China: Soon the most visible victim of deglobalisation

China's exports are falling and millions of jobs are at risk.


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When you buy anything, anywhere in the world, there is a good chance that it comes from China. We all know China as the great export powerhouse of the 21st century. But China’s exports hit an all-time high in December, 2015 and (ignoring season fluctuations) have been declining ever since. China is increasingly turning inward for growth - and having trouble finding it.

China accounts for about one-eighth of the world's merchandise exports, far more than any other country. Even this figure understates the true importance of China's export economy. Most other countries export intermediate goods that are just parts and components of the finished goods that consumers actually buy. China more often exports the finished goods.

China debt growing faster than economy

When China's exporting juggernaut slows down, the world slows down. Or maybe it's the other way around: when the world slows down, China slows with it. Either way you look at it, both Chinese and global exports are falling.

Global exports as a percentage of global gross domestic product hit an all-time high of 30.8 percent in 2008. They fell precipitously during the global financial crisis of 2008-2009 and have since stabilised at just under 30 percent.

Global export volumes

These figures cap off a remarkable quarter-century of global export growth that began back in 1973. In that period global GDP roughly doubled, but global export volumes grew by a factor of 5.6 (based on inflation-adjusted data from the World Bank).

China played a leading role in that story, but it was the rise in international trade that pulled the Chinese economy along, not the other way around. China rode the coat-tails of a quarter-century of globalisation.

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Most people think of globalisation as a process that began in the 1990s with the collapse of the Soviet Union in 1991 and the foundation of the World Trade Organization in 1995. But the roots of today's global economy really go back to 1973, when the United States went off the gold standard and most countries moved from fixed to floating exchange rates.

Floating exchange rates meant that the era of managed trade was over. The global economy moved into a new phase driven by market forces. The oil exporting countries of the Gulf were the first to benefit as the market price for oil quadrupled between 1973 and 1974. China came to the party just a few years later.
Since then the global economy has become more and more open. After the currency liberalisation of 1973 came a huge increase in international trade and then, in the 1990s, in foreign investment. Both trade and investment peaked in 2007-2008.

Since then international trade has declined by roughly half a percent. Foreign direct investment, or FDI, has fallen by half.

That is not half a percent. That is half. Annual global FDI is down roughly 50 percent from its 2007 peak of just over $3 trillion. It's still much larger than it was in the 1990s or earlier decades, but global FDI has stabilised at roughly the levels of the early 2000s.

Unlike global FDI, foreign investment into China hasn't fallen in absolute terms. But it too has stabilised and is no longer rising. China is firmly on the world's shortlist for companies looking to invest, but it is no longer the only country on that list. These days China has to compete with India, Southeast Asia, Latin America and even Africa for scarce foreign investment dollars.

That's many more countries chasing fewer and fewer dollars. So far China has been very successful at holding its own against tough competition. But China is holding its own in a slowly declining market.

Exports and jobs

No one knows exactly how many people in China are dependent on foreign investment and export industries for their livelihood.

But by any count the numbers are huge. For example, China's export-oriented garment industry employs about 10 million people. These jobs are increasingly threatened as companies move production to lower-cost countries such as Vietnam.

The Taiwanese contract manufacturer Foxconn, once famous for for employing 1.2 million people in China, is now automating its Chinese plants. It has announced plans to move up to 1 million jobs to India. And Foxconn is just the tip of a very big, rapidly melting iceberg.

For the past quarter-century China has been the most visible beneficiary of the increasing globalisation of the global economy. Soon it may be the most visible victim of deglobalisation.

The global economy is still growing. But it is no longer globalising. Like everyone else, people in China will have to work much harder to capture growth in the next quarter-century than they did in the last.