HSBC Global Research

21 April 2022

# Goodbye globalisation?

## How recent events may impact global trade

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Economics - Global

- The push to de-risk supply chains post-pandemic has raised questions about whether globalisation is coming to an end
- But the rush to reshore production has not yet materialised and is likely to be focussed on a critical few sectors…
- …while strategies to shorten supply chains as well as new trade deals could lead to greater regionalisation


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**A series of disruptive events**

Trade is back to pre-pandemic levels and exports from China have surged. But behind the headline figures much has changed. The COVID-19 pandemic and Russia's invasion of Ukraine have rocked global supply chains, highlighting just how reliant consumers and businesses are on the free flow of goods across borders. As a result, there has been a big push for companies to build resilience into their supply chains. But as businesses and governments look to shore up critical supply chains, there is a risk that such strategies could spell the end for globalisation as we know it. To find out more we look at how trade patterns have changed since 2020 (pg.4), whether economies have become more or less trade protectionist (pg.9), and how trade flows could evolve post-pandemic (pg.19)

**What reshoring?**

There has been much talk about moving production closer to home in recent years and, although there has been some market diversification amid US-China trade tensions, the rush to reshore in the wake of the pandemic has not quite materialised. According to 2021 business surveys, 72% of US companies that manufacture in China have no plans to move production elsewhere in the next three years, while just 9% of European companies in China are considering moving investment out of the country (AmCham Shanghai and European Chamber of Commerce in China).

**From global to regional**

But this does not mean that there won't be further rejigging to come. Some companies have already moved certain activities to nearby economies, rather than fully reshoring, in order to de-risk their supply chains. And with over 50% of global trade already taking place between economies in the same region and intra-regional tariffs relatively low, the push to shorten some value chains could lead a rise in regionalisation post-pandemic.

**Not goodbye just yet**

Although there is no clear evidence as yet to suggest that recent events will lead to the end of globalisation, the days of "hyperglobalisation" are clearly behind us. Supply chains may continue reconfiguring but efforts to reshore production will likely be concentrated in a few critical sectors such as chips and pharma. For the bulk of businesses, maintaining global supply chains would still make sense for cost reasons, while some may look to diversify suppliers, dual-source key inputs and build stocks to mitigate future disruptions.

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## Disruptions and de-globalisation

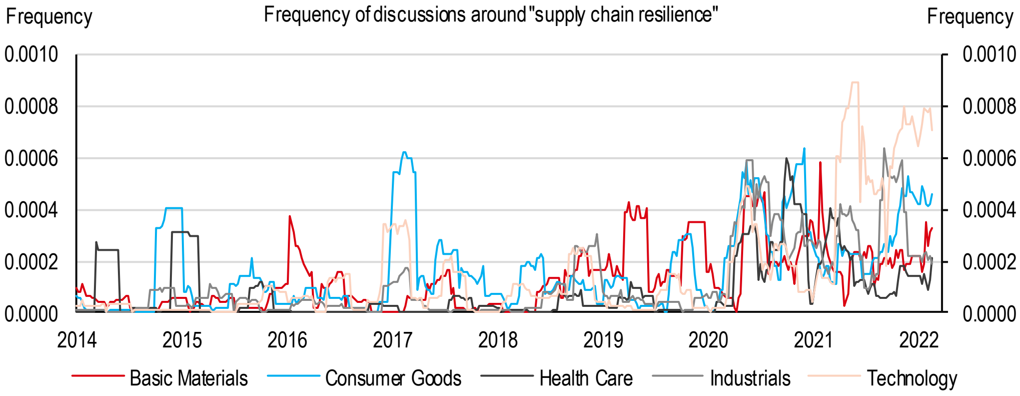
**Stressed out**

Consumers and businesses around the world have become well-accustomed to trade disruptions over the past couple of years, often experiencing first-hand how disruption in one part of the world can ripple through the entire supply chain. Such disruptions have in turn led businesses to re-examine their supply chain linkages and to look at ways to reduce their dependencies on single foreign suppliers in order to prepare for the next big trade shock.

**Businesses are increasingly focussed on building resilience**

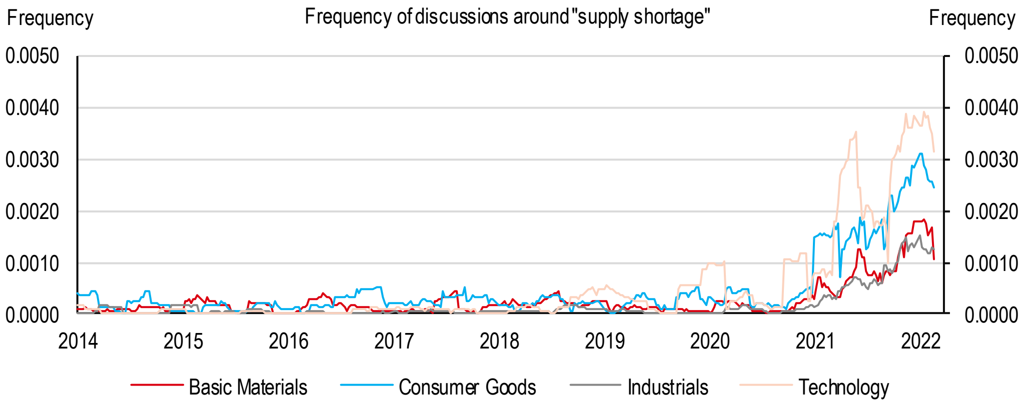
Indeed, the pandemic and more recently, the Russia-Ukraine conflict, have clearly highlighted the importance of building more resilient supply chains in order to help mitigate future trade disruptions. According to analysis of company earnings calls using Natural Language Processing (NLP) techniques, company leaders across a range of sectors are increasingly focussed on supply chain resilience, with discussions of supply shortages remaining top of mind for companies in the tech and consumer goods sectors in particular (Charts 1 and 2).

**1. Companies are increasingly focussed on building supply chain resilience…**




Source: HSBC, Refinitiv TRKD

**2. …amid ongoing supply shortages**



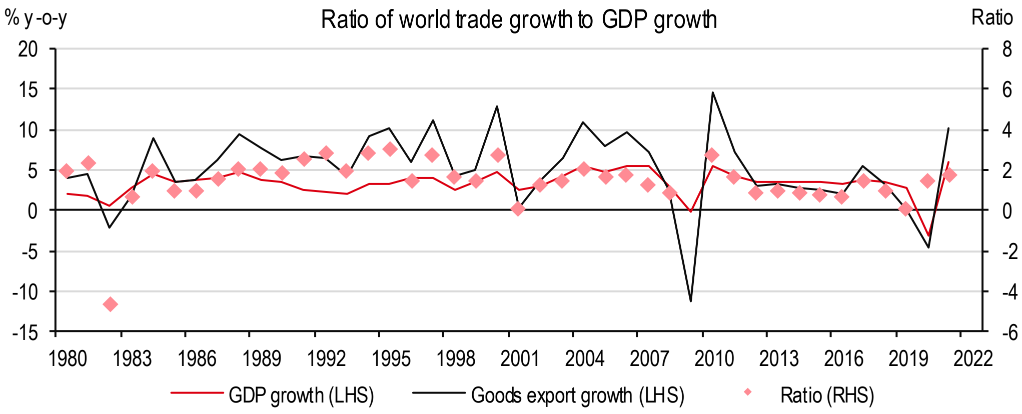

Source: HSBC, Refinitiv TKRD

Although there are various measures companies can take to build more-resilient supply chains (e.g. diversifying suppliers, embracing digital technologies, integrating vertically), there has been a lot of talk about shortening supply chains and ways to bring production closer to home – leading many to question whether this might be the end of globalisation as we know it.

**Global goods trade growth has slowed since the Global Financial Crisis**

In some ways, this shift has been a long time coming. Global goods trade growth slowed significantly after the Global Financial Crisis, after growing roughly twice as fast as GDP in the two decades prior (Chart 3). The emergence of new non-tariff barriers, protectionist US trade actions in recent years, changing public opinion about the benefits of free trade, a deceleration in the pace of new trade deals being struck, stalled negotiations at the WTO, and ongoing geopolitical tensions have all contributed to the slowdown in globalisation in the lead up to the pandemic. And looking ahead, many of these pressures are set to persist, potentially paving the way for the retreat in globalisation to continue.

**3. The pace of global trade to output growth has been slowing**




Source: IMF WEO database

In this note we look at:

1. How trade patterns have changed since 2020 (*pg.4*)
2. Whether economies have become more or less trade protectionist (*pg.9*), and
3. How trade flows could evolve post-pandemic (*pg.19*)

## 1. How have trade patterns changed since 2020?

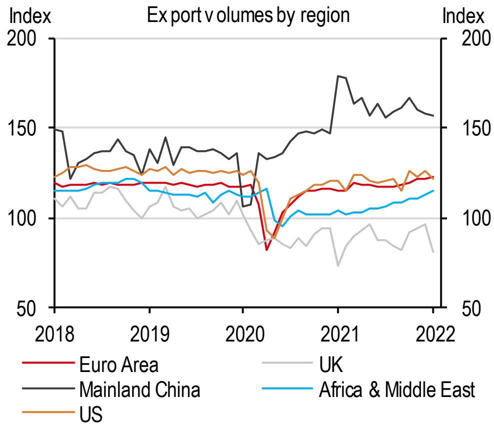
**East to West**

Global goods trade rebounded strongly in the second half of 2020 following initial disruption at the onset of the pandemic and continued to grow steadily in 2021. As of January 2022, total goods trade volumes were 8% above 2019 levels and 5% above what they were in the same month in 2021. Chinese trade in particular recovered quickly, supported by robust global demand for a range of goods from PPE to electronics and China's ability to swiftly restart domestic production, which helped keep its exports flowing for the most part.

**4. Global goods trade rebounded sharply…**


Source: CPB

**5. …with the recovery led by mainland Chinese exports**




Source: CPB

**Greater flows of trade moved from East to West**

As a result, greater flows of trade moved from East to West over the past two years. For example, containerised volumes moving from Asia to North America increased by 27% (nearly 5m TEUs) between 2019 and 2021, while export volumes from Asia to Europe were up 3% (465,000 TEUs) over the same period. Intra-Asia trade (i.e. the largest trade lane in the world) also boomed during this time, expanding by more than 4.5m TEUS (up 11%).

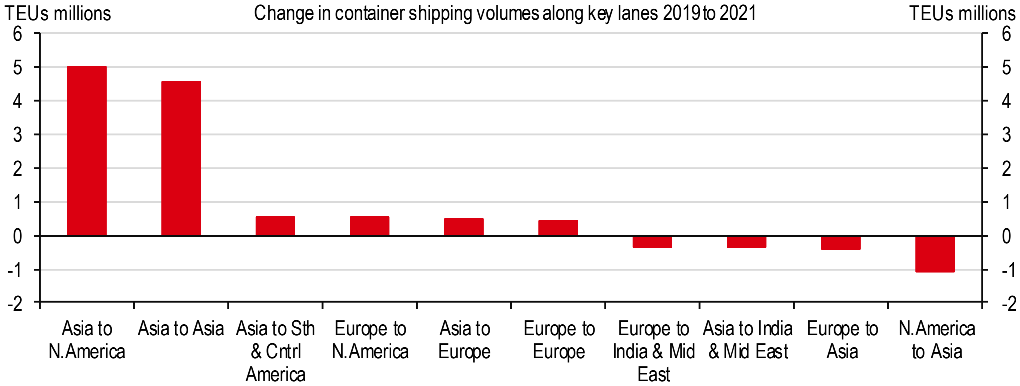
On the other hand, less trade moved in the other direction, in part due to weaker demand in Asia, with around one million fewer 20-foot containers sent from North America to Asia during the same period, while export volumes from Europe to Asia were down by around 383,000 TEUs. Volumes exported from Asia to the Indian sub-continent and the Middle East also fell by around 378,000 TEUs as shipping lines pulled vessels from these routes to prioritise the more lucrative trans-Pacific trade lane (FreightWaves, 24 September 2021).

In value terms, mainland Chinese exports to the US grew by 38% between 2019 and 2021, while its exports to Germany were up by 45%. Vietnamese exports to the US grew by nearly 58% over this period, while mainland Chinese exports to Vietnam increased by over 40%.

**6. Intra-Asia trade boomed during the pandemic…**

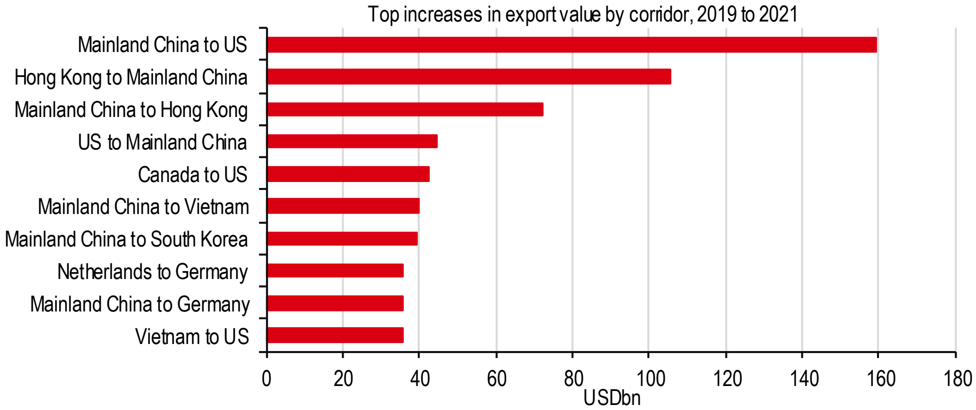

Source: Bloomberg. Note: TEUs = 20ft containers. India refers to India sub-continent. Annual data.

**7. …and greater flows of trade moved from Asia to North America…**




Source: Bloomberg. Note: TEUs = 20ft containers. India refers to India sub-continent. Annual data.

**8. …driven by mainland China's exports to the US**




Source: IMF DOTS. Note: This dataset does not include export data for Taiwan. Annual data.

### Growing importance of China

**Mainland China's role in global trade increased during the pandemic**

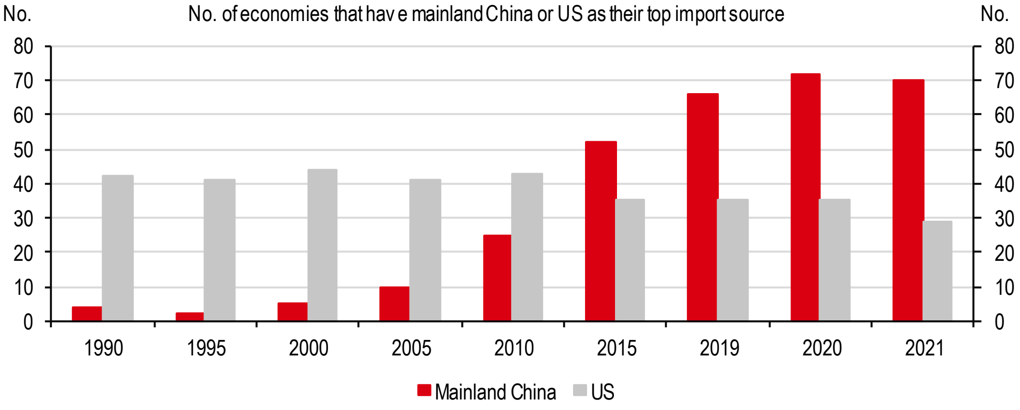
We have previously written about how reliant countries are on trade with mainland China and its role in global trade only increased in importance since the onset of the pandemic. For example, mainland China's share in global goods exports increased from 13.3% in 2019 to 15.3% in 2021, while its share in world imports rose from 11% to 12% over the same period.

During this time, mainland China rose in prominence as the top goods import source for economies around the world. In 2019, it was the top import source for 66 economies, with this rising to 72 economies in 2020 and 70 economies in 2021 (Chart 10). Today, it is the top goods import source for the US, Japan, South Korea, Vietnam, India and Australia, among others. Mainland China also surpassed Germany to become the UK's top source of goods imports last year, driven mainly by imports of COVID-19 test kits which were up by GBP3.6bn over 2020 to 2021 (Chart 11).

**9. Mainland China's role in international trade increased during the pandemic…**

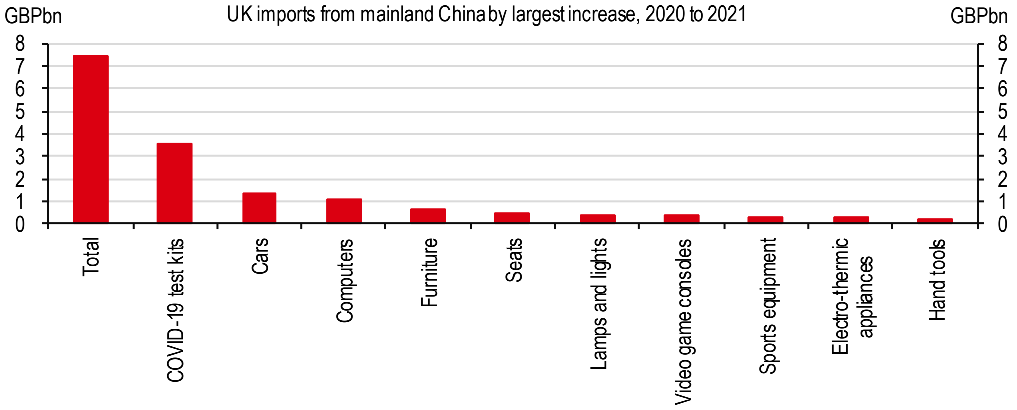

Source: IMF DOTS

**10. …and it is currently the top import source for several economies…**




Source: IMF DOTS, HSBC. Note: This dataset does not include export data for Taiwan

**11. …driven largely by greater demand for pandemic-related products in 2021**

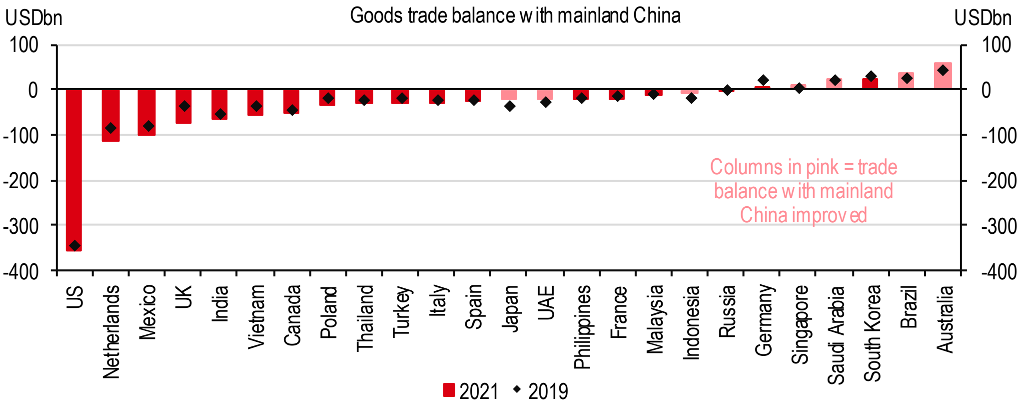



Source: ITC Trade Map

Mainland China's share in overall US goods imports also increased slightly from 18% in 2019 to 19% in 2020, despite bilateral tariffs remaining in place and after declining from around 21% prior to the escalation in bilateral tensions. However, its share of US imports subsequently declined to 18% in 2021, while its share in Eurozone imports grew from 7% to nearly 9% between 2019 and 2021.

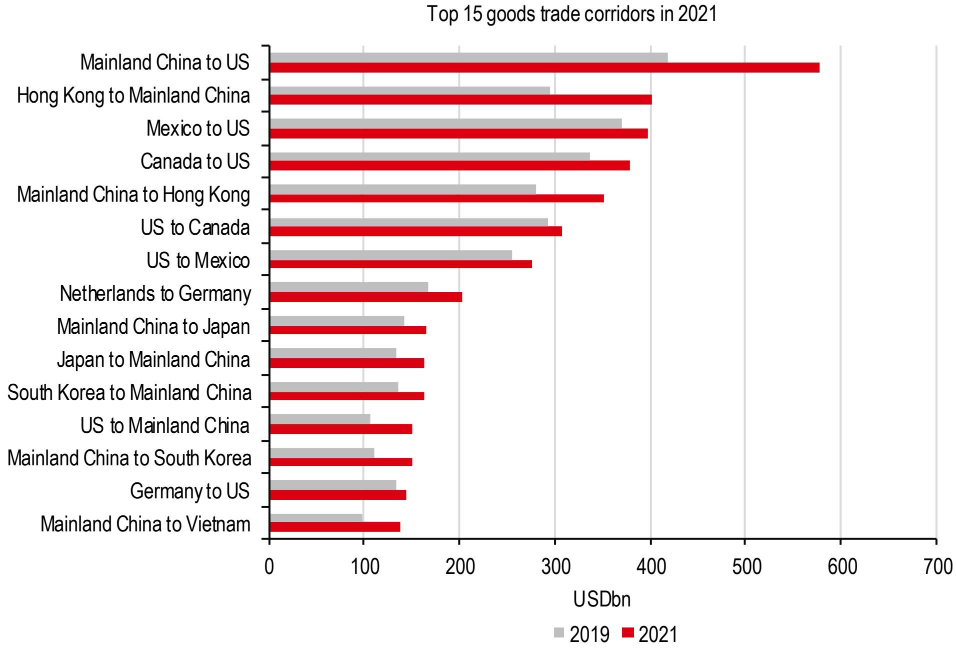
Many other economies including France, Mexico, India and Vietnam also saw their goods trade deficit with mainland China widen over the past two years (Chart 12). In 2021, mainland China was involved in nine out of the top 15 bilateral goods trade flows (five of which as the exporter), up from seven in 2019 (Chart 13).

**12. Many economies saw their goods trade deficit with mainland China widen during the pandemic**




Source: IMF DOTS

**13. Mainland China was involved in several of the top goods trade flows last year**




Source: IMF DOTS. Note: This dataset does not include export data for Taiwan

## Russia-Ukraine conflict

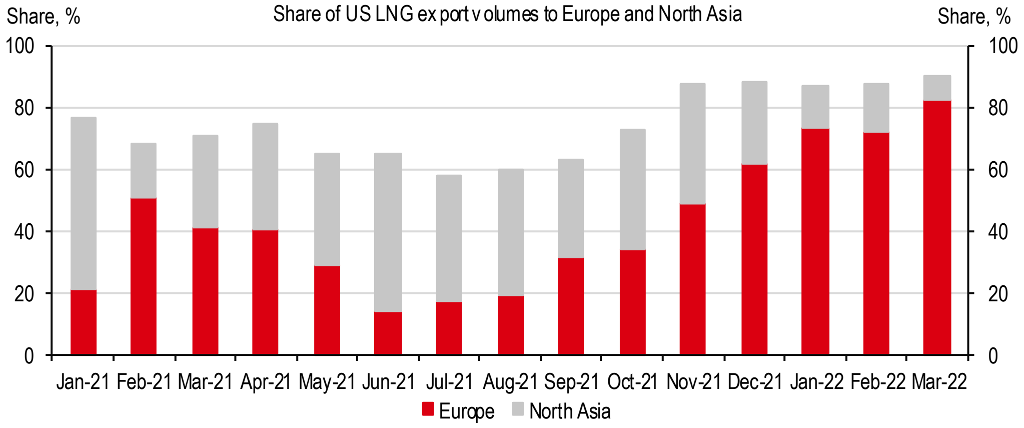
**Trade is also starting to shift due to the Russia-Ukraine conflict**

Trade patterns have also started to change in the wake of Russia's invasion of Ukraine, although it will take time to see any large shifts as Western sanctions, particularly on energy products, are phased in. The number of vessels calling at Russian and Ukrainian ports has effectively ground to a halt, while some container trade is being diverted from Ukraine to Romania. Ukraine has also been looking into routing some of its agricultural exports via Romanian ports to destinations around the world (Thomson Reuters, 7 April 2022).

In the meantime, economies are looking elsewhere for products that would typically be sourced from Russia and Ukraine. For example, Spain, which is Ukraine's second-largest corn buyer, relaxed rules on pesticides to facilitate feed imports from Argentina and Brazil, while mainland China is ramping up purchases of US corn. India is also looking to step up its wheat exports and is negotiating access to Egypt, Turkey and mainland China among other markets, while Australian wheat sales are already surging as buyers look to purchase the commodity earlier than normal (Bloomberg, 5 April 2022).

Although the EU has not yet restricted Russian gas exports, it continues to look for alternative suppliers. It recently agreed a deal with the US that will see the US supply at least an additional 15bcm (billion cubic metres) of LNG to Europe this year to help the bloc reduce its import dependency on Russian gas, while Germany agreed a separate deal to boost gas supplies from Qatar. Already, over 80% of US LNG exports sent by sea were destined for Europe in March this year, though Russian supply would be difficult to replace quickly.

**14. The US is stepping up LNG exports to Europe**




Source: Refinitiv Eikon. Note: Data as at 19 April 2022. Based on exports that have arrived at the destination.

## 2. Have economies become more or less trade protectionist?

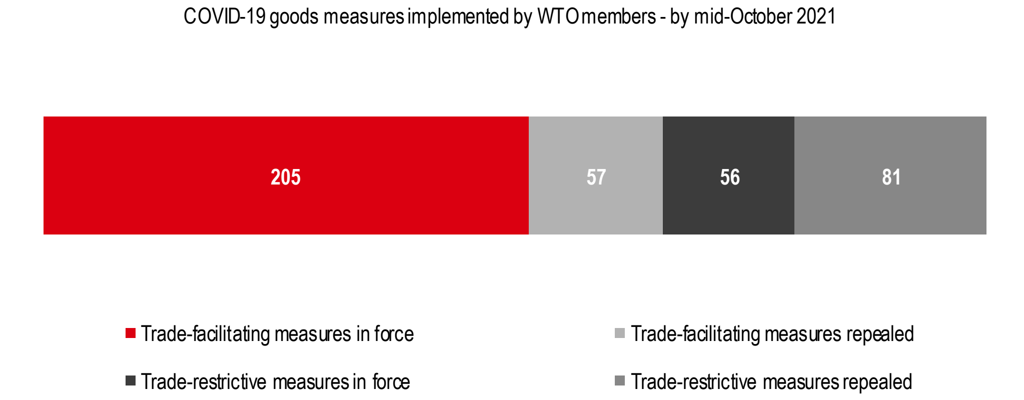
**New restrictions and facilitations**

Economies around the world have implemented various trade measures to either facilitate trade (e.g. by reducing tariffs on goods such as medical products and PPE) or to restrict international flows (e.g. limiting export of critical goods to secure domestic supply) since the onset of the COVID-19 pandemic.

**Economies implemented more measures to facilitate than restrict trade…**

As of October 2021, WTO members had implemented 399 trade-related measures on goods since the pandemic began. Of these, around two-thirds (262) were to facilitate goods trade, while 34% (137) served to restrict trade, with export restrictions accounting for 85% of all restrictive measures. However, most of these measures were temporary, with nearly 60% of restrictive measures and 22% of COVID-19 trade-facilitating measures having been repealed by mid-October 2021.

**15. Economies implemented measures to temporarily liberalise trade during the pandemic**




Source: WTO

Governments also took steps to temporarily liberalise services trade over the past couple of years, for example by providing flexibility for transport services suppliers to deal with supply chain disruption, enabling the use of telemedicine services, and facilitating entry for business travellers or essential workers in the transport sector. And according to WTO data, 90% (138) of the 153 reported measures impacting services trade implemented during the pandemic – most of which were trade-facilitating – were still in force as at mid-October 2021.

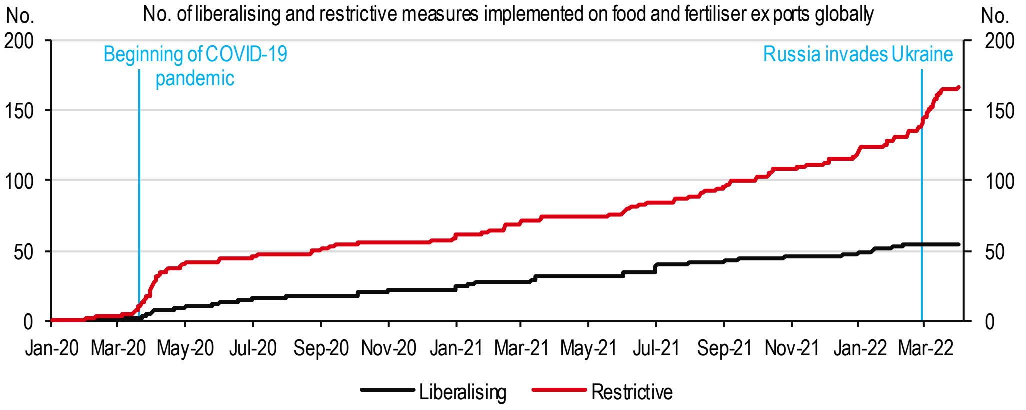
At the same time, however, economies such as Australia, Canada, France, Germany and India took steps to tighten the scope of foreign investment screening to mitigate the risk of foreign takeovers in strategic sectors – at a time when many companies were under significant financial stress.

**…but the Ukraine conflict has led to some food protectionism**

### Food protectionism

More recently, surging commodity prices following the Russia-Ukraine conflict has given rise to food protectionism. Several economies have taken steps to curb their own agriculture and food exports to secure domestic supply. According to data from Global Trade Alert, countries around the world have implemented around 30 export curbs on food since the conflict began.

**16. Some countries have restricted food exports amid the Russia-Ukraine conflict**




Source: Global Trade Alert, HSBC. Note: Based on April 2022 update.

For example, Algeria has banned exports of all consumer products that it imports such as sugar, pasta, oil, semolina and wheat products, while Hungary – a key exporter of corn animal feed to the EU – has suspended grain exports, and Serbia will ban exports of wheat, corn, flour and cooking oil to help mitigate the price increases (Thomson Reuters, 7 March 2022).

Elsewhere, Egypt – which imports more than 80% of its wheat by value from Russia and Ukraine – has temporarily banned exports of key food staples such as flour, lentils and wheat, while Indonesia, the world's largest producer and exporter of palm oil, has raised its export levy on palm oil.

Moreover, Russia– the world's largest exporter of sunflower seeds – has suspended exports of the product and restricted sunflower oil exports temporarily, while Ukraine has introduced export licences for exports of wheat and banned exports of various other agricultural products including rye, barley and sugar until the end of the conflict.[1]

### A bit of context

So, on balance, have economies become more or less protectionist in recent years? Although around 40% of restrictions targeting goods trade implemented during the pandemic still remain and the Russia-Ukraine conflict has given rise to food protectionism, it is important to view these trends within the broader historical context.

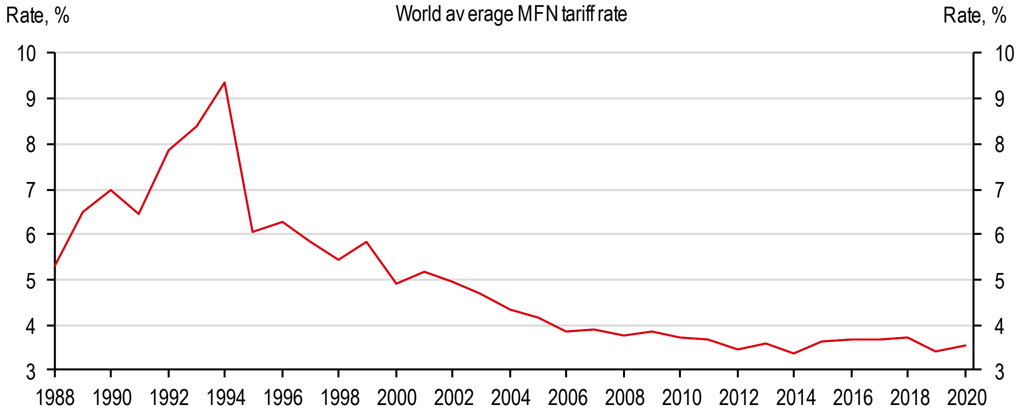
**Tariffs are extremely low…**

Globally, tariffs have never been so low as they are now – although some countries still maintain high tariffs on sensitive (mainly agriculture) products and US-China trade tensions have pushed up average bilateral tariffs faced by American and Chinese businesses when trading with each other (Charts 17 and 18). The proliferation of regional trade deals has resulted in tariffs on intra-regional trade being relatively lower than duties on trade between regions (more on this in the next section). For example, trade between LatAm economies faces average

1 To note, Ukraine recently cancelled export licence requirements introduced in early March for sunflower oil and corn.

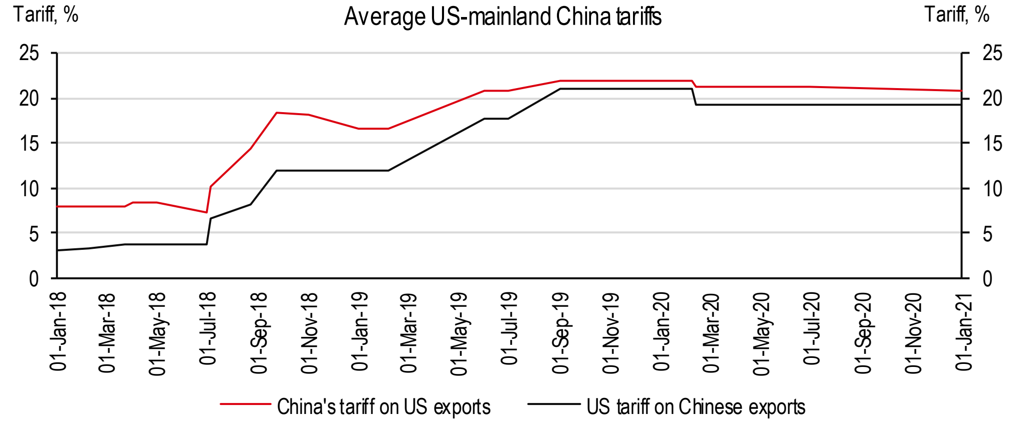
tariffs of 1.2% compared to trade between LatAm and South Asia, which is subject to average duties of over 10% (Chart 19).

**17. Tariff rates have been slashed since the mid-1990s…**



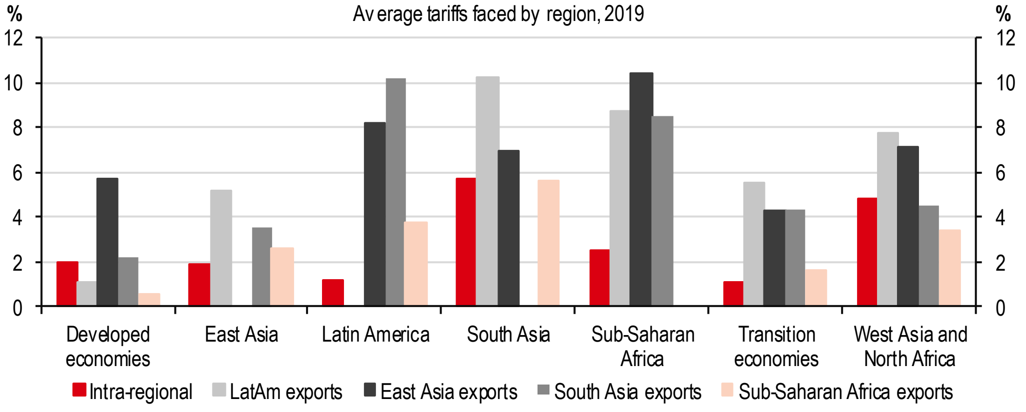

Source: WITS. Note: Weighted average

**18. …although recent trade tensions have led to new bilateral duties being imposed**




Source: PIIE. Note: There have been no major changes to bilateral tariffs under the Biden administration

**19. Tariffs on intra-regional trade tend to be lower than those on inter-regional flows**

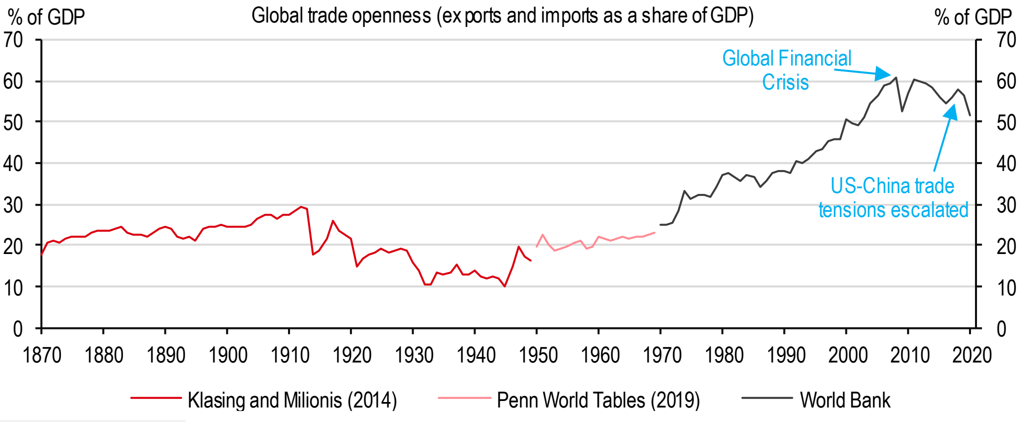



Source: UNCTAD

**…but trade openness has retreated and new forms of protectionism have emerged**

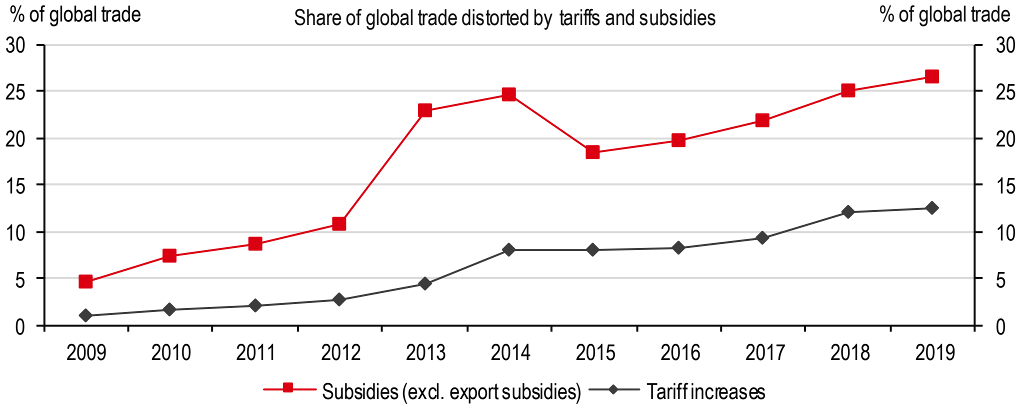
But efforts to reduce tariffs over time have clearly paid off, with businesses now able to trade with a more diverse set of partners than ever before. However, trade openness (measured by the ratio of world trade to GDP) has been in retreat since the Global Financial Crisis and, with tariffs so low, other forms of trade protectionism have emerged (Chart 20). For instance, regulatory restrictions to trade such as red tape, differing standards, burdensome regulations or trade-distorting subsidies can now be more harmful to exporters and importers than tariffs. According to Global Trade Alert data, around 27% of world trade was affected by subsidies in 2019, compared to just 13% by tariff increases (Chart 21). Ten years prior, around 4.7% and 1% of world trade was affected by subsidies and tariffs, respectively.

**20. Trade openness has retreated since the Global Financial Crisis…**




Source: Our World in Data, WDI

**21. …while new forms of trade protectionism have emerged**




Source: Global Trade Alert

Some estimates suggest that non-tariff barriers to trade can be around two to three times more restrictive than regular tariffs, while the impact of regulatory restrictions on trade can also vary considerably by sector. For example, UNCTAD estimates that non-tariff barriers affecting trade in animal products could be equivalent to a duty of over 25% compared with average tariffs of less than 15% (UNCTAD, 2015 and 2018).

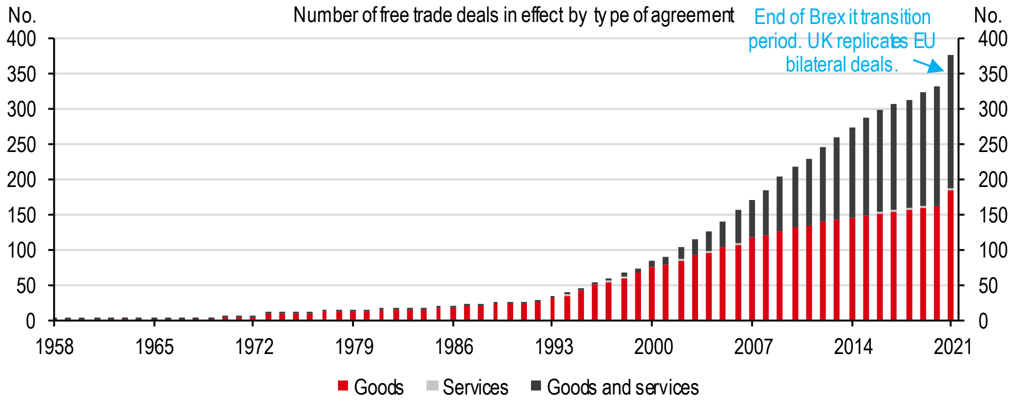
### Free trade deals

On the other hand, trade liberalisation has continued to advance in some parts of the world despite trade policy uncertainty and supply chain disruption, although the pace of striking new trade deals has slowed since the Global Financial Crisis (Chart 22). For example, since US-China trade tensions escalated in 2018, large new trade deals such as the CPTPP and RCEP have taken effect. The EU has also implemented new bilateral deals with Japan, Singapore and Vietnam in this time, while the African Continental Free Trade Area (AfCFTA) took effect at the beginning of 2021.

**Trade liberalisation continues to advance and new deals are more expansive…**

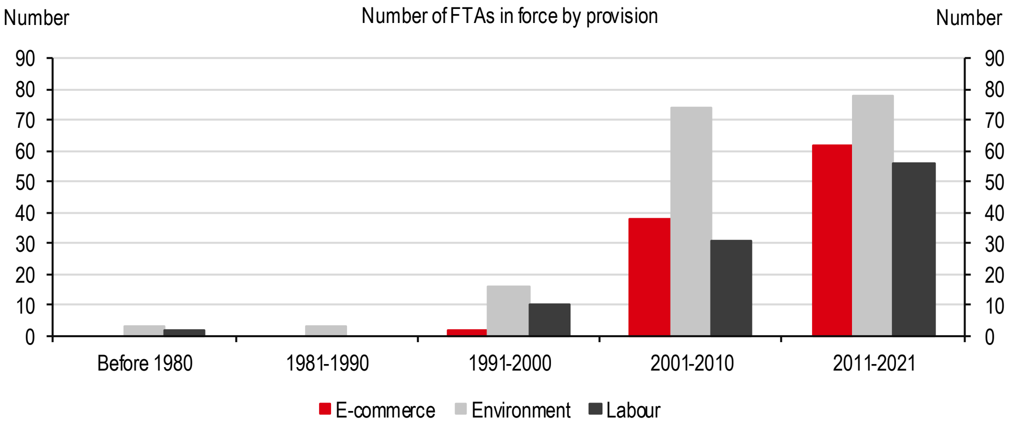
And although the Trump administration struck partial trade deals with China and Japan, and India is looking to agree "early harvest" deals with a range of partners – economies have generally been striking more comprehensive trade deals over time. For example, deals today include provisions that go beyond traditional goods market access such as measures to reduce barriers to digital trade and tackle environmental and labour issues (Chart 23).

**22. The pace of striking new trade deals has slowed in recent years…**




Source: WTO RTA database. Note: Data as at 4 April 2022.

**23. …although modern deals are more expansive in scope**




Source: WTO RTA database, HSBC. Note: FTAs may contain multiple provisions and are therefore counted for each provision. Does not include UK trade continuity deals that took effect in 2021 after the end of the Brexit transition period as these agreements rolled over existing EU deals with minimal changes.

## Risk of more protectionism

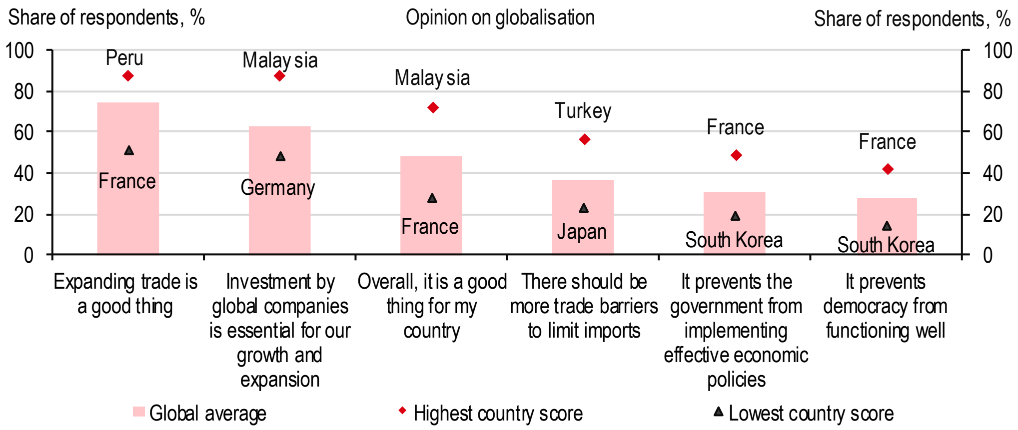
**…but public support for free trade is no longer guaranteed**

Therefore, is there a risk of more protectionism to come? Potentially. Wide-spread support for free trade (and free trade deals) has waned in recent years due in part to growing concerns around rising inequality, offshoring of jobs and key industries, unfair foreign competition, the environmental implications of trade liberalisation, the potential degradation of labour standards, lack of transparency in trade negotiations, and perceived loss of sovereignty, among other factors.

And although factors such as automation of labour tend to be bigger drivers of job displacement than trade liberalisation, the Peterson Institute for International Economics makes the point that "not enough has been done to help those who have lost out from trade competition" (PIIE, 24 August 2021).

As a result, public attitudes towards trade today remain mixed. For example, an Ipsos 2021 survey across 25 economies found that most respondents (75% on average) thought that expanding trade is a good thing. However, in most countries, more people agree rather than disagree that there should be more trade barriers to limit imports of foreign goods and services, with an average of 37% of respondents globally in favour of more import barriers (vs. 27% that disagreed). And on average, under half of respondents (48%) agree that globalisation is a good thing for their country.

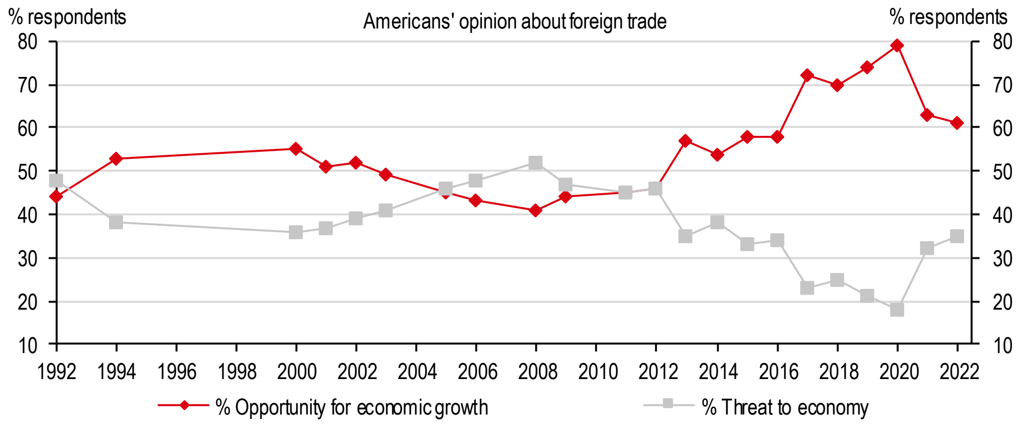
**24. Public opinion on globalisation is mixed…**




Source: Ipsos Mori. Note: Based on a survey of 19,017 adults in 25 economies conducted between 26 March and 9 April 2021.

A recent Gallup survey also found that Americans are currently less likely to see trade as an opportunity compared to 2017 to 2020, but they still hold a more positive view than in the 1990s and 2000s. On the other hand, the share of Americans that regard foreign trade as a threat to the economy has risen from 18% to 35% since the onset of the pandemic (Chart 25).

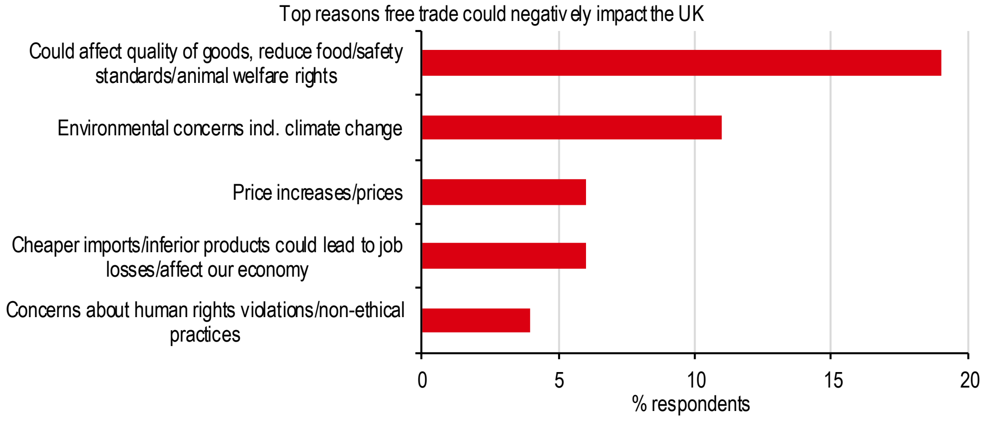
**25. …while some regard free trade as a threat to the local economy…**




Source: Gallup

In the UK, just 6% of people surveyed think increased free trade would negatively impact the country overall. However, they are most concerned with the potential deterioration of food safety/standards, environmental implications, potential for price increases, and the risk of cheaper imports leading to domestic job losses (Chart 26).

**26. …for a range of reasons**




Source: UK Department for International Trade. Note: Wave four survey conducted between 12 March and 3 May 2021

## A more cautious approach to trade policy

**Some governments are taking a more cautious approach to trade policy...**

As a result, public support for free trade is no longer a given and this has led to a shift in how governments approach trade policy. For example, India pulled out of the RCEP deal at the last minute over concerns around foreign competition. And, although the door remains open for India to re-join the agreement, the Union Minister for Commerce and Industry Piyush Goyal recently ruled out resuming talks anytime soon. Brexit too resulted in the de-liberalisation of trade between the UK and EU.

> **"We would have been flooded with low quality opaquely priced products against which India could never have competed**
> **Piyush Goyal, Union Minister for Commerce and Industry, Business Standard, 28 March 2022.**

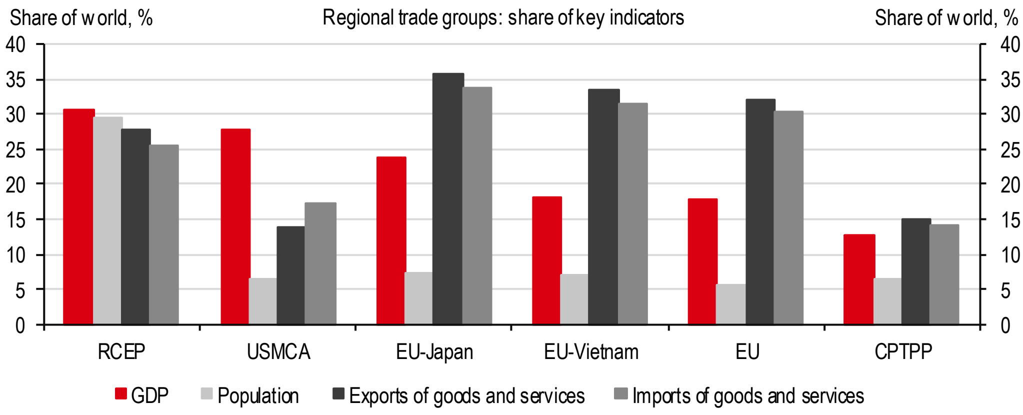
In the US, the Biden administration has largely continued taking the tough approach to trade relations with mainland China established under the previous administration. However, the Biden administration has made progress in restoring trade relations with allies such as the EU, UK and Japan by working to remove tariffs related to certain bilateral issues (e.g. around aircraft subsidies, steel and aluminium).

**…including the US, which risks missing out from new trade deals**

But it is unlikely the US will engage in comprehensive trade liberalisation anytime soon. Trade Promotion Authority (TPA), which enables new trade agreements to be fast tracked through Congress, expired in July 2021. Without this, it is unlikely that the US will be able to make significant progress in bilateral trade negotiations or conclude new trade deals in the near future – effectively stalling trade talks currently underway (e.g. with UK and Kenya).

Protectionist trade actions initiated by the Trump administration, coupled with the Biden administration's focus on domestic recovery efforts rather than new trade deals and its failure to renew TPA, could significantly affect America's role in global trade. Indeed, the US is notably missing from large new trade deals struck in recent years and with the bulk of US-China punitive tariffs remaining in place, American businesses (and consumers) risk missing out from the gains from trade liberalisation (Chart 27).

**27. The US is missing out from new Asia-Pacific and EU trade deals**




Source: UNCTAD. Note: GDP and trade data for 2020, population data for 2021. Ordered by share in global GDP.

## Shoring up supply chains

There is also a risk that efforts by governments to shore up supply chains in the wake of the pandemic and the war in Ukraine could restrict the free flow of international trade. For example, the US conducted reviews into the semiconductor, battery, critical materials and pharmaceuticals supply chains in 2021 and established a Supply Chains Disruptions Task Force to address supply-demand imbalances in critical sectors such as chips, logistics and agriculture. As part of this, the Biden administration intends to:

- Prioritise financing for critical US exports (e.g. chips, biotech products, renewable energy)
- Increase American manufacturing of critical goods by reforming Buy American provisions
- Enhance domestic processing capacity of rare earths, nickel, copper and lithium
- Provide USD1bn to expand domestic meat processing capacity

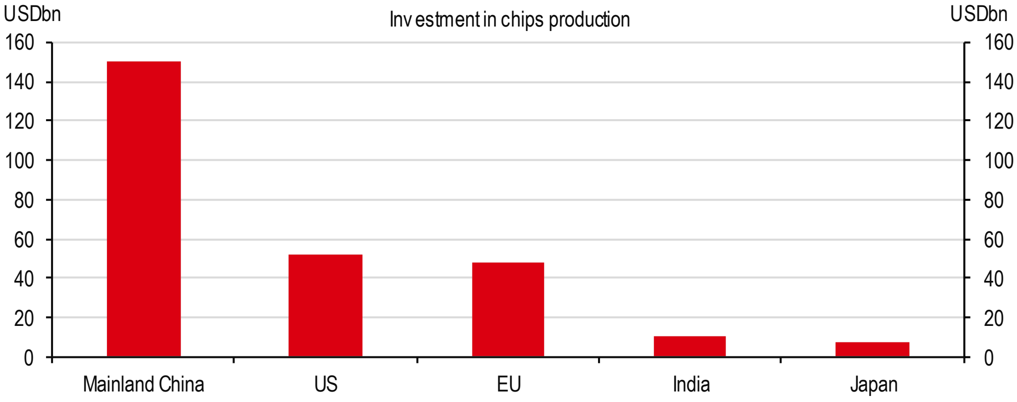
**Economies around the world are looking to scale up domestic chips production**

In addition, Congress is working to approve a bill to provide USD52bn in subsidies to boost domestic production of chips, while the Biden administration has also suggested relocating some production/sourcing to allies (i.e. “friend-shoring”) such as the EU as a means of reducing trade dependence on geopolitical competitors and as an alternative to reshoring (White House, 7 February 2022).

Similarly, the EU has announced a European Chips Act to help the bloc double its share of the global semiconductor market from 10% to 20% by 2030. The Act will provide for EUR11bn worth of public investment under the Chips for Europe Initiative to finance tech leadership in research, design and manufacturing capabilities – taking the total value of public and private investments under the strategy to more than EUR43bn (European Commission, 8 February 2022).

India also approved a USD10bn plan to attract chips and display manufacturers in December 2021 in order to reduce dependence on Chinese supplies, while China has already been spending an estimated USD150bn by 2030 to upgrade its semiconductor industry (Mint, 16 December 2021 and Semiconductor Industry Association, 13 July 2021).

**28. Economies around the world are scaling up domestic semiconductor production**




Source: Bloomberg based on Bloomberg reporting and Semiconductor Industry Association. Note: Timescales for implementation vary.

### New trade protectionist tools

**The EU and US may use new trade tools to tackle broader issues with partners…**

Beyond efforts to reshore production, ongoing trade and geopolitical tensions have led typically free-trading economies to take steps to strengthen their ability to quickly levy countermeasures in disputes with other countries. For example, the EU recently proposed a new "anti-coercion" tool that would allow the bloc to impose trade restrictions more easily to dissuade coercive actions (e.g. restrictions to trade and investment) by other economies. Although the tool still needs to be developed, it could pave the way for the EU to quickly levy tariffs, restrict imports or limit investment from partners in the future.

US Trade Representative (USTR) Katherine Tai also recently noted that the Biden administration is adapting its China strategy to focus on "vigorously defending" US economic interests from unfair economic policies and practices. As part of this, the administration is looking to develop new domestic tools and make strategic investments to ensure US industries remain competitive. However, there is a risk that any new measures could lead to more trade protectionism. For example, lawmakers on both sides have proposed expanding US trade remedy rules to allow for successive trade investigations and to enable projects under China's Belt and Road Initiative to be potentially targeted by countervailing duties – which some business groups argue could lead to higher tariffs and exacerbate inflationary pressures on US companies (Inside US Trade, 23 March 2022 and 30 March 2022).[2]

**…but this may lead to more protectionism**

There is also a risk that trade measures may increasingly be used to tackle issues beyond those directly related to trade and investment. For example, the EU is looking at imposing tariffs on countries that block the return of failed asylum seekers. In particular, the European Commission is proposing revoking duty-free access provided to developing countries under the EU's General System of Preferences (GSP), which currently applies to around 70 economies. According to the FT, Mali, Senegal and Guinea had some of the lowest return rates of immigrants and would therefore be most likely to lose preferential access to the EU (FT, 6 April 2022).

### Protectionism vs. liberalisation

Although most of these initiatives are just at their inception, there is a risk that trade protectionist measures could become more common place given the desire to reduce trade reliance on single foreign suppliers' post-pandemic along with the rise of protectionist actions in recent years. And with no big trade deals in the pipeline and the WTO's dispute settlement mechanism still not fully functioning, it looks as through countries may need to dig deeper to find support for trade liberalisation longer term.

2 These measures are proposed under the Eliminating Global Market Distortions to Protect American Jobs Act, also known as the Leveling the Playing Field Act 2.0, introduced as part of the America COMPETES Act. However, some business groups opposed these provisions, which could lead to higher tariffs and expand the reach of trade remedy measures (Inside US Trade, 30 March 2022).

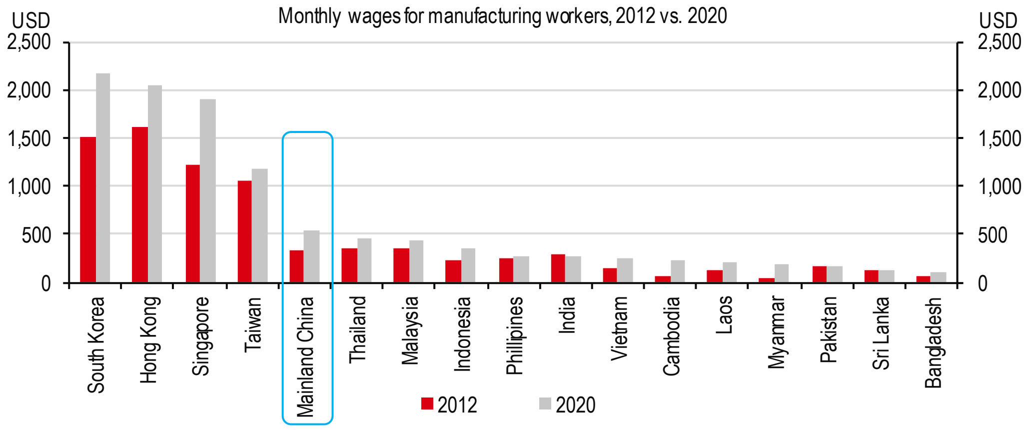
On the other hand, the past few years have shown that countries can liberalise trade if they really want to and they can do so quickly. Even the WTO can agree on issues if it really wants to, albeit slowly, as we saw with its plan to waive patent rights for COVID-19 vaccines. The main issue currently is how to make trade liberalisation stick.

## 3. How could trade patterns evolve?

**Supply chains have been shifting as labour costs in China rise**

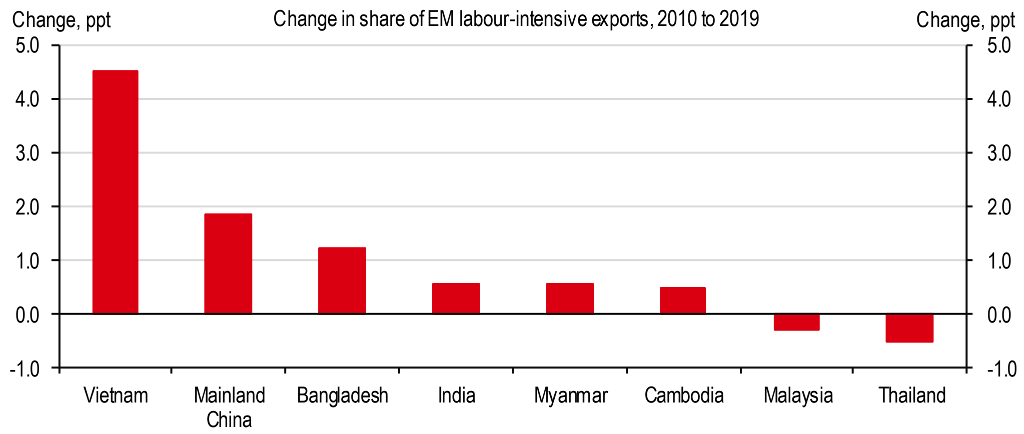
So how might trade patterns evolve in coming years? First, it is important to note that supply chains have already been reconfiguring for some time – even prior to the COVID-19 pandemic and amid rising labour costs in mainland China (see Chart 29). For example, Vietnam's share of EM labour-intensive exports grew from 3.4% in 2010 to nearly 8% in 2019, while mainland China's share rose by less than 2% over this time (Chart 30).

**29. Labour costs in mainland China have been rising over time…**




Source: JETRO. Note: Based on surveys of Japanese companies operating overseas.

**30. …leading some labour-intensive manufacturing to shift to other low-cost economies**




Source: UNCTAD, HSBC. Note: EMs defined by UNCTAD as developing regions.

Escalating US-China trade tensions also led certain multinationals and Chinese companies to move some operations to ASEAN prior to the pandemic (see Table 31 for examples), while China itself has been investing significantly in the region over the past decade or more. For example, FDI from China into ASEAN rose by 65% from an annual average of USD6.9bn in 2011-15 to USD11.5bn in 2016-20, with China accounting for nearly 8% of total FDI flows into ASEAN in the latest period.

**31. Some production has already relocated amid ongoing US-China trade tensions**

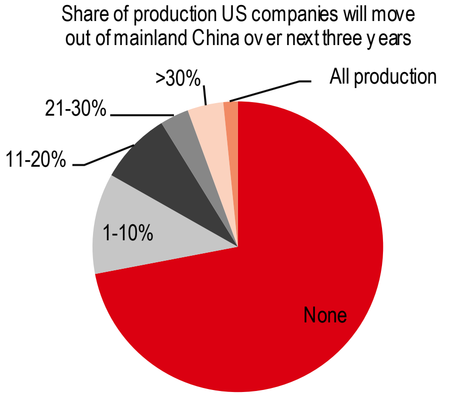
| Company | Origin of company | Industry/activity | Relocated to | Year | Comment |
|---|---|---|---|---|---|
| Delta Electronics | Taiwan | Electronic components | Thailand | 2019 | Supplier to Microsoft and Huawei Technologies; moved some production back to home economy and some to Thailand amid the trade tensions |
| HL Corporation Shenzhen | Mainland China | Bicycle parts | Vietnam | 2019 | Moved production in consideration of trade tensions |
| Hyundai | South Korea | Automotive | Indonesia | 2019 | Moved some operations to Indonesia for a mix of reasons, including trade tensions |
| Keytronic | US | Technology hardware | Vietnam | 2019 | Added capacity as hedge against uncertainty because of the trade tensions |
| Kyocera | Japan | Electronic components | Thailand | 2019 | Relocated part of its automotive camera modules and displays production to avoid impact of the trade tensions |
| Puma | Germany | Apparel and textile products | Cambodia and Vietnam | 2019 | Moved some production from mainland China to other Asian hubs to avoid the trade tensions |
| Hasbro | US | Toy | Vietnam | 2019 | Accelerated plans to shift away from mainland China in favour of new plants in Vietnam and India |
| Alpan Lighting | US | Industrial products | Indonesia | 2020 | Shifting production from mainland China to escape higher tariffs triggered by trade tensions |
| Foxconn | Taiwan | Electronic components | Vietnam | 2020 | Major supplier of Apple; moved manufacturing of some iPads and Macbooks from mainland China to mitigate the risk of the trade tensions |
| Samsung | South Korea | Electronics; mobile phones and computers | Vietnam | 2020 | Moved some operations for a mix of reasons, including trade tensions |

Source: ASEAN Secretariat. Note: Year = year started production or construction of factory, or year announcement was made.

**The rush for US companies to leave China has not yet materialised…**

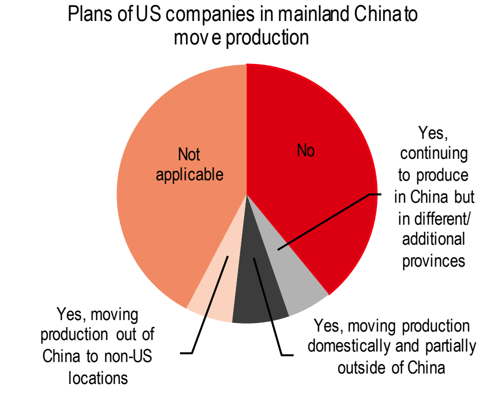
And although there has been a lot of talk about reshoring production in the wake of the pandemic, the rush to exit China has not quite materialised. According to the 2021 AmCham Shanghai survey, 72% of companies that manufacture in China have no plans to move any production out of the economy in the next three years and, of those that do, no businesses intend to relocate their production back to the US. The bulk of companies (81%) have no plans to redirect their China investment to other markets, with Southeast Asia, Mexico and India being top choices for those businesses that are looking to invest elsewhere.

**32. Most US companies in China do not intend to relocate production…**



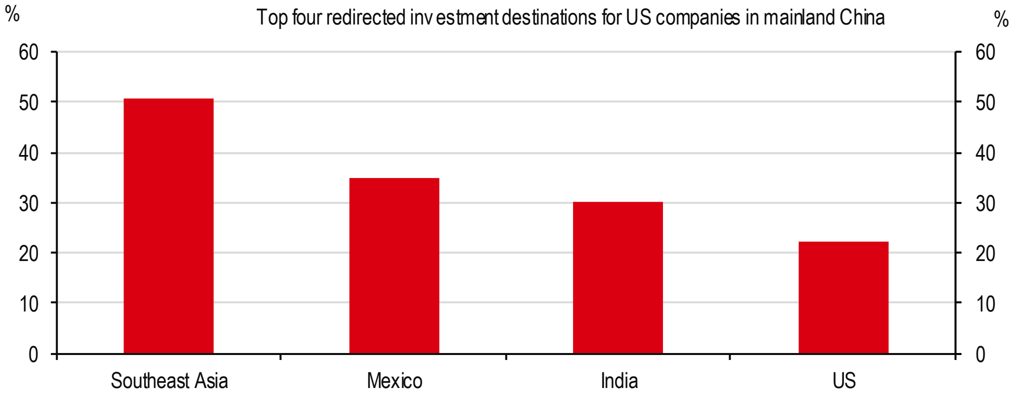

Source: AmCham Shanghai. Note: Based on companies that manufacture in mainland China.

**33. …while some intend to move manufacturing to non-US markets…**



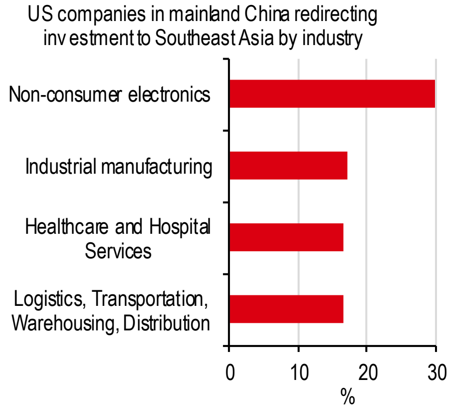

Source: AmCham Shanghai

**34. Southeast Asia and Mexico are top picks for US businesses looking to invest elsewhere…**



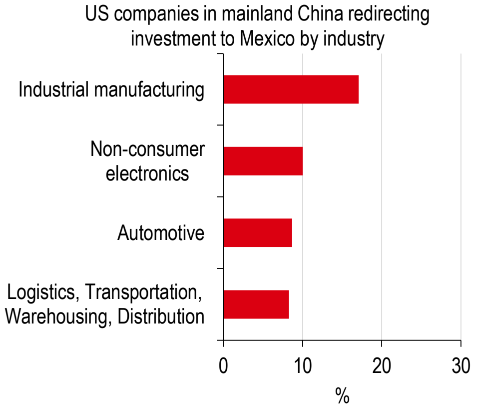

Source: AmCham Shanghai. Note: Among those companies that are redirecting their China investment.

**35. …particularly for those in the electronics…**




Source: AmCham Shanghai

**36. …and industrials sectors**



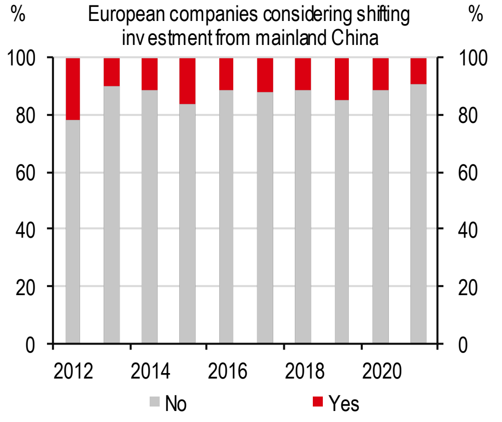

Source: AmCham Shanghai

**…while European businesses also remain committed to China**

Similarly, just 9% of European companies in China are considering moving any current or planned investment out of the country according to the European Chamber of Commerce in China's 2021 Business Confidence Survey – the lowest share on record. Instead, some companies have moved to strengthen their positions in JVs, onshore supply chain activities into China and increased spending to secure market share. Of European companies in China that are considering shifting investments, over 50% are looking at other markets in Asia.

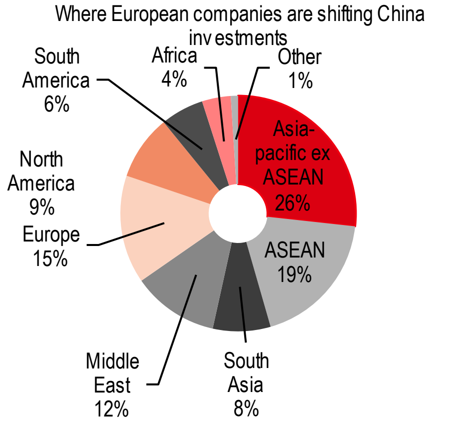
However, 38% of European businesses in China saw their Chinese customers/suppliers move into other markets in 2020 due to rising labour costs, automation and complex regulation in China. Geopolitical tensions and China's shift into higher value-added activities also played a role.

**37. Most European companies in China are not intending to redirect investment…**




Source: European Chamber of Commerce in China

**38. …while some are looking to invest more in other Asian markets**




Source: European Chamber of Commerce in China. Noted: Based on companies that are considering shifting China investments to other markets.

So although the widespread reshoring of supply chains is not happening just yet, that is not to say that there won't be some rejigging in coming years. As noted above, governments around the world are looking at ways to shore up critical supply chains and these policies may eventually help to facilitate the scaling up of domestic production capacity for some industries. Relocating manufacturing closer to home (i.e. nearshoring) or to trusted countries (i.e. friend-shoring) could also be viable alternatives to on-shoring.

**Reshoring production is likely to take time**

However, as we have written about previously, shifting suppliers or scaling domestic production capacity is unlikely to be easy and will depend on a range of factors. For example, infrastructure will need to be built out and businesses will need to have access to raw materials and workers with the right skills. Ensuring reliability and cost-effectiveness will also be key in order to for such a strategy to be economically viable for businesses. Already, there are reports that some European companies have halted plans to reshore production from Asia amid surging energy costs (FT, 2 April 2022).

> **"It's economically unrealistic for all the countries to build additional chip production capacity…At the end of the day, that additional capacity could become non-profitable capacity.**
>
> **TSMC Chairman Mark Liu, Nikkei, 30 March 2021**

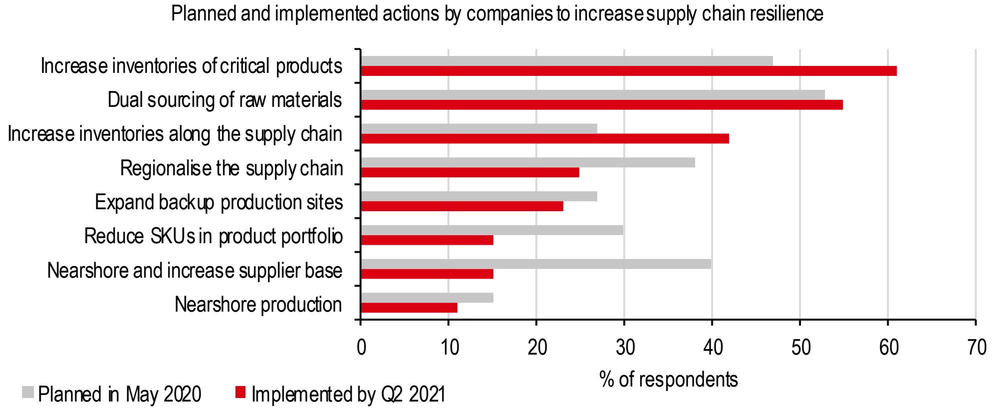
**Dual-sourcing and diversification**

**Diversifying suppliers may also help mitigate trade risks**

Therefore, looking ahead, we expect China to continue to play an important part in international trade, although its role may evolve as foreign companies look to diversify suppliers' post-pandemic and in the wake of China's stringent COVID-19 strategy, for example by pursuing China+ or dual sourcing strategies, and as Chinese companies continue to move into higher value-added activities.

In fact, the idea of dual-sourcing or getting supplies from multiple markets has gained traction in the wake of the pandemic. For example, a 2021 survey of supply chain leaders by McKinsey found that 92% of businesses had taken steps to improve their supply chain resilience by implementing various measures including: increasing inventories of critical products (61%), dual-sourcing raw materials (55%), and regionalising their supply chains (25%).

**39. Businesses are implementing various strategies to de-risk their supply chains**

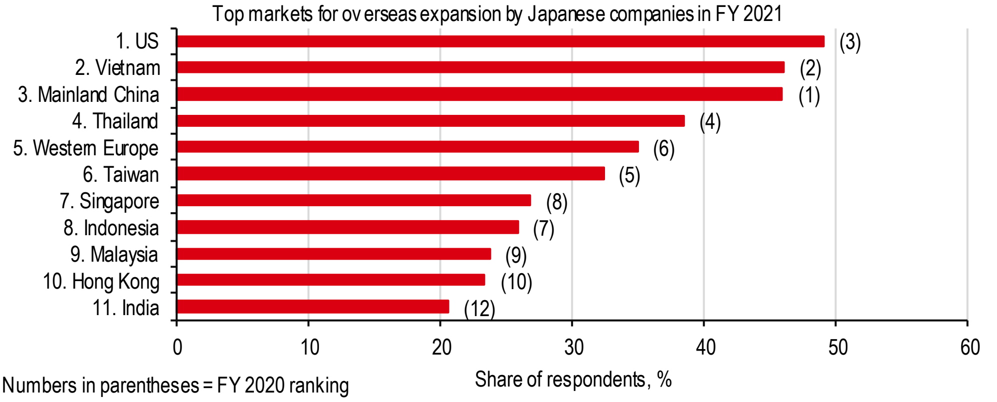



Source: McKinsey & Co. Note: Based on surveys of supply chain leaders. 2021 survey run between 4 May to 16 June, n=71. Actions implemented over the past 12 months.

A separate survey by JETRO on Japanese businesses operating overseas found that the average number of target countries/regions for overseas expansion by these companies increased to 5.3 in 2021 from 3.8 in 2019, likely due to the need to diversify markets post-pandemic. Most of these companies plan to expand their overseas businesses in the US (49%) – which topped the list of future businesses destinations for the first time since the survey was run – followed by Vietnam (46%). On the other hand, the share of businesses planning to expand in China declined from 48% in 2020 to under 46% in 2021 (Chart 40).

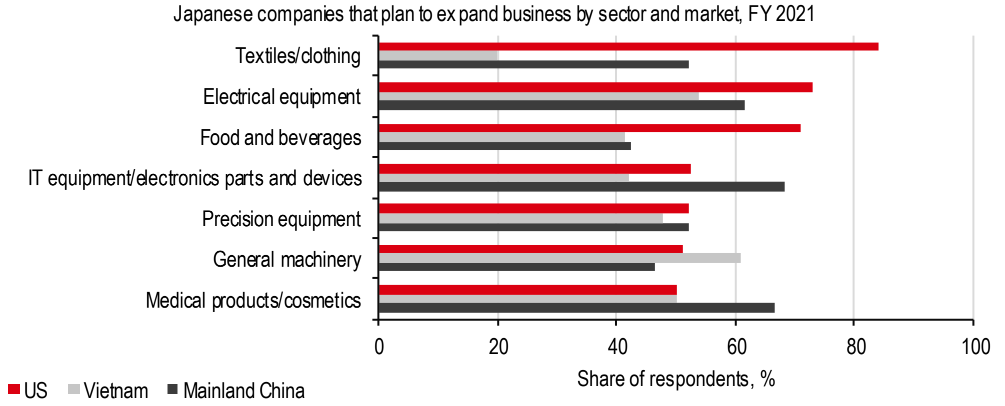
Around 70% to 80% of companies in the food and beverages, electrical equipment and textiles/clothing sectors are looking to expand in the US, while around 61% of businesses in the general machinery sector plan to expand in Vietnam (Chart 41).

### 40. Japanese companies are looking to expand operations in the US and Vietnam…




Source: JETRO

### 41. ...across a range of sectors




Source: JETRO. Note: Data for FY 2021.

### Sectoral implications

**Businesses may look to reshore critical supply chains…**

Although companies across all sectors are looking at ways to make their supply chains more resilient, it is likely that efforts to actually reshore or reconfigure supply chains in coming years will be concentrated in a select few critical sectors that tend to rely on inputs (or final goods) sourced from a small number of foreign suppliers.

In order to get a sense of how vulnerable certain sectors are to trade disruption, we can take a look at:

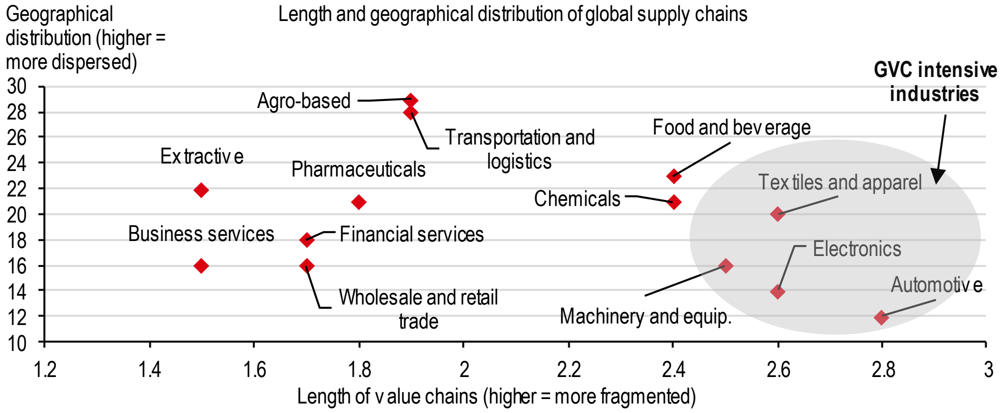
1. The average length of supply chains in each industry (i.e. the number of cross-border intermediate production steps), and
2. How geographically distributed the supply chains are

According to these data shown in Chart 42, the automotive industry has the longest value chain, while the pharmaceutical industry has a relatively short value chain. Similarly, electronics value chains are highly fragmented but concentrated among a smaller number of economies, with just 14 economies accounting for 80% of the value added in global exports according to UNCTAD data.

This suggests that industries located in the bottom-right quadrant of the chart are likely to be more vulnerable to trade disruptions. But this does not mean that other sectors may not be exposed to supply chains disruptions as well.

The food and beverage sector, for instance, is characterised by relatively long supply chains with a high degree of geographical distribution. However, this sector depends on access to agri inputs. And despite the agriculture sector being geographically dispersed at the aggregate level, a handful of countries dominate production and exports of certain commodities, which could leave downstream industries exposed in the event of a trade shock. For example, Russia and Ukraine together account for nearly 30% of global wheat exports and 16% of world corn exports – meaning that disrupted supply would be difficult to replace quickly.

**42. Some value chains are more globalised than others**




Source: UNCTAD 2020 World Investment Report

**Hello regionalisation?**

**…while some have already taken steps to bring some production closer to home**

Therefore, as businesses look to reduce supply chain vulnerabilities by shortening some value chains, this could lead to greater regionalisation of production processes. This has already started to happen to a certain extent. For instance, **Stanley Black & Decker** noted that it has been looking to locate closer to its consumers over the past five to seven years and has already achieved this in its industrial businesses, where its manufacturing and vendor base is located close to the customers it serves. Prior to the pandemic, the company was gradually migrating more production and capabilities to the North America market and, to a certain extent, to Europe as well in order to make the supply chain leaner and be able to respond quickly to meet demand – whether that is going up or down.

**GAP** too recently noted that it is working on de-risking its supply chain by rebalance sourcing to rely less on single foreign suppliers and "building deeper relationships with near-shore vendors" (GAP Inc Q4 2022 earnings call, 3 March 2022), while US outdoor products company **Vista Outdoor** recently relocated its primary plastic bottle manufacturing from Asia to Dominican Republic to reduce lead times and help mitigate supply chain risk (Vista Outdoor investor day, 26 May 2021).

Steel manufacturer **Ternium Argentina** also noted that it is seeing nearshoring of manufacturing capacity to the USMCA region, while steel production in China is decreasing in line with the country's effort to control carbon emissions (Ternium Argentina Q3 2021 earnings call, 3 November 2021). Indeed, the growing importance of ESG considerations – for both businesses and consumers – may also help spur the shift toward shorter supply chains.

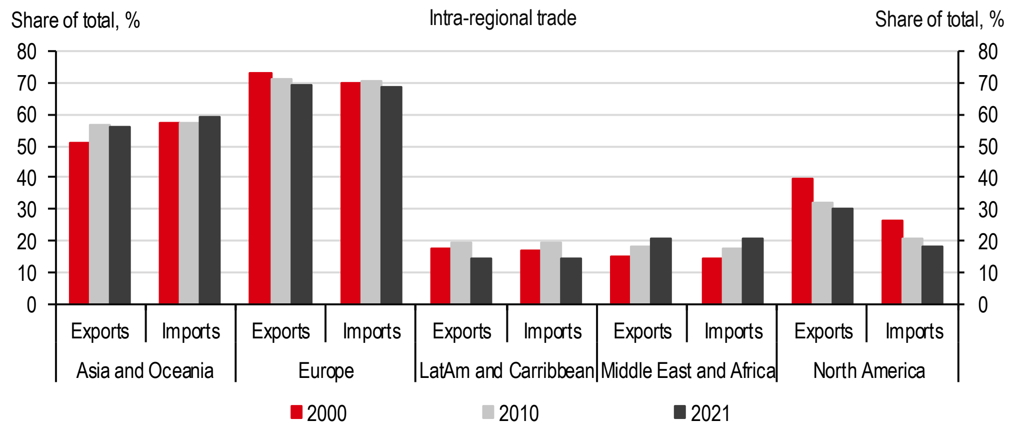
**Regional trade trends**

**Over half of global trade occurs within regions**

Already, over 50% of global trade occurs between economies in the same region, with intra-regional trade having strengthened over time in Asia and the Middle East and Africa. On the other hand, trade between European countries has declined, with the share of intra-regional

European exports down slightly from 73% in 2000 to 70% in 2021. However, Europe still maintains the highest share of intra-regional trade globally.

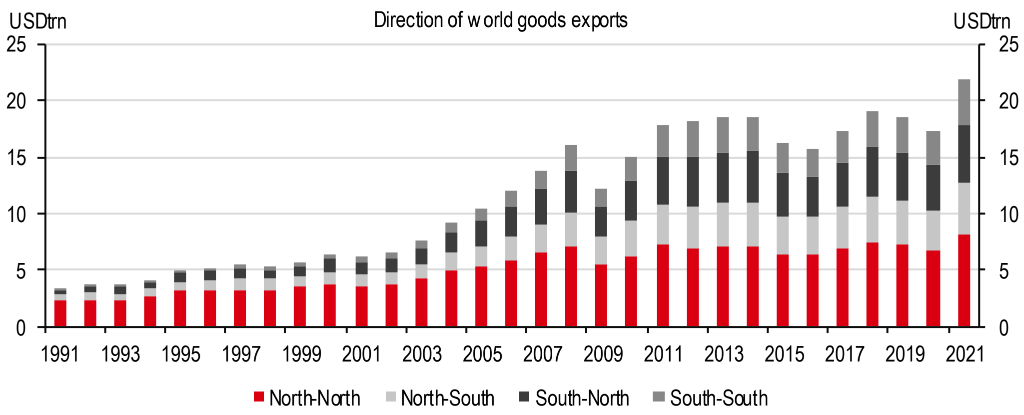
**43. Trade linkages have been deepening within some regions…**




Source: IMF DOTS, HSBC

And as participation by emerging economies in international trade has increased, so too has trade between emerging markets (i.e. South-South trade). Based on IMF regional groupings, South-South trade rose from 5% of global goods trade flows in the early 1990s to nearly 20% in 2021, while trade between developed countries (North-North trade) declined from over 60% of global goods exports in the mid-1990s to 37% in 2021 but still remains double the amount of South-South trade.

**44. …while trade between emerging markets has also increased**




Source: IMF DOTS. Note: Based on the IMF groupings for emerging and developing economies, and advanced economies. Excludes c.1% of global trade flows.

Looking ahead, global trade could become more regionally-focussed as businesses look to shorten some supply chains, and as labour costs become a relatively less important part of total costs. According to UNCTAD, increased regionalisation could impact primary industries in particular as developed economies may increasingly look to reduce their dependence on foreign-sourced commodities. And we are already seeing this play out to a certain extent, with the Russia-Ukraine conflict catalysing this shift for the energy sector.

**Supported by regional integration initiatives**

**New trade deals could support regionalisation**

New regional trade deals such as the RCEP and CPTPP in Asia and the African Continental Free Trade Area (AfCFTA) in Africa could help facilitate this shift by lowering barriers within regions, while reshoring strategies might become more attractive to businesses in North America if they can make use of comprehensive trade agreements such as the US-Mexico-Canada Agreement (USMCA). Investments tied to China's Belt and Road Initiative will also help support greater regional integration in Asia.

Such initiatives could also make it more attractive for foreign businesses to locate in these markets in order to benefit from ongoing regional trade liberalisation. Indeed, 23% of European businesses in China expect RCEP to have a positive impact on their business, according to the European Chamber of Commerce in China's 2021 survey. Over two-thirds of these companies expect to see their revenues to increase due to RCEP as a result of increased exports from China to other RCEP members, while 39% expect a reduction in costs stemming from cheaper imports or diversified supply chains thanks to the deal.

**23%**

**European companies in China that expect RCEP to positively impact their business**

However, there could be challenges with developing regional value chains. It may be more difficult for a region to attract or develop an entire value chain than for a country to attract FDI in a specific task or supply chain activity where it has a competitive advantage (UNCTAD, 2020). Therefore, reorienting supply chains to be more regionally focussed will likely take some time to play out and will depend on various factors including whether businesses in some industries might be willing to accept a reduction in efficiency in order to secure their supply chain.

## Conclusion

**There is no clear evidence that this is the end of globalisation**

Exporters and importers are clearly operating in highly uncertain times today. And although the age of "hyperglobalisation" might be over given US-China trade tensions, supply chain disruptions stemming about the COVID-19 pandemic and, more recently, the war in Ukraine – there is no clear evidence, based on trade flows and stated investment plans by multinationals to suggest that this is the end of globalisation.

However, it is important to acknowledge that globalisation has been in retreat for some time – even prior to recent events – and we may have therefore seen the bulk of the gains from wide-spread trade liberalisation, especially given there are few key trade deals in the pipeline. And although it is likely that many supply chains will continue to remain internationally focussed even in the wake of recent trade disruptions, the increased focus on building resilience post-pandemic as well as geopolitical tensions could lead to the shortening of some critical supply chains such as semiconductors and pharmaceuticals.

But, as we have discussed, supply chains will continue to shift as countries grow and evolve. This reconfiguration has already been happening for some time and the pandemic could spur greater intra-regional trade anchored by existing efforts to liberalise trade within regions.

Moreover, reshoring is just one way for businesses to build resilience into their supply chains. Diversifying suppliers and buyers, strengthening relationships with suppliers in different markets, and building up buffer stocks could help businesses maintain flexibility in times of crisis. Plus, it is important to note that pursuing strategies of market diversification and nearshoring are not mutually exclusive. Some businesses, for instance, have already moved to source from different suppliers (i.e. dual sourcing), including ones closer to home.

And let's not forget about trade in services, which have arguably become even more globalised over the past two years. For example, we have been able to conduct business virtually through the pandemic enabling us to instantly service markets further afield. Some consumers have also been able to make greater use of telemedicine – sometimes speaking to medical professionals in other countries during the pandemic. The National Health Service in the UK, for instance, sent x-rays to radiologists in Australia and New Zealand amid staff shortages and in order to clear post-pandemic waiting lists for hospital care (FT, 8 November 2021).

Moreover, technology advances may help to reduce trade costs further and facilitate greater cross-border flows in some goods and services.

Therefore, all things considered, we do not expect to wave goodbye to globalisation, just yet.

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