

Response to Referee 2

Thank you very much for your feedback on our manuscript and for the helpful comments and suggestions. We have made sincere effort to address all the comments and suggestions you have made. Please find below detailed point-by-point responses to your comments.

1. Following your suggestion, in the revised version we made two major changes on why we use quarterly data. First, we rewrite the paragraph relevant to the frequency of data in the introduction part. Secondly, we conduct an additional robustness check to verify the similar results using fixed effects estimation for annual data and incorporating capital stock and labour variables. The results of these additional estimation can be found in Table 9.

The new paragraph in the introduction (on pages 3-4) reads as follows:

Second, in terms of methodology, we apply Common Correlated Effects (CCE) estimation method, which is appropriate for large heterogeneous panel data. This estimation method has been used barely in growth-by-(trade) destination literature, because only annual data has been available at that time, which made the application of CCE difficult. In contrast to the previous studies, in this study we use quarterly data for the analysis. Furthermore, previous literature applies fixed effects or generalized method of moments (GMM) estimators, which are not robust to heterogeneity, cross-sectional dependence, nonstationarity and break. However, it should be noted that the typical features (heterogeneity, cross-sectional dependence, nonstationarity and break) are very common, if not always, in macro panels. Therefore, some of these studies on the same topic, which ignore these features, might lead to wrong statistical inferences. For comparison, we also report a robustness check based on an annual panel dataset.

On page 33:

Table 9 reports the results of fixed effects (FE) estimation for the dynamic model based on annual panel data. Major findings on the contributions of imports from China and that from EME and AdE remain unchanged.

2. As suggested we have revised the introduction to express the motivation and contribution of the paper more clearly.

To strengthen the motivation and contribution of this paper, we included the latest news on trade war and Coronavirus outbreak, both highly relevant to China at the moment, to show that why studies on China's trade is of paramount importance.

Namely, we added the following citation from The Economist:

*Covid-19 is teaching hard lessons about China-only supply chains
At the very least, an emotional decoupling is under way
The Economist (2020)*

The following two paragraphs have been also added to the introduction (on pages 2-3):

Two telling examples of the increasingly prominent role of China in the global economy are the recent trade war between the US and China, and the outbreak of Covid-19 epidemic in China spreading to many parts. Both "Chinese" events have caused huge impacts on the

global economy. The world growth rate in 2019, the lowest level since 2009, is attributable to the US's trade war with China. International Monetary Fund forecasts that the ongoing spread of the Coronavirus disease, which is the greatest danger for the global output since 2009, could lead to even bigger drops in the global growth "under any scenario" (Georgieva 2020). On the supply side, impacts of China on the global production can be seen firstly through its core position in the global business supply chains. On the demand side, Chinese population with GDP per capita (current US\$) of almost 10,000 in 2018 and still in strong upward trend is driving the globe, especially developing economies.

Understanding to what extent China might affect the emerging economies is of paramount importance for policy makers and researchers. This helps to anticipate the consequences of further shocks originating from China on the global South, thereby making the necessary adjustments. As an example, at the beginning of the Coronavirus outbreak in China, many of the global companies that are heavily dependent on China mainland started to think of revising their production activities and policies. Motivated by this, our paper aims to quantify the contributions of trade with China compared to trade with other country groups to economic output in the developing world during 2000-2016. This would provide a comprehensive assessment on how influential China is at the national level.

Finally, we also included the following sentence to page 3:

Research on the emergence of China has attracted some recent attention, but a comparative and comprehensive exploration is still rare.

3. As suggested, we have rewritten the relevant paragraph on pages 30-31 as follows:

Figure 2 shows that the geographical distance between China and its partners plays a negligible role in determining consequences of the imports from China. Geographical distance is often a major determinant of trade, as often seen in gravity models (Deardorff 1995). However, Figure 2 demonstrates that distance might not be important for a country to benefit from trade with China. Countries far from China like Brazil or Argentina can take advantages of trading with China to the same extent as China's closer neighbours such as Thailand or India. This might be explained by the globalization process, which leads to very deep and complex integrations beyond the geographical barriers.

References

- Georgieva, K. (2020) Potential impact of the Coronavirus epidemic: What we know and What we can do. Available online at <https://blogs.imf.org/2020/03/04/potential-impact-of-the-coronavirus-epidemic-what-we-know-and-what-we-can-do/>, accessed 07 March 2020.
- The Economist (2020) Covid-19 is teaching hard lessons about China-only supply chains. 29 Feb. <https://www.economist.com/china/2020/02/29/covid-19-is-teaching-hard-lessons-about-china-only-supply-chains>