Opinion **Globalisation**

Don’t believe the deglobalisation narrative

Data show trade balances are not shrinking and foreign investment continues to pour into China

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Trucks collect shipping containers at the Port of Los Angeles through the night © Mario Tama/Getty

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When the Covid-19 pandemic hit, as China locked down and countries around the world struggled to source personal protective equipment, many wrote an obituary for China-focused globalisation. It seemed a logical view, given the economic nationalism of Donald Trump and Brexit and the US-China trade war. But there is little evidence that the pandemic has prompted companies to abandon China en masse or sparked deglobalisation.

A rough metric of globalisation is the ratio of world trade to world goods. After rising significantly from 1970 until the financial crisis, this has broadly moved sideways since. Overall trade balances cannot give us granular information on supply chains or globalisation. But if companies are pulling out of overseas locations and moving back home, we might expect trade balances to shrink. The US trade deficit hit a record as imports reached an all-time high of $288.5bn in September. China’s trade surplus, meanwhile, has exceeded pre-pandemic levels.

If companies are near- or onshoring, we should expect long-haul shipping routes to be less congested. The busiest trade lane in the world remains the transpacific eastbound pulling out. But China overtook the US as the top destination for new FDI last year. According to data released by China’s Ministry of Commerce, actually utilised FDI in China hit a record in 2020 and, based on figures for the first nine months of 2021, is on track to exceed that record this year.

Deglobalisation should also be reflected in capital flows. According to data from the Institute of International Finance, non-resident capital exited Chinese equity markets in March 2020 as part of a broader exodus of capital from emerging markets. But since then, Chinese debt and equity markets have experienced capital inflows nearly every single month.

The hard data don’t support the deglobalisation narrative. What about survey data? According to HSBC, in September six in 10 companies were either currently expanding their supply chains in China or planning to do so over the next year. The respondents were from 10 countries (excluding Japan, South Korea and Taiwan) and are all either doing business in China or expect to be. Ninety-seven per cent of companies said they planned to keep investing in China, with nearly one-fifth aiming to invest at least 25 per cent of their operating profit there.

The annual China Business Report from the American Chamber of Commerce in Shanghai found similar results. Of US manufacturers in China, 72 per cent have no plans to move production out of the country in the next three years. Of the remaining 28 per cent, zero were relocating production from China to the US. Nearly 60 per cent of respondents have increased their investment in China this year.

Why hasn’t deglobalisation taken hold? Companies make decisions about production based on hard calculations about their bottom line over the medium- to long-term. Building a new supply infrastructure takes considerable time and resources. Taiwan Semiconductor Manufacturing Co is building a semiconductor factory in Arizona that won’t be operational until 2024, for example. Most supply chains don’t repattern at the push of a button.

It may be those decisions are already in train, but not announced. Still, foreign companies can plug into sophisticated, deep supplier networks, large and efficient ports and an able workforce in China. And while many started off using Chinese inputs for exports, they now want access to a big and rapidly growing economy. Auto parts manufacturers originally entered China to produce for their home markets, but

Thailand, Vietnam and Malaysia.

There's no doubt supply chains will shift in the aftermath of the pandemic. The just-in-time inventory system is likely to change, and China may lose some business. But globalisation of production is too well-established and makes too much business sense to reverse.