China's Market Share Soars During Global Downturn

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I have repeatedly argued that China is in the middle of a bubble of easy credit – which will eventually crash. See this, this and this.

And China had huge residential and commercial real estate bubbles, just like most of the rest of the world (housing bubbles have also collapsed in France, Spain, Ireland, the United Kingdom, Eastern Europe, and many other regions).

Moreover, everyone knows that China's economy is based on exports and that – with the current economic downturn – Americans are spending less.

You might assume that means that China's position in the world economy is threatened. In other words, you might assume that the downturn hits China's export-centered economy harder than other economies.

But as the New York Times points out, China's share of global exports has soared, out-competing Germany, Japan and everyone else, and that China's higher share might become permanent:

> With the global recession making consumers and businesses more price-conscious, China is grabbing market share from its export competitors, solidifying a dominance in world trade that many economists say could last long after any economic recovery.
>
> China's exports this year have already vaulted it past Germany to become the world's biggest exporter…
>
> China is winning a larger piece of a shrinking pie. Although world trade declined this year because of the recession, consumers are demanding lower-priced goods and Beijing, determined to keep its export machine humming, is finding a way to deliver.
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> The country's factories are aggressively reducing prices — allowing China to gain ground in old markets and make inroads in new ones…
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> The most striking gains have come in the United States, where China has displaced Canada this year as the largest supplier of imports…
>
> One reason is the ability of Chinese manufacturers to quickly slash prices by reducing wages and other costs in production zones that often rely on migrant workers…
>
> "China has a huge advantage," says Nicholas R. Lardy, an economist at the Peterson Institute for International Economics in Washington. "They can adjust

> to market changes very rapidly. They have flexibility in their labor markets. And as consumers trade down the quality ladder, China can benefit."
>
> The expiration of textile quotas in large parts of the world this year has also allowed China to increase its market penetration…
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> Though that represented a 22 percent decrease from the first half of 2008, it compares favorably to other major exporters. German exports, for example, have fallen 34 percent over the same period. Japanese exports were down 37 percent and American exports 24 percent, according to Global Trade Information Services.
>
> Trading powerhouses like Germany are suffering from weaker demand for heavy equipment, automobiles and luxury goods. But the value of exports from oil-producing countries, like Russia and Saudi Arabia, has fallen even more…
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> American imports from Saudi Arabia have fallen 65 percent…
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> After letting its currency rise against the dollar, beginning in July 2005, China is once again pegging it closely to the dollar. As the dollar has fallen against other major currencies like the euro — about 15 percent since a year ago — Chinese imports have become more and more competitive.

While China has problems, the fact that it is gaining export share in this harsh environment is a very positive sign for the ancient nation.

The fact that China has virtually cornered the market for rare earth metals also helps that country.

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