

**CHINA'S ECONOMIC TRANSITION:
IMPACT ON EAST ASIA**

Sarah CHAN

EAI Background Brief No. 1363

Executive Summary

1. As an important global and regional economic power, China's growth slowdown will inevitably cause large spillover effects to its neighbouring economies. Cyclically and structurally, China's growth slowdown has been accompanied by a slowing in China's imports with the weakening of domestic investment and exports.
2. China's moderating import growth is also due to its increasing import substitution in manufacturing. In the last two decades, China has graduated from a labour-intensive exporter to a producer of more sophisticated export products, increasing domestic value added and reducing import content of its exports.
3. China has accounted for a rising share of global value-added in recent years. Its move up the value chain has lessened its reliance on the global supply chain, with its share of intermediate goods imports declining over the years, from 63% of total imports in 2000 to 55% in 2016.
4. As China undergoes economic rebalancing and increasingly moves up the manufacturing value chain, the structural change in its import demand composition is expected to affect East Asia's trade sensitivity to China's demand.
5. Since exports and investment are more import intensive than consumption, economies whose exports are geared more to China's investment demand rather than consumption-related demand are at risk of being adversely affected by China's rebalancing.
6. OECD-WTO database which allows users to identify countries' exports that are directed to specific sectors in China's final demand indicates that except for Thailand, East Asia's exports are more linked to investment than consumption in China.
7. Given the region's strong trade linkages with China, China's import slowdown would have significant knock-on effects on East Asia. Quantitative estimates

suggest that Taiwan, South Korea, Singapore and Malaysia are most likely to be affected by a slowdown in China's imports.

8. Although China's transition and economic rebalancing will negatively impact its trading partners, the shift to a more sustainable growth model will benefit its neighbours as China is shifting from importing traditional goods that are linked to industrial activity, to importing consumption goods.
9. Countries that could recalibrate their production and export strategies to meet China's rising consumption-related demand will gain from China's reform efforts and ongoing structural adjustment.