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The Implications of China's Slowdown for International Trade

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Abstract

We study cross-border spillovers from China's recent growth slowdown onto partner-country exports. Our analysis uses a panel vector autoregressive model and novel measures of export-intensity adjusted final demand in China's secondary and tertiary sectors. Impulse-response analysis suggests that spillovers are largest for shocks to China's secondary sector: a one percentage point decline in demand growth from China's secondary sector reduces average partner country export growth by almost 0.3 percentage points on impact, and about half this amount on average over the first year; the same size shock to China's tertiary sector has a much smaller effect. This suggests that spillovers to different trading partners will depend on their sectoral linkages with the Chinese economy. At the regional level, the analysis indicates that countries whose trade linkages with China are strongest—such as those in Asia—would be most affected.

JEL Classification Numbers: C33, C53, F14, F17

Keywords: Panel Vector Autoregression; Trade Forecasting; International Trade

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