David and Goliath: How Chinese Competition Impacts Other Export-Competing Developing Countries

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Abstract

How did China's entry to the WTO affect the export performance and therefore the real income of other developing economies? In this paper, I seek to answer this question for the top six Asian textile exporters that are also developing economies. To address endogeneity concerns, I use the removal of product-specific quotas following China's WTO accession as an instrumental variable. Surprisingly, I find that more Chinese competition does not have a negative impact on these countries' competitive positions or market shares of their exports to Europe. I therefore investigate the mechanisms through which exporters might be able to shield themselves against Chinese competition. I find three dimensions, along which empirical results are consistent with existing theory in international economics: Developing countries lose market share to China in more homogenous products, in more capital-intensive products, and in categories with higher relative prices compared to other exporting countries. However, my analysis also suggests that it is important to consider product market segmentation to understand how some countries stay unaffected by China. Notably, although the market share of these exporters is unaffected by Chinese competition, I show that new product creation is significantly hampered, highlighting extensive margin effects.

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