

China Shock 2.0 in Asia

Asymmetric Trade Dependence and Uneven Productivity Growth

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KEY MESSAGE

Between 2018 and 2024, China's share of goods imports rose by 7.5–15.4 percentage points in Cambodia, Thailand, Malaysia, and Vietnam, while China's share of their exports was flat or lower. For these economies, China became a more important supplier, but not a more important market. Yet total factor productivity (TFP) growth diverged: 1.24% a year in Vietnam, but –1.59% in Cambodia.

WHY THIS MATTERS

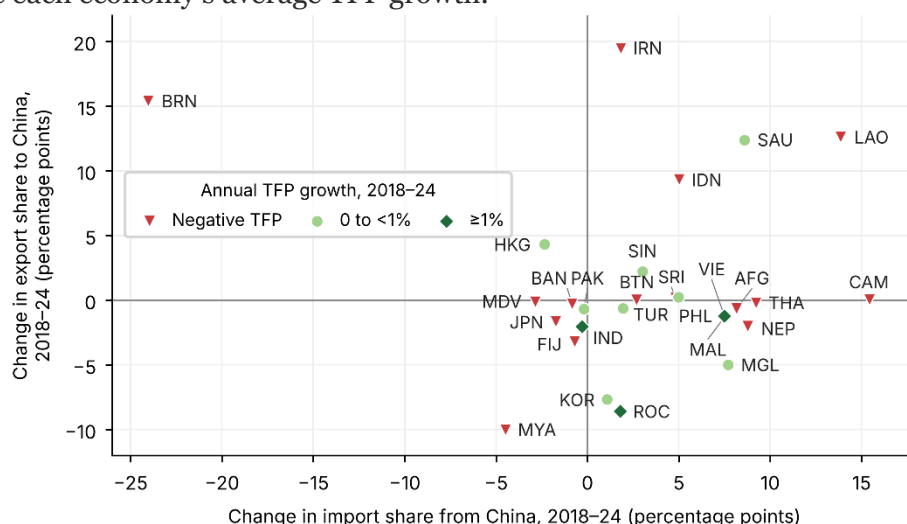
The second “China shock” differs from the first less in scale than in form (Keynes 2026). Relative to the world economy, the rise in China’s surplus since 2018 is comparable to that of the 2000s, but export prices are no higher than in 2018, and import volumes have stagnated; the missing counterpart may be sales to China that did not happen. In Southeast Asia, the effect is described as a “squeeze” rather than a shock, as Chinese intermediate goods flow in while low-skill industries lose ground (Lakshmi et al. 2026). *APO Productivity Databook 2026* (Section 2.3) found realigned trade ties without a clear productivity payoff. This note asks whether the asymmetry in China’s own accounts appears in its partners’ trade shares, with China gaining as a supplier but not as a market, and how that pattern coexists with divergent TFP growth.

EVIDENCE: ASYMMETRIC TRADE TIES

China’s share of Cambodia’s goods imports rose by 15.4 percentage points, Thailand’s by 9.2, and Malaysia’s and Vietnam’s by 7.5 each; China’s share of their exports changed by 0.0, –0.2, –1.3, and –1.2 points. Nepal and Afghanistan follow the same pattern (+8.8 and –2.0; +8.2 and –0.6 points). Lao PDR, Saudi Arabia, and Indonesia differ: China’s share rose substantially on both sides (imports +13.9, +8.6, and +5.0; exports +12.6, +12.4, and +9.3 points). The figure places these contrasts alongside each economy’s average TFP growth.

Figure. Trade Dependence on China and TFP Growth, 2018–24

Unit: Changes in China’s shares of each economy’s goods imports and exports (percentage points), 2018–24; marker groups show average annual TFP growth over 2018–24. Note: 27 Asia28 economies, excluding China. Shares exclude own-economy (diagonal) entries from numerators and denominators. Sources: KEO balanced bilateral trade matrix and APO Productivity Database 2026.



INTERPRETATION: TRADE INTEGRATION IS NOT A PRODUCTIVITY RESULT

Greater reliance on Chinese imports has two potentially opposing meanings. Imported intermediate and capital goods can strengthen local manufacturing and export capacity, whereas competing final goods can displace domestic production. An aggregate goods-trade matrix cannot separate these channels, although China's record 2025 surplus with ASEAN featured strong growth in intermediate goods (Lakshmi et al. 2026). Among the four Southeast Asian economies, similar exposure coexisted with divergent productivity: TFP growth averaged 1.24% a year in Vietnam and 0.24% in Malaysia, versus -0.68% in Thailand and -1.59% in Cambodia. Conversely, the ROC (Taiwan) combined one of the largest falls in China's share of its exports (-8.6 points) with TFP growth of 1.61%. The figure therefore illustrates heterogeneity rather than a stable cross-country relationship or evidence of causation.

MEASUREMENT CONSIDERATIONS

The Keio Economic Observatory (KEO) constructs a balanced international goods-trade matrix as part of the statistical infrastructure underlying its long-run productivity accounts. World and country export totals are prioritized to establish the common trade total (CT); country import totals are adjusted to sum to CT. Bilateral flows are then balanced by the RAS method subject to these margins. This yields internally consistent partner weights, although balancing does not eliminate uncertainty in individual flows.

The matrix also serves a deflation purpose. Where official import price indices are unavailable or judged unreliable, KEO estimates import prices by aggregating partners' export prices with bilateral trade weights, adjusted for exchange rates. Such estimates replace official import price indices for selected economies and periods. Changes in partner-country weights, including China's, affect the reconstructed import deflator, potentially revising the expenditure-side GDP deflator, real GDP growth, and measured TFP. For economies and periods using these reconstructed deflators, trade shares and measured TFP are not entirely independent of the underlying statistical construction. The comparison starts in 2018, the base year used by Keynes (2026) and the Databook (Section 2.3), and ends in 2024, the latest year of the TFP estimates; the 2025 bilateral matrix is also partly provisional.

IMPLICATIONS

01

China became a more important supplier to several Asian economies without becoming a comparably larger market for their exports.

02

Similar changes in trade exposure coexist with markedly different TFP growth; integration with China is not a productivity guarantee.

03

Consistent bilateral flows support both trade analysis and the reconstruction of import deflators in long-run productivity accounts.

REFERENCES

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This note is part of the Productivity Research Notes series, examining key issues in productivity and economic performance in Asia. The views expressed are those of the author(s). Inquiries may be directed to sankenoffice@info.keio.ac.jp.

