QUANTIFYING TRADE DEPENDENCE OF CHINA: A STRUCTURAL GRAVITY APPROACH

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ABSTRACT

Evolving global trade, economic considerations and geopolitical tensions have made the movement of supply chains away from China a topic of growing significance. Despite the motivation to move away from China, data shows that nations still continue to depend increasingly on Chinese exports year after year. The purpose of this study is to quantify the trade dependence on China. The study aims to estimate the costs associated with moving away from China. For this, structural gravity model is used to estimate the partial elasticity of import dependency on China. Total effect on short run general equilibrium is estimated through counterfactual simulations. Import dependency on China is measured as the ratio of imports from China to total imports from all the countries. Estimation results show that moving away from China increases trade costs. Furthermore, counterfactual analysis also shows that reducing import dependency on China is welfare reducing for the partner countries, as well as for China. However, the losses from the shock are lower for China than many of its trading partners, highlighting the dependency these economies have on China.

Keywords: trade dependency, China, structural gravity model, counterfactual analysis

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