Did the crisis disrupt EU exports to China?

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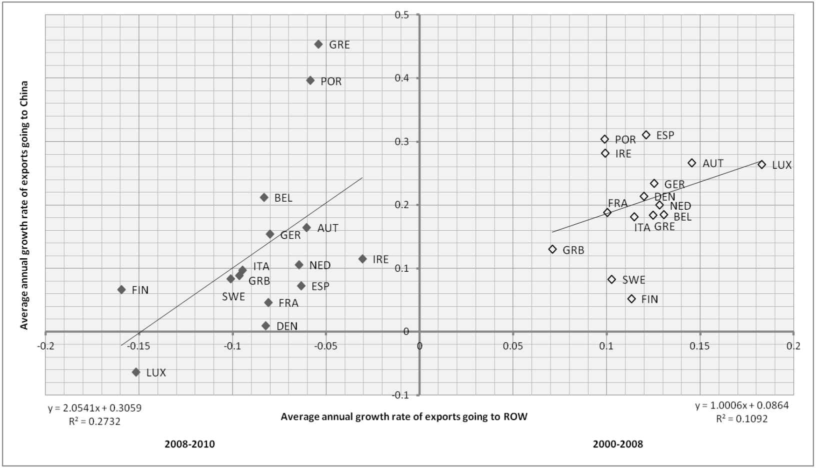
Outline

1. Stylized facts
2. Hypotheses and empirical strategy
3. Results and summary

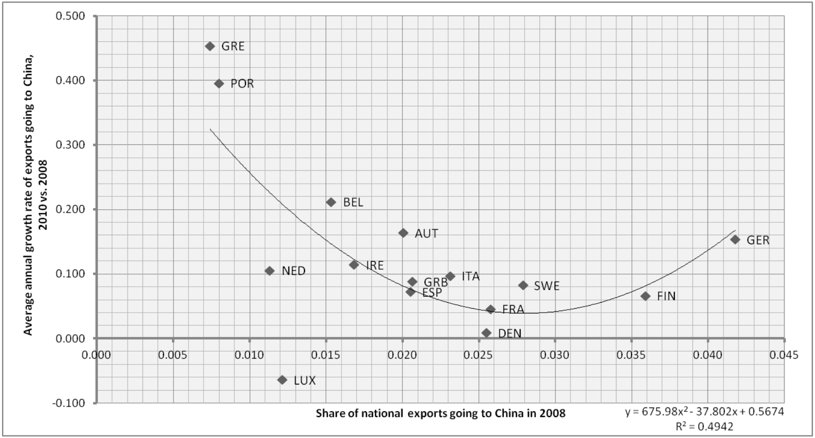
Europe's post-crisis export growth to RoW is associated with post-crisis export growth to China



First set of interpretations

- **"China is the only game in town after the crisis"** explains that export growth to China is positive for most EU-15 economies and export growth to RoW is negative.
- **Export supply side characteristics** (e.g. trade finance and government spending) are likely to explain (post-crisis) association of export growth to RoW and to China
- Post-crisis variance of export growth to China is larger than the pre-crisis variance suggesting that something else is going on. **Could that something be protectionism? Or differential impact in some other Chinese crisis policy?** (The variance of export growth to RoW remains similar suggesting that it is Chinese characteristics driving the increased variation.)

Lower pre-crisis exposure to China is associated with higher export growth to China post-crisis



Second set of interpretations

- There is **post-crisis convergence of export exposure to China** for all, except Germany and Finland.
- For Germany and Finland there is either a **threshold export share story** (i.e. once export share to China exceeds a certain level, exports grow faster) or a **composition of trade story** (e.g. Germany and Finland benefited most from the Chinese stimulus package).

Hypotheses

Export supply factors:

- H1a: Higher government consumption leads to higher exports (home market effect, Krugman 1979).
- H1b: Higher government consumption leads to lower exports (crowding out effect).
- H2: More state aid leads to higher exports.
- H3: Higher productivity leads to higher exports.

China-specific factor:

- H4: If China becomes more important in the world economy, export exposure to China increases (gravity explanation).

Hypotheses (cont.)

Bilateral factors:

- H5: If the Chinese yuan appreciates against the exporter's currency, export exposure to China increases.
- H6: If exporters produce what China demands, export exposure to China increases (composition effect).
- H7: If China provides export subsidies (and emerges as a giant manufacturer) while the exporters produce what