# China shifts global trade focus to emerging markets amid US tensions



During a recent visit to Pakistan, emerging markets investor James Johnstone travelled in a Chinese-made BYD vehicle while visiting production facilities operated by China’s Xiaomi, which manufactures affordable mobile phones. This experience symbolises a notable shift in global trade dynamics, which has largely been overshadowed by the ongoing tariff tensions between the US and China.

This shift is characterised by China not only relocating its exports but also transferring investments in low-cost manufacturing to developing countries as it prepares for a broader trade conflict with the United States. The expansion of Chinese brands and manufacturing presence in countries like Pakistan reflects Beijing’s strategy to diversify its global market reach amid growing US trade restrictions.

Johnstone, co-head of emerging and frontier markets at investment manager Redwheel, remarked, “China is really interested in selling to the 7.5 billion people who don’t live in the US. And China is putting in the manufacturing capacity to sell to that global consumption base.”

With China maintaining a trade surplus exceeding $1 trillion in the past year, the country faces mounting pressure to replace its once unrestricted access to the US market—the world’s largest trade deficit holder—with new sources of demand elsewhere. Data from Jefferies analysts indicate that China’s exports to major developing economies have more than doubled since 2017, rising from under $670 billion to $1.35 trillion in the year leading to February, now making up over one-third of China’s total exports.

Conversely, China’s exports to the G7 economies dropped to less than a third of total exports in the same timeframe. Jefferies noted that this diversification is a key reason why China is less affected by the US tariff policies compared to other countries. Johnstone observed that China’s confidence in retaliating against US tariffs stems from its belief that its economy is sufficiently diversified away from reliance on manufacturing exports to the United States.

The shift of Chinese trade from the US to other markets partly results from Chinese investments in countries experiencing growing trade with the US, such as Vietnam and Malaysia. This has led to US allegations of Chinese goods being rerouted through these countries’ assembly lines. However, these countries may see their trade surpluses with the US increase as a consequence.

Gabriel Sterne, head of global emerging markets at Oxford Economics, explained, “Targeting just China implies the US trade deficit with key partners will likely rise further. In part, that’s because China now has huge incentives to circumvent tariffs by further integrating countries such as Vietnam into supply chains. And Trump would then respond.”

While a broader trade war between the US and China could negatively impact developing economies deeply connected to global trade, analysts point out that emerging markets remain highly vulnerable. Jahangir Aziz, an emerging markets economist at JPMorgan, noted, “China and [emerging markets outside China] stand directly in the firing line: not just through near-term cyclical damage, but also damage to their growth models that are still fundamentally based on trade.”

There is evidence suggesting that China seeks to capitalise on the shifting trade environment by strengthening connections with emerging markets. David Lubin, senior research fellow in global economy and finance at Chatham House, highlighted that countries such as Pakistan and South Africa have increased imports of low-cost Chinese solar panels to tackle energy shortages. Similarly, Chinese-made solar panels and batteries support Saudi Arabia’s efforts to expand low-cost solar energy production as part of its strategy to diversify beyond oil.

Nevertheless, developing countries producing traditional export goods such as steel, chemicals, textiles, and low-cost electronics face significant competition from Chinese exports. Despite China’s move towards manufacturing higher-value products like electric vehicles, it continues to uphold manufacturing capabilities in lower-value sectors, affecting these emerging economies’ development trajectories.

Lubin observed, “Developing countries have different attitudes about the penetration of Chinese goods into their markets. In one sense, they are happy to have access to cheap goods. But at the same time, there is also evidence to suggest that they are getting a bit frustrated with China’s market share in their domestic markets.”

In response, several emerging economies have implemented trade protection measures. South Africa imposed anti-dumping duties on Chinese steel in an effort to protect its largest mill, and countries such as Brazil, Turkey, and India have taken similar actions. Mexico, Indonesia, Thailand, and Malaysia have also raised barriers against low-value imports like textiles and garments, responding to the entry of Chinese e-commerce giants.

The Rhodium Group research firm highlighted that “trade imbalances are not just a US-China irritant any more... emerging countries including India, Brazil, South Africa, and Turkey are launching trade defence cases to stave off what they see as injurious imports.”

China has also recently removed tariffs on imports from numerous African countries, following concerns about growing trade deficits with China on the continent. Yet, many of these nations lack the manufacturing capacity to fully leverage this policy, while larger developing economies may face fresh waves of Chinese goods redirected from US markets, influenced by the substantial tariff hikes.

Lubin summarised the complex trade environment by saying, “It’s a slightly paradoxical situation, where everything Trump does seems to be a gift to China for delivering the global south into its lap. But China’s trade strategy is also a source of this conflict.”

This evolving landscape demonstrates the intricate interplay of global trade shifts, protectionist measures, and strategic manoeuvres by both China and the US, with significant implications for emerging and developing economies worldwide.

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