial Times

products—categories that had experienced rapid export growth in the previous year.

Beginning in January 2026, export licenses will be required for battery electric vehicles (BEVs). In addition, Beijing's trade authorities have considered introducing minimum price floors for vehicles exported to Europe. These measures are designed to raise export prices and moderate export volumes, helping to ease trade tensions with key partners.

Measures aimed at safeguarding strategic technologies and strengthening China's position in trade negotiations have also been introduced. In December 2024, Beijing tightened export controls on dual-use items, including technologies related to nuclear, biological, chemical, and missile applications. This April, Beijing also introduced a licensing regime and imposed stricter regulations on the export of rare earth materials.

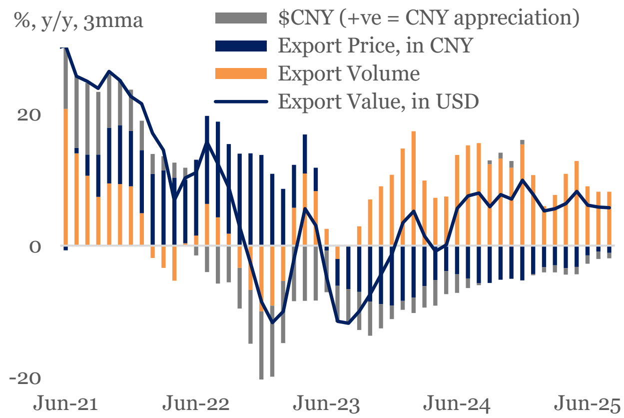
Narrowing export deflation

China's export price deflation narrowed to -1% this summer, improving from -9.1% at the end of 2023 (Chart 6). This export price recovery preceded domestic CPI and PPI reflation, likely benefiting from a broader global trend. Domestic stimulus measures and export restraints may have contributed to this rebound as well.

Export price deflation narrowed most sharply in sectors such as steel, aluminum, refined petroleum products, mining goods, chemicals, and metals—precisely the categories affected by recent reductions or removals of VAT rebates (Chart 7). Furniture export prices have begun to rise, likely supported by the subsidized domestic trade-in program. The licensing scheme introduced this summer may also help lift car export prices in the coming year. A recovery in export prices will improve exporter profitability and help ease trade tensions with key partners.

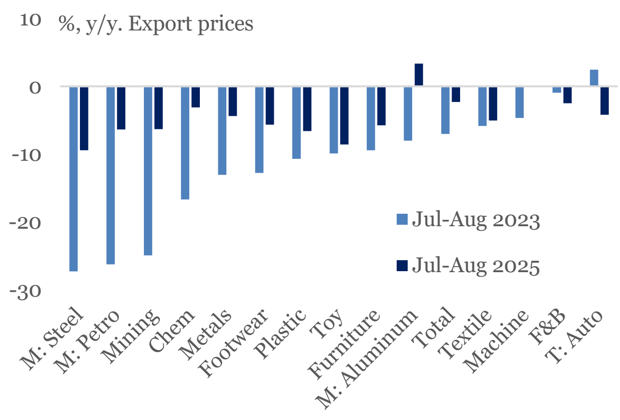
While the policy measures outlined above are constructive, they remain insufficient. To stimulate domestic economic growth and rebalance trade, Beijing must implement more forceful demand-side stimulus—targeting both consumption and investment, particularly in infrastructure for social services. Crucially, a more balanced trade also requires a stronger currency. At present, the CNY's real effective exchange rate is at its lowest level in over a decade (Chart 8). Currency appreciation is far more effective than tariffs in rebalancing trade, as it simultaneously curbs exports, boosts imports, and encourages the imports of both goods and services. CNY appreciation's pressure on domestic prices can be offset by domestic stimulus measures. More importantly, the confidence in CNY and expectation of CNY appreciation will attract capital inflows and improve the domestic financial condition.

Chart 6. Export deflation narrowed



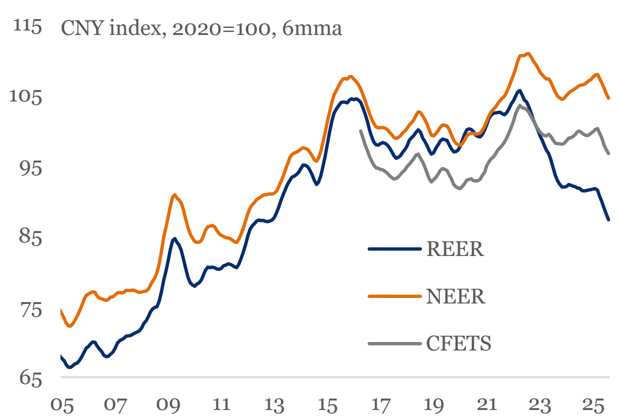
Source: Haver, IIF

Chart 7. Export prices lifted by restraints and stimulus



Source: Haver, IIF

Chart 8. The CNY REER plummeted



Source: Haver, IIF, BIS