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An Oifig Buiséid Pharlaiminteach  
Parliamentary Budget Office  
**Ireland's Economic Relations with China**  
**A Statistical Overview**

Publication 25 of 2022

## Séanadh

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## Key Points

- The aim of this note is to give a statistical overview of Ireland's economic relations with China, given the significance of China in the world economy, global trade, and geopolitics, all of which can influence the Irish economy.
- There have been several signs of deepening economic relations between Ireland and China in terms of bilateral trade and foreign direct investments (FDIs).
- The monetary scale of Ireland's merchandise exports to China seems to be nearing to those with the UK.
- In terms of merchandise imports, services trade, and FDIs, China occupies small shares in Ireland compared to the UK; however, there have been increasing trends in these areas as well.
- Economic ties with China are deeper for exports than for imports in both merchandise and services trade (5.1% of GNI\* vs. 3.7% of GNI\* in the 2021 merchandise trade; 3.5% of GNI\* vs. 2.5% of GNI\* in the 2020 services trade).

# Introduction

One of the PBO's objectives is to inform Members of key developments relevant to budgetary and fiscal policies. This note aims to give an overview of Ireland's economic relations with China. This is motivated by the significance of China in the global economy, trade, and geopolitics, and the potential impacts on the Irish economy, which is highly globalised. The Budget 2023 Economic and Fiscal Outlook referred to the Chinese economy as a potential risk to Ireland's economic and fiscal situations.<sup>1</sup> This year, China has held the 20th National Party Congress in October, where Xi Jinping has won the third term of leadership. Because of its global significance, ongoing attention to China is warranted.

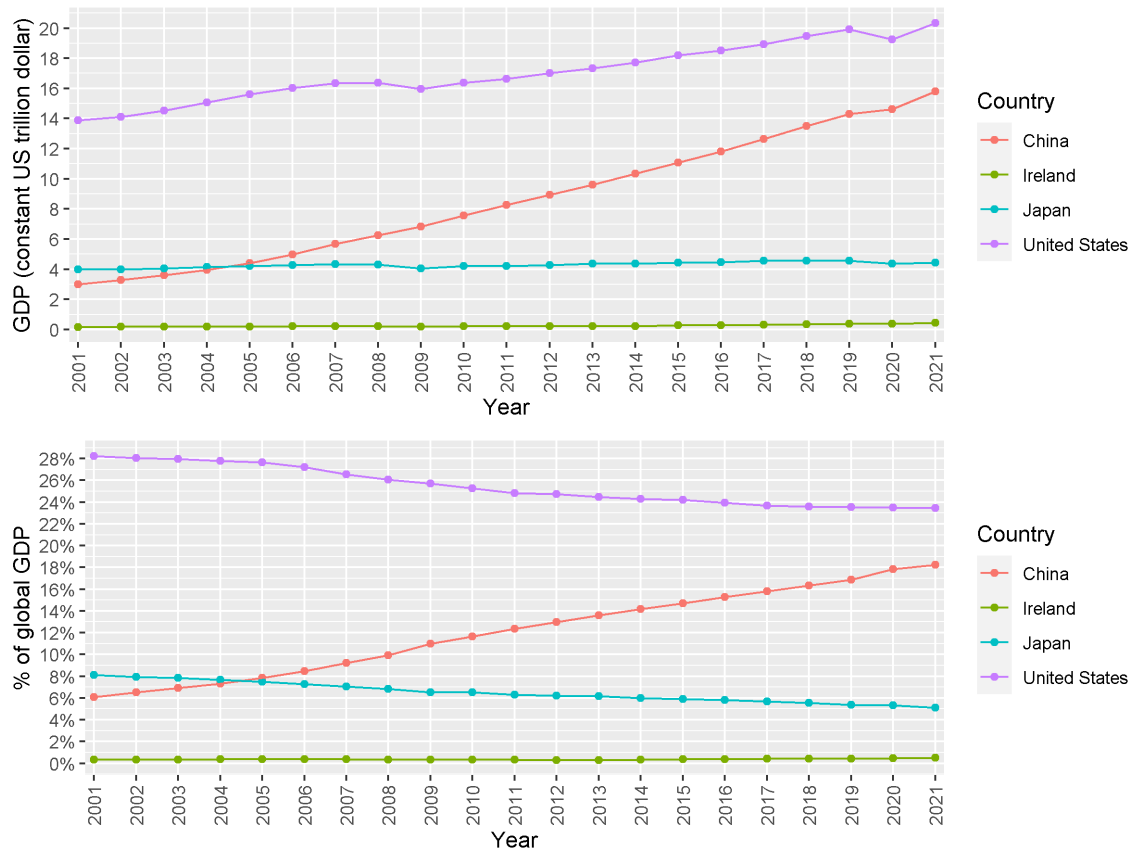
To this end, this note presents data on bilateral trade and foreign direct investments (FDIs) between Ireland and China. To contextualise the data, the note compares the monetary scale of Ireland's bilateral trade and FDIs with China, to that with the United Kingdom (UK), the immediate neighbouring country with which Ireland has a long shared history and economic relations.

There is no doubt that China is one of the most important players in the global economy. According to data provided by the World Bank,<sup>2</sup> China's gross domestic product (GDP) in real terms in 2021 was the second largest after (and just 22% smaller than) the United States' (US), and 256% greater than Japan's (the third largest). Figure 1 on the next page displays the GDP figures of the US, China, Japan, and Ireland, and their shares of global GDP, since the beginning of this century. It is obvious that China's GDP has grown very fast. In 2001, China's GDP accounted for 6% of global GDP, compared to the US's 28% and Japan's 8%. In 2021, China's GDP accounted for 18% of global GDP, compared to the US's 23% and Japan's 5%.<sup>3</sup>

<sup>1</sup> Department of Finance, *Budget 2023 Economic and Fiscal Outlook*, 27 September 2022, pp.11, 44.

<sup>2</sup> *World Bank Group, "World Development Indicators," 2022*, The World Bank data on China's GDP does not include Macao, Hong Kong, and Taiwan.

<sup>3</sup> For further comparison, the total GDP for the entire European Union in 2021 was 14.64 constant US trillion dollars, which is smaller than China's (15.80 constant US trillion dollars). The time-series data on the EU's GDP is not used here, because it fluctuates because of the entrance, and exit, of Members States.

**Figure 1: GDP values and shares of global GDP**

Source: World Bank Group (GDP values); the PBO's own calculation based on the World Bank data (% shares).

Note: Ireland's economic size is expressed as GDP rather than modified gross national income (GNI\*)

While economic interdependence brings more opportunities and benefits, the flipside is that, if the Chinese economy slows down or experiences a negative shock, it has implications for the Irish economy. Some of the concerns include the impact of financial struggles in the Chinese property sector<sup>4</sup> (which is estimated to account for approximately a quarter of China's GDP in 2020),<sup>5</sup> the economic ramifications of political divisions between China and other major economies,<sup>6</sup> and geopolitical risks in the Taiwan Strait.<sup>7</sup> This note therefore hopes that its snapshot of Ireland's economic relations with China will help Members consider how the Irish economy could be influenced by economic situations in China.

The first section of this note describes bilateral trade between Ireland and China, firstly in terms of merchandise and secondly in terms of services. The second section presents Ireland's FDIs from and to China. All trade and FDI data draw from the Central Statistics Office (CSO); to allow for time-series comparison, absolute values of these statistics are not used and instead their percentage share of modified gross national income (GNI\*) in the same years are presented.<sup>8</sup> Note that, in the CSO database, Hong Kong and Macao are included in the merchandise trade data of China and excluded in the services trade and FDI data of China; Taiwan is excluded in all of these data on China. The final section is a conclusion.

<sup>4</sup> For example, see James Kynge, Sun Yu, and Thomas Hale, "China's Property Crash: 'A Slow-Motion Financial Crisis,'" *The Financial Times*, 4 October 2022.

<sup>5</sup> Kenneth Rogoff and Yuanchen Yang, "The Size of China's Real Estate Sector," 21 December 2021.

<sup>6</sup> For example, see Demetri Sevastopulo and Kathrin Hille, "US Hits China with Sweeping Tech Export Controls," *The Financial Times*, 7 October 2022; "Germany Drawing Up New China Trade Policy, Vows 'No More Naivety,'" *Reuters*, 13 September 2022.

<sup>7</sup> For example, see Edward White, Tom Mitchell, Kana Inagaki, and Hudson Lockett, "Taiwan Tensions Force Multinationals to Rethink China Risk," *The Financial Times*, 17 August 2022; Demetri Sevastopulo and Andrew Edgecliffe-Johnson, "Executives Seek Briefings on Taiwan War Risk," *The Financial Times*, 12 July 2022.

<sup>8</sup> The data on GNI\* is taken from: Central Statistics Office, "NA001: Modified Gross National Income at Current Market Prices," 15 July 2022.



## Bilateral Trade

### 4

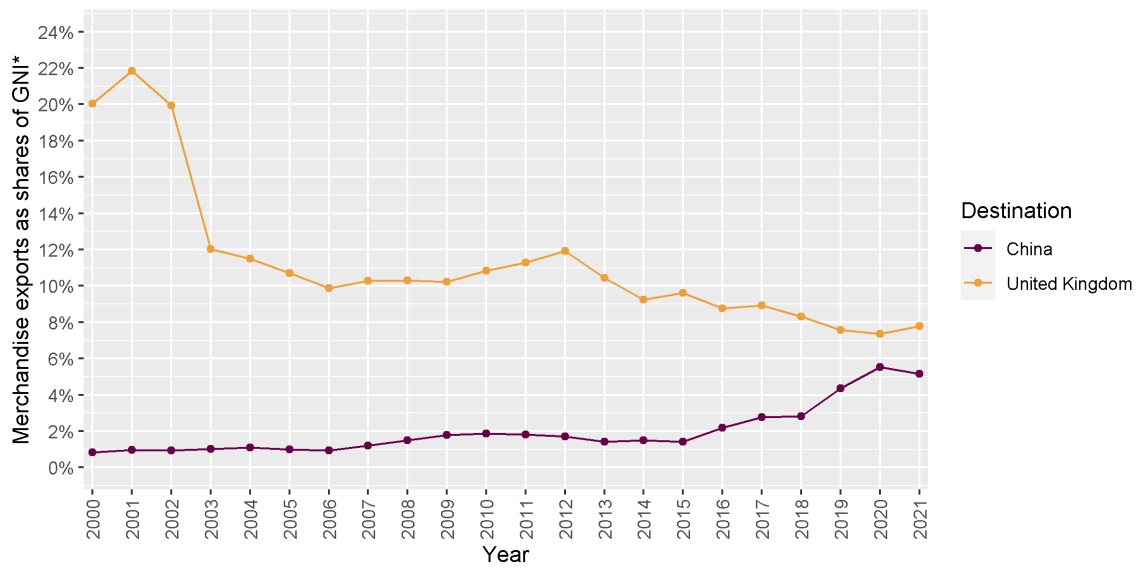
Bilateral trade consists of the imports and exports of tangible and intangible goods including services. Both are important for the Irish economy but in different ways. For example, export-oriented sectors benefit from access to the Chinese market. If Chinese demand slowed down, these sectors would experience this effect directly. Meanwhile, import-oriented sectors benefit by purchasing goods and services from the Chinese market. These goods and services may be cheaper than those in Ireland or other countries, or only available in China. If the supply chain in China were disrupted, then these sectors would experience its effect directly.

Of course, actual economic interdependence is more complex than these simple bilateral explanations. For example, the supply-side disruption in China could negatively affect even export-oriented sectors in Ireland. This would be the case, if the disruption caused the overall Chinese, regional, and global economy to slow down and, as a consequence, reduced the demand for Irish goods and services as well. Nonetheless, the starting point of thinking is that export-oriented sectors are directly affected by the demand side of the Chinese economy, while import-oriented sectors are directly affected by the supply side of the Chinese economy. This section looks first at merchandise trade and then at services trade. The scale of trade is measured in values rather than volumes.

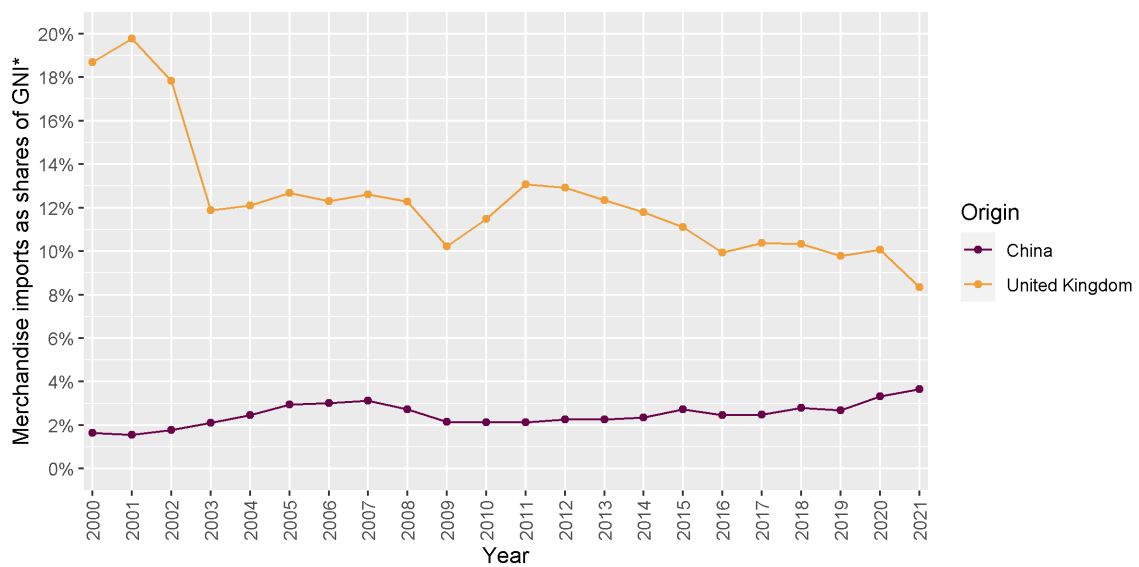
### Merchandise Trade

Figure 2 on the next page presents Ireland's merchandise exports to China and, for comparison, to the UK, in annual terms from 2000 to 2021, as shares of GNI\*. Although the UK used to have a significantly greater share, the difference has become much smaller over the last 5 years. While the closing gap can be partly explained by the overall decline in merchandise exports to the UK since 2016, the year of the Brexit referendum, it is more accounted for by a significant increase in merchandise exports to China. In 2021, the value of Ireland's merchandise exports to China was €12 billion, approximately 34% less than that to the UK (€18 billion).

Figure 3 on the next page displays Ireland's merchandise imports from China and, again for comparison, from the UK, as shares of GNI\*. The difference between China and the UK is more significant here than for exports, although the difference has decreased over time. In 2021, Ireland's merchandise imports from China (€8.6 billion) were approximately 56% less than those from the UK (€19.5 billion). The data also means that merchandise trade relations with China are deeper for exports than for imports (i.e., 5.1% of GNI\* vs. 3.7% of GNI\* for 2021).

**Figure 2: Ireland's merchandise exports to China and the UK as shares of GNI\***

Source: The PBO's own calculation based on the CSO data.<sup>9</sup>

**Figure 3: Ireland's merchandise imports from China and the UK as shares of GNI\***

Source: The PBO's own calculation based on the CSO data.<sup>10</sup>

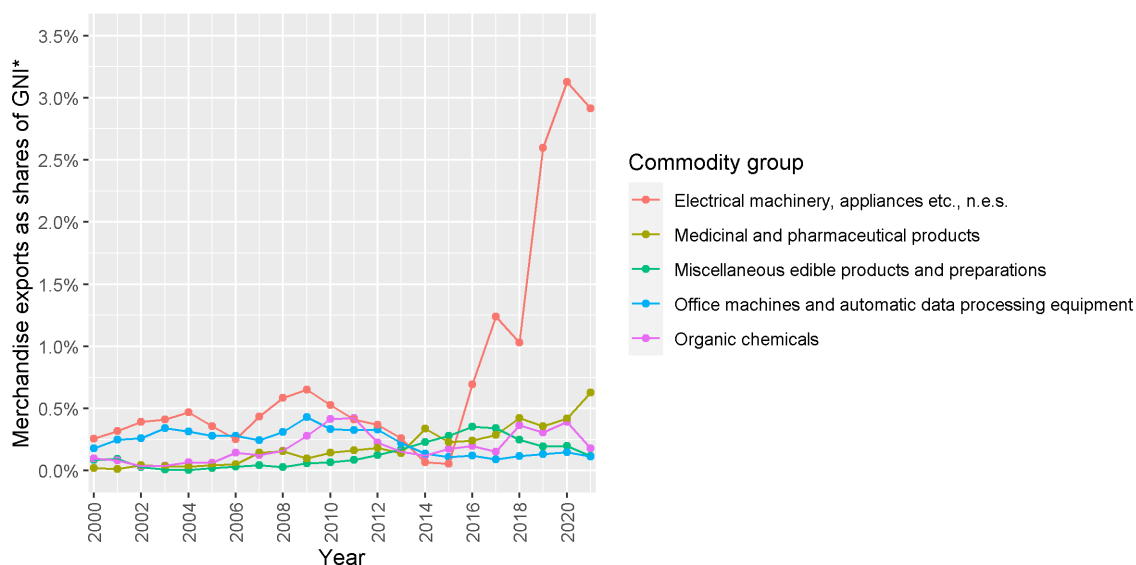
<sup>9</sup> Central Statistics Office, "TSA10: Value of Merchandise Trade," 6 October 2022.

<sup>10</sup> Central Statistics Office, "TSA10: Value of Merchandise Trade," 6 October 2022.

We disaggregate merchandise trade statistics, by examining what commodities are traded between Ireland and China. To allow for the legibility of the analysis, we focus on the exports and imports of commodities whose average annual values are greater than 0.1% of GNI\* between 2000 and 2021.<sup>11</sup>

Figure 4 presents Ireland's merchandise exports to China by commodity groups. In 2021, the largest share is taken by the commodity group of electrical machinery, appliances, and others of similar kind. It is followed by medicinal and pharmaceutical products. The exports of electrical machinery, appliances, and others of similar kind to China increased significantly since 2016. A closer inspection of the data suggests that, while the monetary scale of the overall exports of these goods itself rose significantly in 2016 (by 150% compared to 2015) and further increased since then, China also replaced the US as the largest export destination of these goods in 2018 (see Figure 5 on the next page).

**Figure 4: Ireland's merchandise exports to China by commodity groups as shares of GNI\***



Source: The PBO's own calculation based on the CSO data.<sup>12</sup>

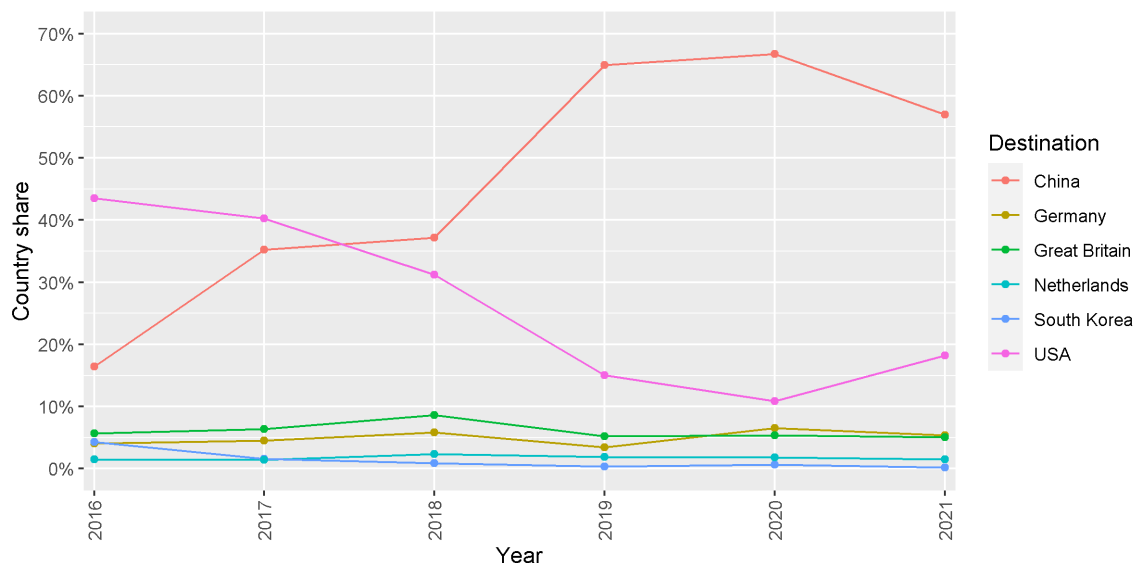
Note: Commodity groups are those used in the CSO data; "n.e.s." means "not elsewhere specified or included."

<sup>11</sup> 0.1% of GNI\* is approximately €230 million in terms of the 2021 GNI\*.

<sup>12</sup> Central Statistics Office, "TSA10: Value of Merchandise Trade," 6 October 2022.



**Figure 5: Countries' shares in Ireland's exports of "electrical machinery, appliances, etc., n.e.s." between 2016 and 2021**

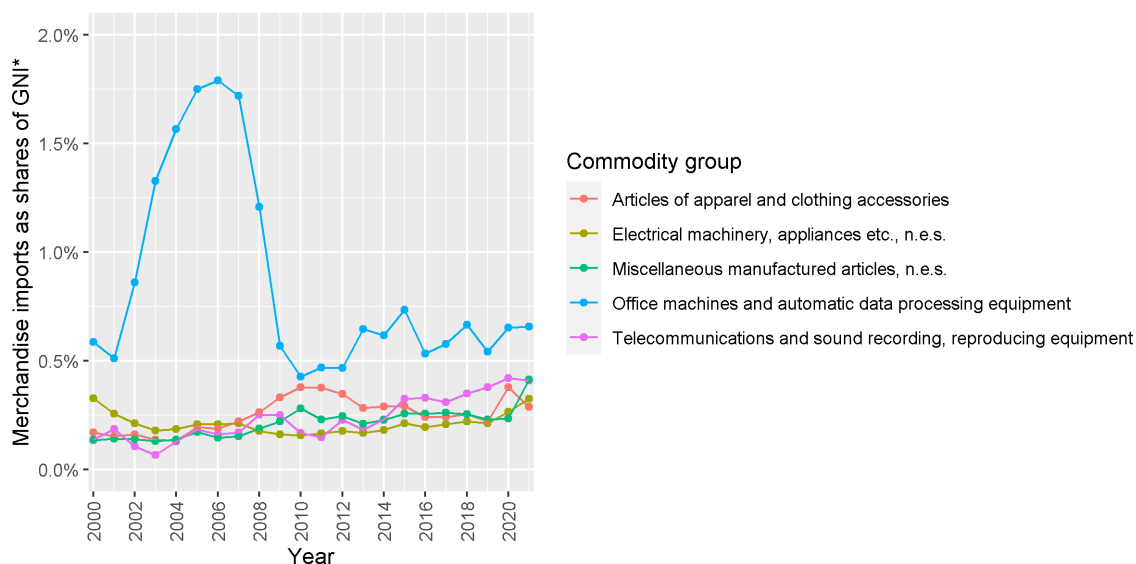


Source: The PBO's own calculation based on the CSO data.<sup>13</sup>

Note: "n.e.s." means "not elsewhere specified or included." For legibility, the figure displays only the destination countries whose average annual values between 2016 and 2021 are greater than 1%.

Figure 6 displays Ireland's merchandise imports from China by commodity groups. The commodity group of office machines and automatic data processing equipment has occupied the largest share of Ireland's merchandise imports from China across the entire period of the data, although its share has been lower in recent years than in mid-2000s.

**Figure 6: Ireland's merchandise imports from China by commodity groups as shares to GNI\***



Source: The PBO's own calculation based on the CSO data.<sup>14</sup>

Note: Commodity groups are those used in the CSO data; "n.e.s." means "not elsewhere specified or included."

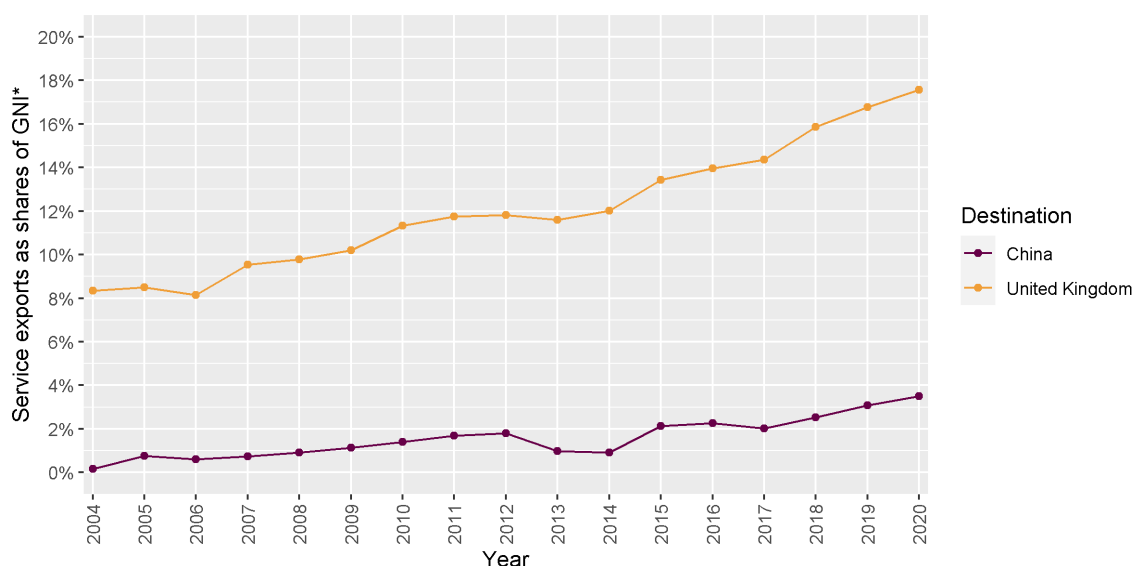
<sup>13</sup> Central Statistics Office, "TSA06: Value of Merchandise Trade," 15 August 2022; Central Statistics Office, "TSA10: Value of Merchandise Trade," 6 October 2022.

<sup>14</sup> Central Statistics Office, "TSA10: Value of Merchandise Trade," 6 October 2022.

## Services Trade

Figure 7 presents Ireland's service exports to China and, for comparison, to the UK, in annual terms from 2004 to 2020, as shares of GNI\*. Unlike merchandise exports, service exports both to China and to the UK have been increasing overall during this period. The gap between China and the UK remains large. In 2020, Ireland's annual service exports to China (€7 billion) were approximately 80% less than those to the UK (€35 billion).

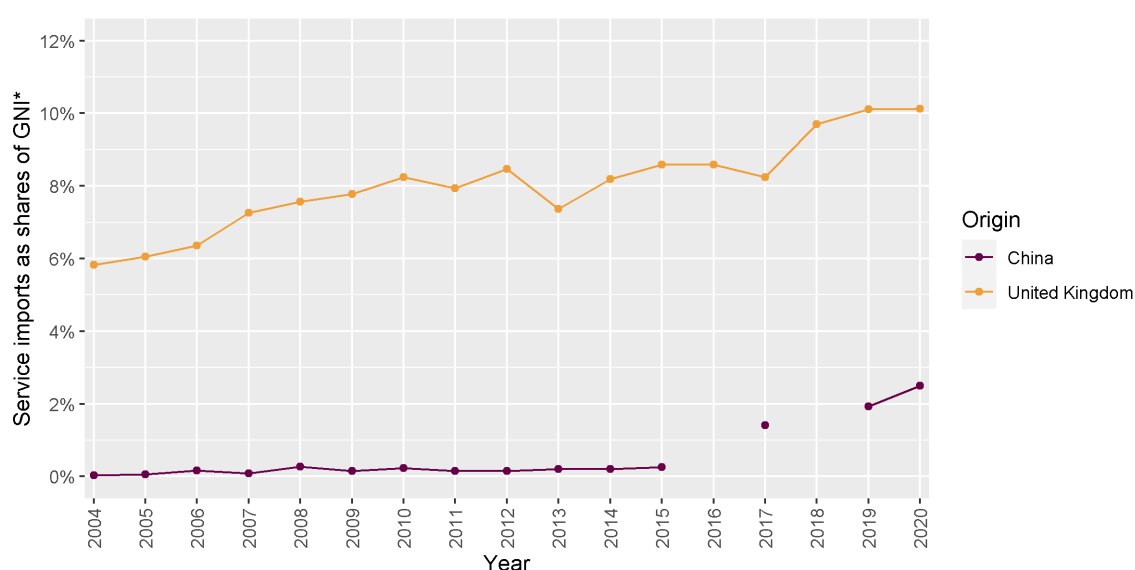
**Figure 7: Ireland's services exports to China and the UK as shares of GNI\***



Source: The PBO's own calculation based on the CSO data.<sup>15</sup>

Figure 8 on the next page displays Ireland's service imports from China and, for comparison, from the UK, in annual terms from 2004 to 2020, as shares of GNI\*. While data are missing for the years of 2016 and 2018 for China in the CSO data, a trend similar to service exports can still be inferred. Service imports both to China and to the UK have been increasing overall during this period. The gap between China and the UK remains large. In 2020, Ireland's annual service imports from China (€5 billion) were approximately 75% less than those from the UK (€20 billion). The data also mean that services trade relations with China are deeper for exports than for imports (3.5% of GNI\* vs. 2.5% of GNI\* in the terms of the 2020 figures).

<sup>15</sup> Central Statistics Office, "BPA04: Exports and Imports of Services," 13 December 2021.

**Figure 8: Ireland's services imports from China and the UK as shares of GNI\***

Source: The PBO's own calculation based on the CSO data.<sup>16</sup>

We disaggregate services trade statistics, by examining what services are traded between Ireland and China. We focus on those whose average annual values are greater than 0.01% of GNI\* between 2004 and 2021.<sup>17</sup>

Figure 9 on the next page presents Ireland's service exports to China by service types. The category, "Operational leasing," has occupied the largest share most of the time available in the data; it "covers rental receivables and payables between residents and non-residents in respect of leasing (other than financial leasing) and chartering, without operators, of aircraft, ships and other transport or other equipment and plant."<sup>18</sup> The category, "Insurance," is "insurance services provided to non-residents by resident insurers."<sup>19</sup> "Tourism and travel" captures "the goods and services acquired in one economy by a resident of another economy during visits of less than one year."<sup>20</sup> Unfortunately, disaggregating Ireland's service imports from China by service types do not provide meaningful breakdown information, as there is only one service type that has had an average annual value exceeding 0.01% of GNI\* (the service type, "Transport") and whose data are too volatile to interpret (zero values from 2004 to 2018 and then a sudden increase in 2019).

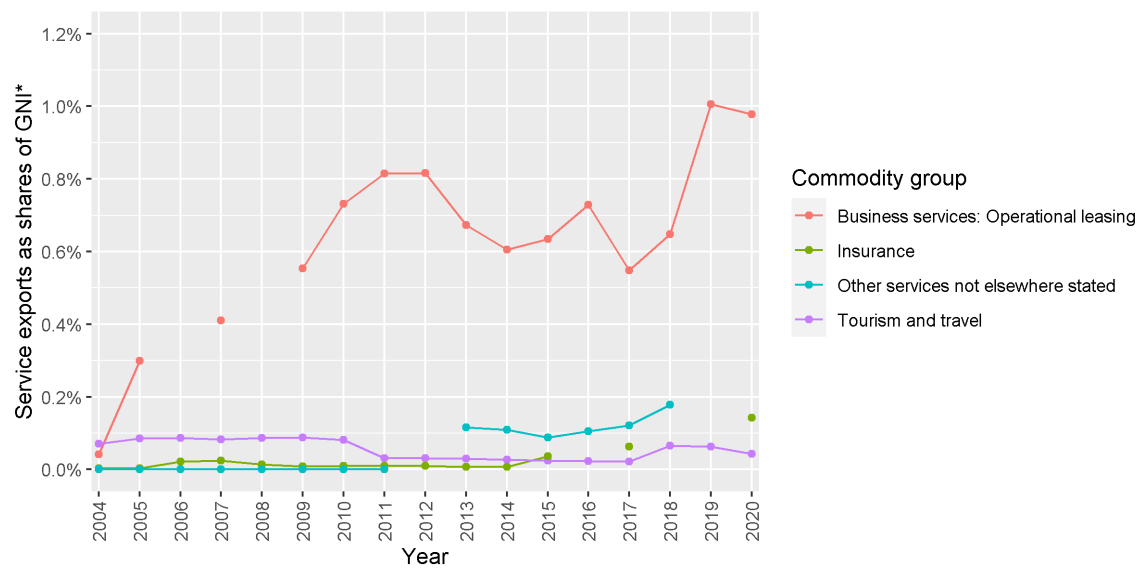
<sup>16</sup> Central Statistics Office, "BPA04: Exports and Imports of Services," 13 December 2021.

<sup>17</sup> If we focus on greater than 0.1% of GNI\* as done in merchandise trade, only one service type passed this threshold. For a meaningful breakdown, we therefore lowered the threshold. 0.01% of GNI\* is approximately €23 million in terms of the 2021 GNI\*.

<sup>18</sup> Central Statistics Office, "International Trade in Services: Background Notes," October 2017, p.6.

<sup>19</sup> Central Statistics Office, "International Trade in Services: Background Notes," October 2017, p.4.

<sup>20</sup> Central Statistics Office, "International Trade in Services: Background Notes," October 2017, p.4.

**Figure 9: Ireland's service exports to China by service types as shares of GNI\***

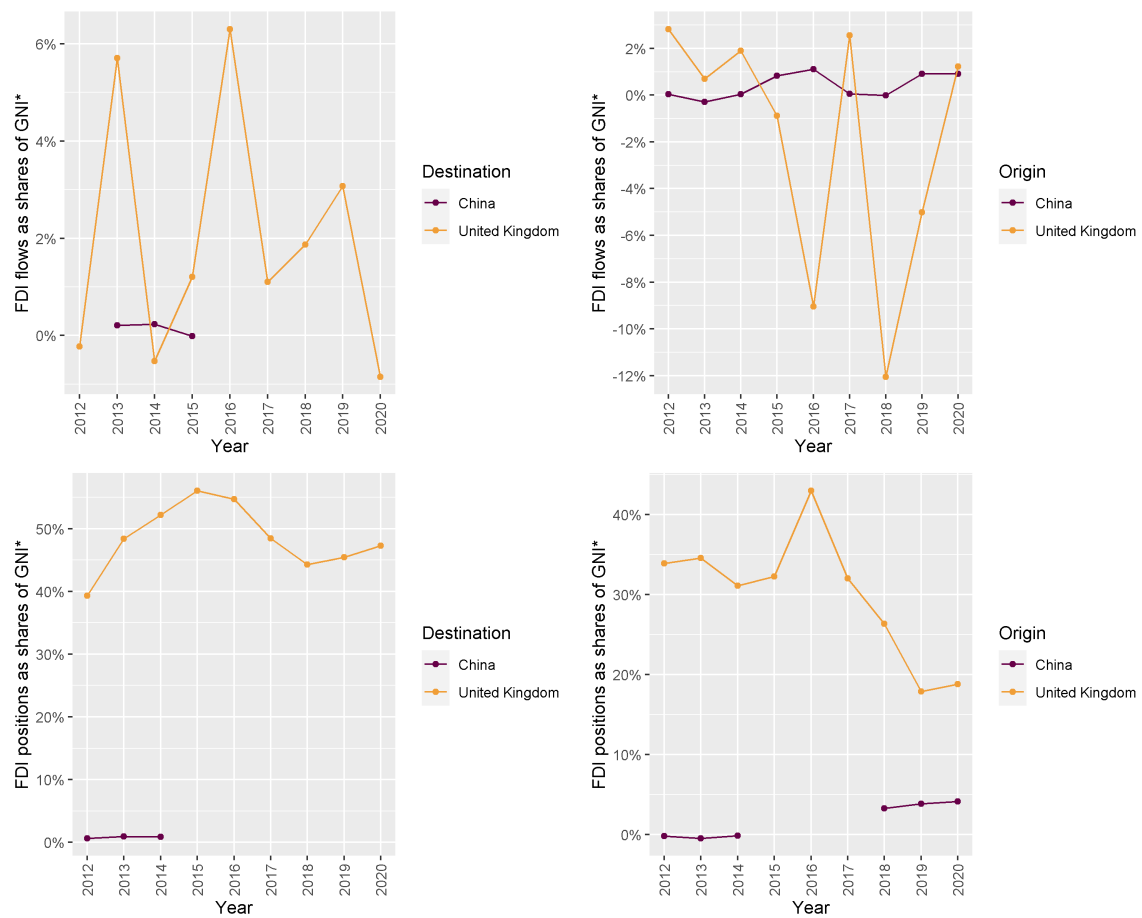
Source: The PBO's own calculation based on the CSO data.<sup>21</sup>

<sup>21</sup> Central Statistics Office, "BPAo4: Exports and Imports of Services," 13 December 2021.

## Foreign Direct Investment

FDIs can be expressed either as FDI positions or FDI flows. The FDI position abroad is the amount of Irish-owned assets in a foreign territory, while the FDI position in Ireland is that of foreign-owned assets in Ireland. The FDI flow abroad is the flow of Irish-owned capital into a foreign territory, while the FDI flow in Ireland is the flow of foreign-owned capital into Ireland. Note that FDI flows can be negative values, for example, if there is a greater amount of already present foreign capital leaving than new foreign capital coming in.

Figure 10 on the next page presents Ireland's FDI flows and positions to/from China compared with the UK, as shares of GNI\*. Unfortunately, there are no CSO data available for Ireland's recent FDI flows to, and positions in, China. Meanwhile, in terms of FDI flows from, and positions by, China, there have been moderate increases over the years. In particular, there has recently been a stable positive flow of FDI from China, compared to a bumpy trend for the UK. The UK's overall FDI position in Ireland has also been declining since 2016, though its absolute scale of FDI positions is still much greater than China's.

**Figure 10: Ireland's FDI to/from China and United Kingdom as shares of GNI\***

Source: The PBO's own calculation based on the CSO data.<sup>22</sup>

<sup>22</sup> Central Statistics Office, "BPA33: Direct Investment Flows BPM6," 16 December 2021; Central Statistics Office, "BPA34: Direct Investment Position BPM6," 16 December 2021.



## Conclusion

As can be seen from trade and FDI statistics, China's importance for the Irish economy has been increasing in recent years. While geographically distant, and much more so than the UK, the monetary scale of Ireland's merchandise exports to China seems to be getting close to those with the UK. In terms of merchandise imports, services trade, and FDIs, China occupies small shares compared to the UK; however, there have been increasing trends in these areas as well in recent years. Economic ties with China are deeper for exports than for imports in both merchandise and service trade (5.1% of GNI\* vs. 3.7% of GNI\* in 2021 merchandise trade; 3.5% of GNI\* vs. 2.5% of GNI\* in 2020 services trade). In particular, the commodity group of electrical machinery, appliances, and others of similar kind, and the business service of operational leasing, have been significant exports in the last 3 years, according to the available data.

One implication of the economic interdependence outlined above is that, if China experienced a negative economic shock, the Irish economy could also be affected negatively, particularly on the exports side through a lower demand for Irish goods. The timing and scale of the negative effect would be most likely uneven across sectors. Those that benefit more from trade or FDIs with China would be hit first and probably hardest as well, unless they could find alternative markets quickly. Then, the negative effect on these sectors would likely spread to other sectors by affecting Irish domestic markets, i.e., the "second-order" effect.

Understanding the Chinese economy is important not only because of the direct bilateral links this note has outlined. China is deeply embedded in the network of global economic ties and, therefore, its economy can have a significant impact on global economy, e.g., through affecting global value chains and inflationary pressure.<sup>23</sup> Because of this global nature of the Chinese economy, a disruption in China's economic activities would impact the Irish economy, not only through the direct economic ties between Ireland and China, but also through the indirect ties via other countries. For example, in 2021, the share of the EU's goods trade (the sum of exports and imports) with China to its GDP was 5%, while the share of Ireland's goods trade with the EU to its GNI\* was 43%.<sup>24</sup> The implication is that a disruption in the Chinese economy would affect the overall EU economy and would then create a second-order negative effect on the Irish economy through, e.g., less demand for Irish products, and more constrained supplies to the Irish market, among EU countries.

To conclude, ongoing attention to China is warranted, because of its global significance and the growing economic ties between the Chinese and Irish economies that this note has outlined.

<sup>23</sup> Françoise Huang, Ano Kuhanathan, and Pablo Espinosa Uriel, "The Cost of the Zero-Covid Policy for China and the World," Allianz Research, 20 April 2022, pp.5-6.

<sup>24</sup> The figures are the PBO's own calculation based on Eurostat data and the CSO's GNI\*. Eurostat, "GDP and Main Components (Output, Expenditure and Income)," 4 October 2022; Eurostat, "International Trade in Goods - Detailed Data (Ext\_go\_detail): EU Trade since 1999 by SITC (DS-018995)," 16 August 2022.



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