

Opinion Markets Insight**China's new trade front with the world – services**

The country is rapidly moving up the global ranks as an exporter of knowledge-intensive products

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When exporting electric vehicles, China will also export an accompanying knowledge-intensive service in the form of recurring software updates © Costfoto/NurPhoto/Getty Images

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No nation in the world exports as much merchandise as China. But having conquered global trade in goods, it is now rapidly moving up the international ranks as a leading exporter of knowledge-intensive services.

China's new trade front with the world is the export of services such as information and communication technology, construction management, engineering services, data analytics and research and development. And to a lesser degree, financial services and intellectual property rights.

Based on data from the World Trade Organization, China already ranks as the world's sixth largest exporter of digitally delivered services, up from 17th place in 2005.

The country now earns more from exports of ICT services (\$100bn in 2024) than traditional exports such as toys (\$82bn) and footwear (\$51bn). Exports of "other business services" — a combination of consulting services, research and development, and technical-related activities — totalled \$113bn in 2024, well ahead of exports of iron and steel (\$71bn) and apparel (\$85bn). And construction service exports in 2024 (\$34bn) were greater than exports of glassware (\$25.5bn).

Service exports have soared due in large part to China's "One Belt, One Road" initiative, which has ploughed billions of dollars into infrastructure projects around the world. This has not only supercharged exports of steel, cement, heavy equipment and other goods but also services required to keep the ports, railways and power plants humming — think operations management contracts, digital monitoring systems, technical training, maintenance agreements, software upgrades and cloud computing capabilities.

When a China telecoms leader installs a network in Pakistan, or a Chinese tech giant builds a data centre in Brazil, it's not one and done. What follows are multiyear service agreements that include technical support, network maintenance and related activities.

In addition, as China has moved up the value-added curve in exports of electrical vehicles, robots, drones, solar panels and wind turbines, expansion in knowledge-intensive service exports has followed. Each one of these products is highly digitalised and accompanied by an array of recurring service requirements.

The export of electrical vehicles comes with software upgrades; the export of robots and drones comes with the export of cloud connectivity services and remote monitoring systems; and the export of solar panels and wind turbines comes with the export of technical services and maintenance.

Now AI is entering the picture, particularly with China's advances in open-source AI. More affordable and accessible to end users, DeepSeek's large language models and other Chinese iterations are gaining traction around the world, notably in Africa, the Middle East and other emerging markets. They are also gaining popularity and greater adoption levels in the US. The number of global downloads of open-sourced AI models from China surpassed those of the US last September.

Rising adoption rates of these models mean more AI-enabling activities and more demand for Chinese knowledge-intensive exports ranging from predictive maintenance data analytics to smart infrastructure management.

Given all of the above, China's trade in knowledge-intensive services has swung from a perennial deficit over much of this century to a surplus beginning around 2015. The surplus in trade in "other services" topped \$80bn in 2024 — with only the US, the UK and India running larger surpluses in this space.

China's total service exports still remain second fiddle to the country's trade in goods. In 2024, total service exports were equivalent to just 12.5 per cent of goods exports in 2024. In addition, China still runs an overall deficit in total services. This is largely due to a significant deficit in travel (Chinese spending more overseas than foreign visitors spending in China) and a deficit in education receipts. It also runs a deficit in intellectual property royalties since the nation remains a net importer of intellectual property.

But investors should see the big picture: China's trade has entered a new phase. If history rhymes, watch for China's surplus in knowledge-intensive services to grow at the expense of other nations, the US included. Against this backdrop, we remain constructive on the stocks of China technology leaders. Their push into global knowledge-intensive trade portends more earnings upside.

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