# Flash Economics

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# China cannot rely on exports to Europe alone

Europeans are rightly concerned about the massive influx of Chinese goods into the European market. Faced with excess production capacity and weak domestic demand, China can rely only on rising exports to sustain its growth. Yet growth in the European market has slowed and European countries are moreover stepping up their protection against Chinese competition.

In reality, China cannot do without the US market as an outlet for its goods. The protectionist measures introduced by the Trump administration have merely resulted in Chinese exports to the United States being routed through third countries, in particular in South-East Asia.

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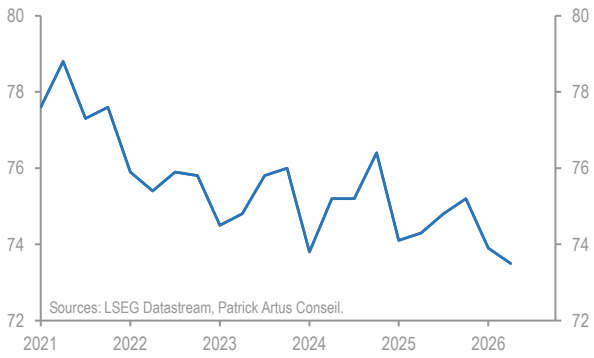
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## The central economic policy challenge for China

China currently faces:

- **excess production capacity** (**Chart 1**);

**Chart 1**
**China: Capacity utilization in manufacturing (%)**




- **weak domestic demand,** whether consumption (**Charts 2A** and **2B**), productive investment (**Charts 3A** and **3B**) or residential investment (**Chart 4**).

**Chart 2A**
**China : Nominal retail sales (Y/Y, %)**




**Chart 2B**
**Household consumption**
**(as % of per capita GDP, at current $ PPP)**

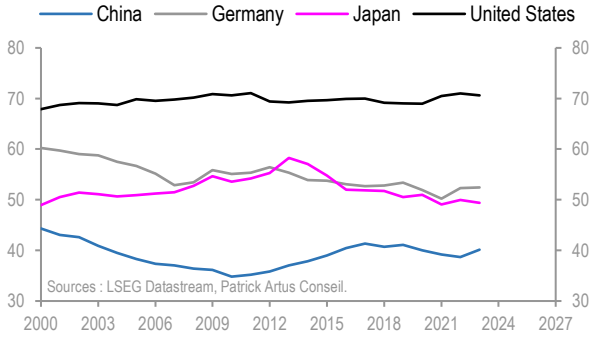



**Chart 3A**
**China: Gross fixed capital formation**
**(as % of GDP)**

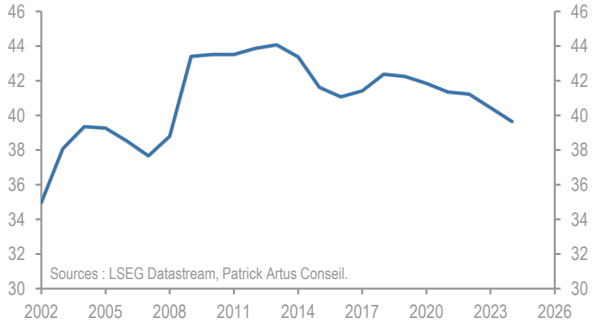



**Chart 3B**
**China: Manufacturing investment (Y/Y, %)**

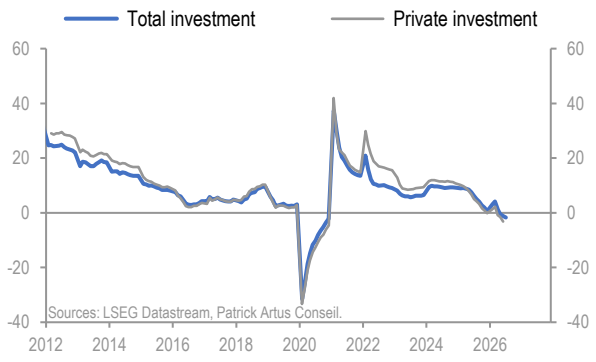
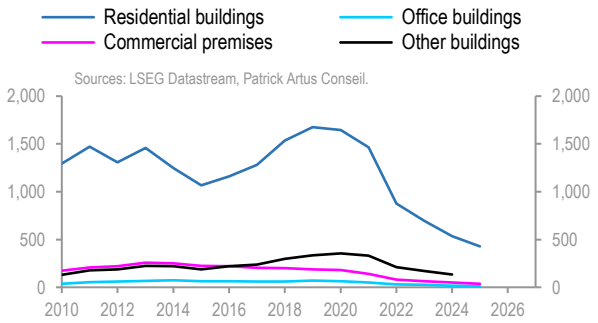


Chart 4
China : Newly started construction
(floor area, millions of m²)




The shortfall in domestic demand in China stems from **excess production capacity**, **the decline in property prices** (**Chart 5**) and **the high level of precautionary saving** (**Chart 6**), which is linked to the limited generosity of pension and health insurance schemes.

Chart 5
China: New and existing residential property prices in
70 major cities (January 2011 = 100)

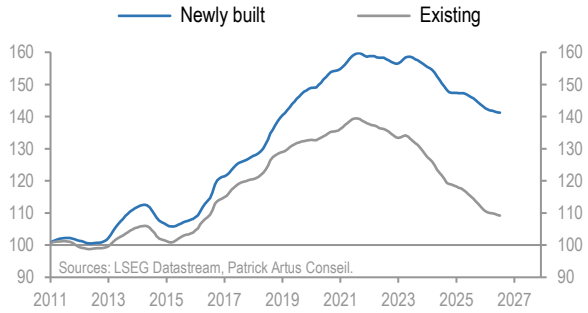
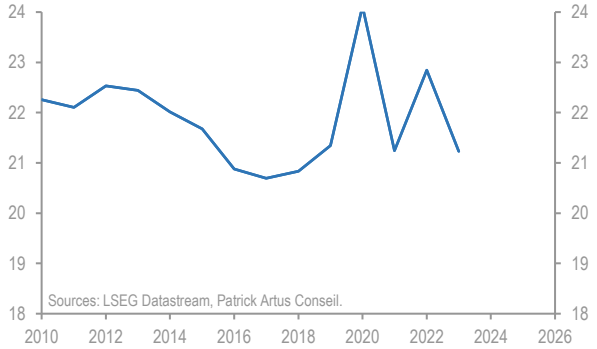



Chart 6
China: Gross household saving (as % of GDP)




The only way to maintain strong growth in aggregate demand lies in **rapid export growth** (**Chart 7**).

Chart 7
China: Exports of goods (in volume terms, Y/Y as %)




Moreover, rapid export growth requires supply to keep pace, despite population ageing. This condition is met through **rapid productivity gains** (**Chart 8**), notwithstanding a robot density that remains low by the standards of the other large manufacturing economies (**Table 1**). Revisions to the International Federation of Robotics (IFR) data bring China's robot density down to 166 robots per 10,000 manufacturing employees in 2024, against 449 in Germany, 446 in Japan and 307 in the United States — China's operational stock nonetheless remaining the largest in the world.

Chart 8
China: GDP per person employed (annual % change)




**Table 1: Robot density in the manufacturing industry (industrial robots per 10,000 employees, 2024)**

| Country | Industrial robots |
|---|---|
| South Korea | 1120 |
| Germany | 449 |
| Japan | 446 |
| United States | 307 |
| Italy | 237 |
| France | 195 |
| Spain | 183 |
| China | 166 |

*Source: International Federation of Robotics*

The central challenge for Chinese economic policy is therefore to **ensure rapid growth in exports and in labour productivity**.

## Europeans are concerned about the penetration of Chinese goods

Against this background, Europeans fear that **China**, were it to lose access to the US market, would **redirect its exports massively towards the European Union**. Indeed, **growth in China's exports to the European Union** (**Chart 9**) has been **very rapid since 2018**. China cannot, however, rely on increasing its exports to Europe alone, for two reasons:

- **growth in the European Union is weak** (**Chart 10**): 1.5% a year on average since 2010;
- the European Union will **step up its protective measures against Chinese goods** (taxation of low-value parcels, customs duties on electric vehicles, etc.).

Chart 9
China: Exports to the European Union
(USD bn, monthly data)

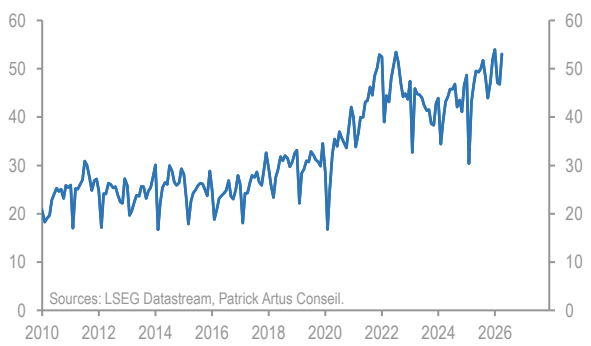
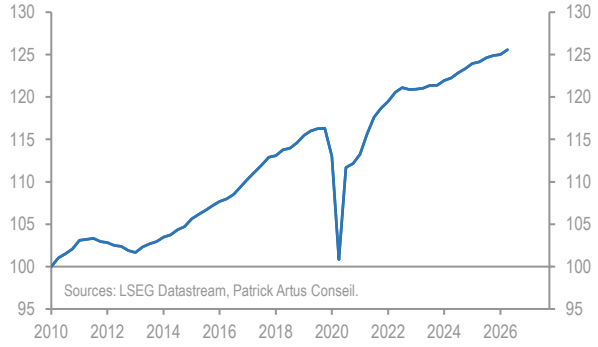
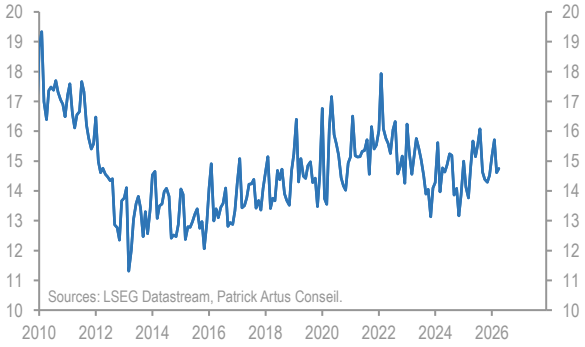



Chart 10
European Union: Real GDP (2010 Q1= 100)




The European Union accounts for only 15% of China's total exports (**Chart 11**), and it is a low-growth region: **China needs the US market to absorb its output**.

Chart 11
China: Exports to the European Union
(as % of total exports)




## China in fact continues to export to the United States

**Chart 12** shows that **China's direct exports to the United States have collapsed since 2022**. However, **China continues to export indirectly to the United States**, through the South-East Asian subsidiaries of its companies (**Chart 13**).

Chart 12
China: Exports to the United States
(USD bn, monthly data)

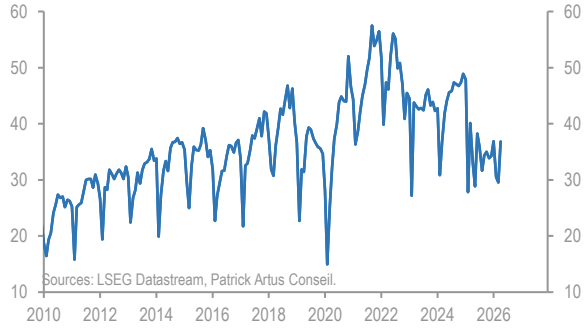



Chart 13
Chinese exports to South-East Asia and US imports from South-East Asia* (USD bn, monthly data)




*Cambodia, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam

## Summary: Europe is an insufficient outlet for Chinese goods

Given the weakness of its domestic demand, China must achieve very rapid growth in its exports in order to sustain its economic growth. This cannot come from Europe, where growth is too weak and where protective measures against imports from China are increasing. **China must in reality continue to export to the United States in order to meet its growth targets**. These exports no longer take the form of direct exports, but of indirect exports routed through South-East Asian countries.

Were the United States to move to protect itself against these Chinese goods routed through third countries, Chinese growth would be severely penalised.

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