Asia Research Centre Commentary
Centre for Security Studies
War Studies University
February 15, 2021

Economic situation in China in the context of Polish-Chinese trade relations

Łukasz Sarek

The economy of the People's Republic of China emerged from the epidemic relatively unscathed, recording positive growth. This has been an exception among the leading world economies. However, the main driving forces of this process were – just like in the previous crisis – investments and export. Thanks to the relatively quick containment of the epidemic and restoration of production, Chinese exporters were able to deliver supply to customers in foreign markets at the expense of those markets' local producers and other foreign producers, as both of these groups faced restrictions. Further, a factor that helped Chinese to certain extant has been the producers' price deflation. On the one hand, the growth of Chinese exports and the intensity of factors favourable to them have increased the pressure on those Polish producers who compete with PRC's companies in Poland and in foreign markets. On the other hand, falling prices in some product groups and the fact that Chinese companies quickly resumed production activities have been beneficial to importers and consumers.

According to the Statistics Poland data, in the first 11 months of last year, the value of Polish exports to China increased by 15.8 percent and amounted to USD 3.06 billion. The export growth rate was relatively high. This has positively distinguished Poland from other countries. It was mainly driven by raw or roughly processed materials, parts, components, and industrial goods, which are largely exported through the supply chains of foreign companies. Higher value-added consumer goods still play a minor role in Polish exports to the PRC.

In the first few months of last year, the CCP leadership focused primarily on supporting the supply side. Consumption (which was supposed to be the engine of growth) and related retail sales saw a sharp decline due to inflation as well as jobs and wages uncertainty. Sales in traditional stores declined while e-commerce grew robustly. Under conditions of uncertainty and a still relatively weak social benefit net, a part of the population will be more inclined to save than to consume. Unless there is a rapid and significant increase in demand on the Chinese market, manufacturers from the PRC will be more export-oriented, and Polish entrepreneurs can expect further pressure in industries where they compete with their Chinese counterparts.

The pressure on Polish companies will also increase if the current restrictions on business activities in Poland are maintained or new ones are introduced to curb the spread of the coronavirus. This pressure will be mitigated by producer price inflation in China. If there are no disturbances in the Chinese economy caused by new waves of the epidemic, deflation is unlikely to last longer. Shipping prices are uncertain, but it seems that they will remain quite high in the coming months which means that import costs will rise, and Polish buyers must expect higher prices for Chinese goods.

A sluggish rebound in demand for consumer goods in China adversely affects the ability of Polish companies to enter the Chinese market with new product offerings. In a slow-growing market (which has shrunk considerably), Polish entrepreneurs will be operating in an environment of strong competition from local Chinese companies and foreign companies already present in the Chinese market. The expected increase in Chinese consumers' confidence, a factor that may be fostered by a further drop in the unemployment rate, an increase in disposable income, reasonable inflation and the absence of another wave of the epidemic would have a positive impact on creating friendlier conditions for Polish exporters. The significance of these positive factors is highly limited due to numerous formal and informal barriers faced by Polish companies entering the Chinese market. Cross-border internet sales can be an effective channel for introducing new consumer products to China, however.

The financial standing of Chinese companies has improved to some extent in recent months. However, rising debt levels, increasing numbers of loss-making enterprises, growing inventories of finished products and rising receivables increase the risk of cooperation with Chinese partners for both Polish exporters and importers when compared to the situation of previous years.