EM Squared Emerging markets

The great haul of China, illustrated

Beijing is the leading goods supplier to most countries, even as some see signs of a peak

Steve Johnson NOVEMBER 19 2019

Rarely can a simple series of maps tell us so much about an economic era. China's rise from a poverty-stricken outpost of the global economy to an export powerhouse may be well known, but it remains striking nonetheless.

In 2000, a year before China's entry into the World Trade Organization, the US was the pre-eminent goods exporter to most of the world.

Beijing's sphere of influence was largely limited to close neighbours, ideological confrères and states frozen out by the west, such as North Korea, Vietnam, Mongolia, Iran, Libya and Cuba.

Within four years of joining the WTO, the transformation had been dramatic. By 2005 China had become the dominant goods exporter to virtually all of Asia. It was making steady progress through Europe, while Africa was also increasingly falling into its sphere of influence.

Roll forward to 2010 and most of the remaining old world holdouts had succumbed to the charms of China's manufacturing might, with even key US allies such as the UK, France, Australia and New Zealand buying more from the "workshop of the world" than from "the home of the free".

China had even started to make inroads in America's own backyard via a beachhead in southern South America.

By 2018, the rising tide of Chinese export dominance had engulfed most of South America, while mopping up the likes of Nigeria and Saudi Arabia to leave Africa and Asia an endless sea of red, barring — somewhat inexplicably — Bhutan.

"It is clear that China has benefited from its belonging to the WTO, a process that started in the 1990s when Bill Clinton paved the way for it," said Thomas Costerg, senior economist at Pictet Wealth Management, whose team compiled the figures, based on the IMF's Direction of Trade Statistics database.

"They became a member in 2001 and China has become this massive manufacturing and export powerhouse over the past 20 years."

Maarten-Jan Bakkum, senior emerging markets strategist at NN Investment Partners, said the opening up of the vast Chinese economy after WTO accession meant Beijing had pushed other exporters aside in an era of globalisation and free trade.

"The Chinese had it planned, but whether the rest of the world really realised how quickly the Chinese would gain market share, probably not. That is backfiring a bit now," he added.

Mr Costerg agrees that the rest of the world was not expecting China to become “quite such an important force on the global stage”, adding: “They are now the dominant supplier for most countries around the world. Trade is becoming increasingly unipolar rather than multipolar and I think that is one of the reasons why the US has started to become more anxious.

“The US is looking at this map: as China has become more intertwined with these countries on trade it’s also become more intertwined geopolitically. The US is worried. Dominating global trade brings political influence.”

Perhaps the only parallel in modern economic history to this dramatic shift was the handover in trade supremacy from the UK to US in the first half of the 20th century. The geopolitical fallout of that shift in the balance of power was eased, however, by the two countries being ideological allies.

In 1913, on the eve of the first world war, the UK exported marginally more than the US, according to data collated by the UN, and was particularly dominant in sales to today’s emerging world, much of which was still ensconced in the British empire.

By 1959 America’s exports were 87 per cent higher than Britain’s, although the UK still held sway in most of its former colonies, as well as some relatively closed economies such as China and the USSR.

“In the 20th century the US took market share very quickly from the UK. That is probably quite comparable, but this [switch to China] could well be unprecedented,” said Mr Bakkum.

Beyond this, the nearest parallel may be the rise of the so-called Asian tigers, led by Japan, after the second world war, Mr Costerg said.

But even this paled into insignificance compared with the rise of China, he added. At “peak Japan”, in 1989, Tokyo led the US in exports to 69 countries, according to the IMF DOTS database, while Washington led in 108 jurisdictions.

Japan’s dominance in exports “was not as pronounced as today with China, especially in Europe where the dominant supplier was still the US,” Mr Costerg said.

“Trade was more diversified then. Japan was very strong in electronics but the palette you have now from China is really broad: clothing, toys, electronics, phones. It’s an impressive scale.”

The most recent data set, covering the first six months of this year, does hint at a slight reversal in the trend towards ever greater Chinese trade dominance, however.

The US has overtaken China to once again become the larger exporter to eight countries, including France, Austria, Zimbabwe, the Central African Republic and Lebanon, as well as Greenland.

In contrast, China has only added three more countries to its hegemony: Bhutan (finally), Luxembourg and Venezuela, on which the US has imposed a near total economic embargo.

Clearly this could prove to be a mere aberration in the data, rather than a meaningful turning point, but there are plausible reasons to think Beijing's stranglehold on trade could begin to slip, even as it tries to move up the value chain into areas such as drones and electric vehicle batteries.

While accepting it is too early to be definitive, Mr Costerg suggested China may be seeing more competition for low value goods from the likes of Vietnam and the textile exporters of south Asia. For higher-end goods, the US "continues to hold its ground," thanks to its strength in fields such as capital goods and transportation equipment.

"Maybe China is becoming a bit squeezed and losing some of its lustre," he said. "It's too early to tell, but that could be an interesting theme to watch in the coming months."

Mr Bakkum also believed this may now be "peak China" in terms of global trade. "I would not be surprised if the Chinese did not gain any more global market share. They will leave the textiles and more simple goods to other countries," he said.

"The big question for the next five to 10 years or so will be whether India will be able to gain share from China. There have been some improvements, but a lot is required before India can get close to what China has done."