

The China discount now carries a premium

Chinese goods may remain competitively priced, but serving markets with different technology rules adds costs for firms.

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Years of geopolitical tension, overlapping wars and a bruising bout of global inflation were expected to redraw global supply chains. Yet, Chinese goods remain remarkably competitive.

The latest trade figures bear this out. China's exports rose 23.9 per cent in July from a year earlier, while high-tech exports were up 40.7 per cent over the first seven months of 2026 amid strong AI-related demand.

The reason is straightforward. For all the pressure to diversify, the commercial logic of buying from China has barely budged.

The "China discount" – the longstanding price advantage of Chinese manufactured goods –

has helped contain production costs for firms across Asia.

Headline export figures alone cannot show whether that discount is narrowing, since rising export values may reflect higher prices or greater volumes. Any narrowing would be felt across Asia. Singapore has a particular stake because electronics and other intermediate goods used by its manufacturers are among its key imports from China.

Strong AI-related demand helped Singapore's manufacturing sector grow by 12.5 per cent in the second quarter of 2026, when the economy expanded by 5.9 per cent year on year. The Ministry of Trade and Industry has since raised its full-year growth forecast to between 4.5 per cent and 5.5 per cent.

Yet, while Chinese inputs remain competitively priced, using them to serve markets governed by different technology rules adds administrative costs.

For firms caught between supply chain efficiency and fragmented trade rules, the China discount now carries a geoeconomic premium.

THE CHINA DISCOUNT

The China discount has persisted in part because China's growth model remains unbalanced. The International Monetary Fund's February review of China's economy pointed to lacklustre private demand, excessive price competition and overinvestment by local governments.

When domestic spending fails to absorb factory output, firms depend more heavily on overseas buyers and compete aggressively on price. Brad Setser of the Council on Foreign Relations argues that an undervalued renminbi reinforces China's export competitiveness. Despite geopolitical and supply chain concerns, firms have not shifted rapidly to other suppliers because China's extensive supplier base and manufacturing scale remain difficult to match at comparable prices.

Unlike the first China shock after Beijing's 2001 World Trade Organization accession, which centred on labour-intensive exports as trade barriers fell, this surge – described by Federal Reserve researchers as China Shock 2.0 – is more capital- and technology-intensive and is unfolding amid strategic competition.

Beijing rejects both the charge of excess capacity and the China Shock 2.0 label, describing its industrial modernisation as "China Opportunity 2.0".

The immediate question for Singapore firms is whether Chinese inputs will become more expensive. The extent of any increase depends on how much

manufacturers pass on higher production costs in China to buyers abroad.

China's latest domestic price data points to uneven pressures rather than broad inflation. Producer prices rose 3.5 per cent year on year in July, easing from 4.1 per cent in June, while consumer inflation was just 0.5 per cent.

The return of producer price inflation largely reflects the energy and input cost shock that followed the Iran war, while weak domestic demand continues to restrain consumer prices. For buyers abroad, however, neither index shows what Chinese exporters charge.

More tellingly, export prices for key technologies have moved in opposite directions. Higher chip prices drove much of the increase in the value of China's integrated circuit exports, which nearly doubled in July. In contrast, Chinese solar panel export prices fell from 29 US cents per watt in August 2022 to 9 cents per watt in the first half of 2025. The evidence points to product-specific price changes rather than a broad end to the China discount.

For ASEAN, the effect depends on what the region imports from China. A December 2025 Lowy Institute report estimates that intermediate inputs, including parts and components, account for 60 per cent of ASEAN's imports from China, while capital goods, such as machinery and equipment, account for roughly another 30 per cent. Consumer goods account for only 7 per cent, although the report also notes that cheap imports can place acute pressure on exposed industries.

The China discount therefore reaches South-east Asia primarily by lowering production costs for regional manufacturers.

THE FLIP SIDE

For Singapore firms, lower-priced

Chinese inputs are only part of the calculation. They must also bear the cost of complying with market-specific technology rules.

American export controls, which Washington maintains on national security grounds, can continue to apply to US-origin goods, software and technology after export. Certain foreign-made goods can also be covered. The same item may therefore be sold without a licence in one transaction and require one in another, adding to a firm's compliance costs.

The regulatory burden does not come entirely from Washington. China also requires export licences for specified dual-use goods and some rare-earth-related products. Its controls operate differently from American rules, but they, too, can delay access to inputs and raise costs. Together, the added burdens imposed by the two regulatory systems constitute the geoeconomic premium.

These compliance costs matter, especially in electronics, which accounted for 8 per cent of Singapore's nominal value added in 2025.

In August 2025, the US Commerce Department announced that a small group of foreign-owned semiconductor plants in China would lose licence-free access to American manufacturing equipment and technology.

Although the measure concerned shipments into China, it illustrates how a regulatory change can make an established transaction subject to licensing. More generally, smaller suppliers tend to bear such fixed costs more heavily because multinationals can spread them across much larger sales volumes.

A DUAL-POLICY RESPONSE

Singapore therefore faces two distinct policy questions. The ongoing China discount does not insulate the economy from other

import price shocks. The recent Middle East energy shock posed a broader inflation risk, while compliance costs from market-specific rules fall on a narrower group of firms.

The Monetary Authority of Singapore has already responded to that inflation risk. It tightened the exchange rate policy in April as the energy shock raised import costs, then tightened again in July as external price pressures were expected to spread and growth remained resilient.

While that response addresses economy-wide price pressures, firms adapting to fragmented technology rules face a separate challenge.

The Government's July support package provided a one-off cash grant and expanded access to loans to ease immediate cash flow pressure for small and medium-sized enterprises. Longer-term support for compliance and necessary supply chain reconfiguration could be considered within the refreshed approach to industry and trade announced following the comprehensive review of Singapore's economic strategies.

However, any dedicated assistance for these particular adjustment costs should be based on evidence of the additional expense imposed by foreign technology controls.

For Singapore, the broader objective is to preserve firms' choice of suppliers, including access to competitively priced Chinese inputs, while helping them navigate different regulatory requirements in the markets they serve.

The China discount remains, but in a fractured global market, it comes with a geoeconomic premium.

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