



What is behind deglobalization?

Global trade in goods has been growing more slowly than the global economy for a more than fifteen years. We show that this phenomenon, often referred to as deglobalization, is mainly due to China's economic development. A shift in global trade corridors also follows in part geopolitical tensions with China. It is interesting to note that companies in many countries have not yet made their supply chains less dependent on China and are not reshoring supply chains.

| Dr. Vincent Stamer

Is globalization being dismantled?

Globalization seems to be reversing. It is true that the volumes of goods traded continue to grow – in real terms, world trade has risen by more than 1% per year in recent years despite the COVID-pandemic. However, the world's gross domestic product (GDP) has grown significantly faster during this time. Contrary to the long-term trend, world trade as a share of the world economy has therefore been declining for several years (title chart). This share fell from its peak of 26% in 2007 to 23% in 2023. This development is particularly worrying for Germany, as one fifth of all jobs in this country are directly or indirectly dependent on the export of goods and about one third of the welfare gains of recent decades can be attributed to foreign trade. We analyze which factors contribute to this trend, how global trade flows are shifting, and how global supply chains have changed since the pandemic.

China plays a decisive role

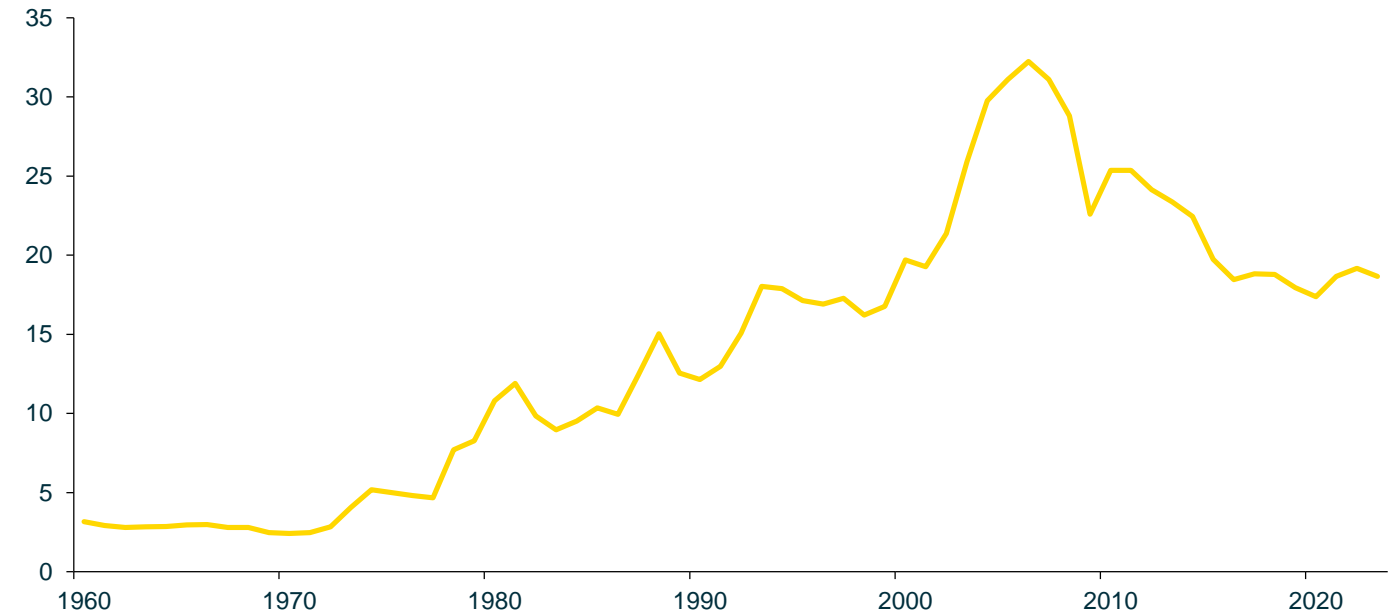
One of the main reasons for the slowdown in globalization is China's economic development. China has experienced rapid economic growth since the early 2000s, fueled primarily by exports. However, China's foreign trade share has been falling since 2007 (Chart 1):

1. China is strengthening its domestic market. Due to the increasing prosperity of the population and the political aspiration for economic independence, domestic demand for services is growing significantly faster than the demand from abroad for goods. The public sector is increasing spending on health and education, the private sector is investing in research, and private individuals are spending more money on domestic services. As a result, the service sector attracts more resources, such as labor, which are not available for the production of export goods. Consequently, exports have grown more slowly than GDP.
2. Chinese production is increasingly replacing foreign intermediate and capital goods with domestically produced goods. In 2005, around a quarter of the goods exported from China consisted of foreign value added that had previously been imported in the form of intermediate goods. This proportion has fallen to 16% within fifteen years. On the one hand, this leads to lower imports. On the other hand, the domestic production of intermediate goods also ties up resources that are no longer available for the production of final products for export.



Chart 1 - China massively increases its domestic market

Average of China's export and import share of GDP, in %



Quelle: World Bank, Commerzbank-Research

Excluding China, global trade continues to grow slowly

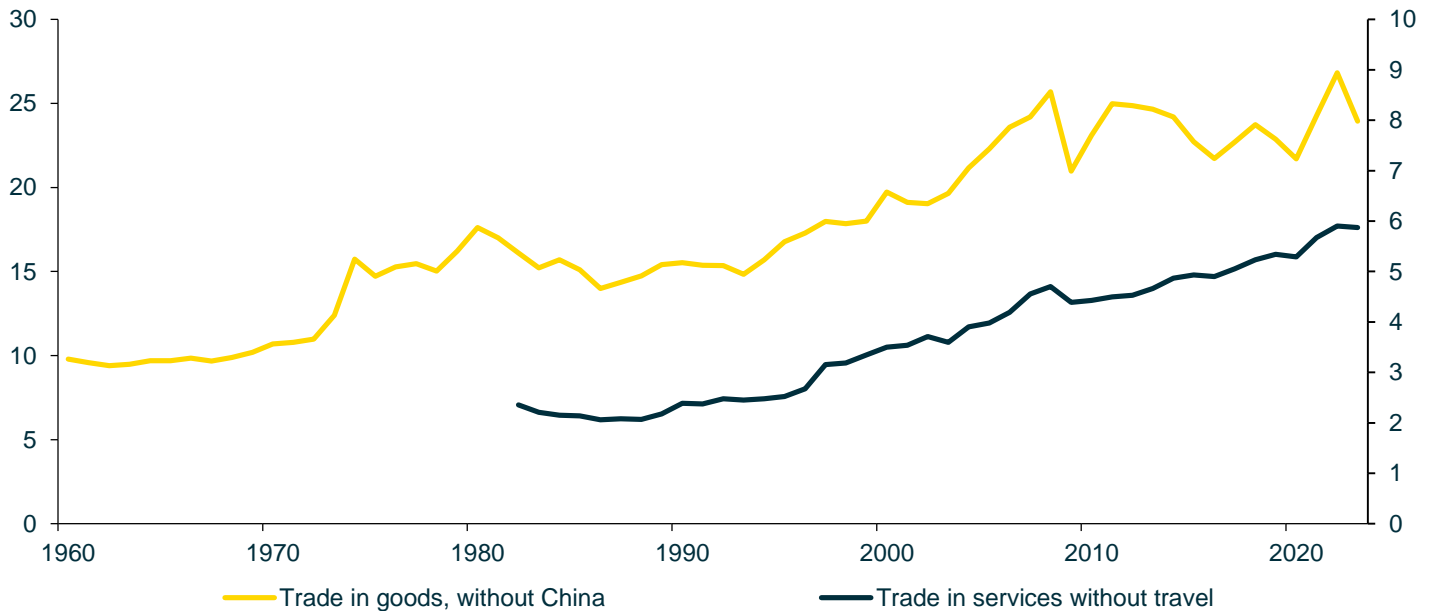
For the reasons mentioned above, China's foreign trade-to-GDP ratio has been falling since 2007. Due to the size of the Chinese economy, this is therefore also reflected at the global level. Without China, there are no longer any signs of deglobalization in the share of global trade in goods in the world economy (Chart 2). Without the China effect, the trend can therefore be more aptly characterized as a stabilization of globalization.

So far, we have concentrated on the trade of physical goods. The frequently overlooked trade in services presents a different picture. Services traded are increasing as a share of global GDP. Typically traded services include services related to IT and communication, transportation, finance and insurance. If travel services are excluded, which have been particularly hard hit by the pandemic, the growth in traded services is almost continuous. Within the last 25 years, the share of traded services in the global economy has doubled from 3% to 6%.



Chart 2 - One-of effects reduce the share of world trade

Goods trade without China and services trade without travel as a share of global GDP, in %



Quelle: World Bank, Commerzbank-Research

Geopolitical conflicts are shifting trade corridors

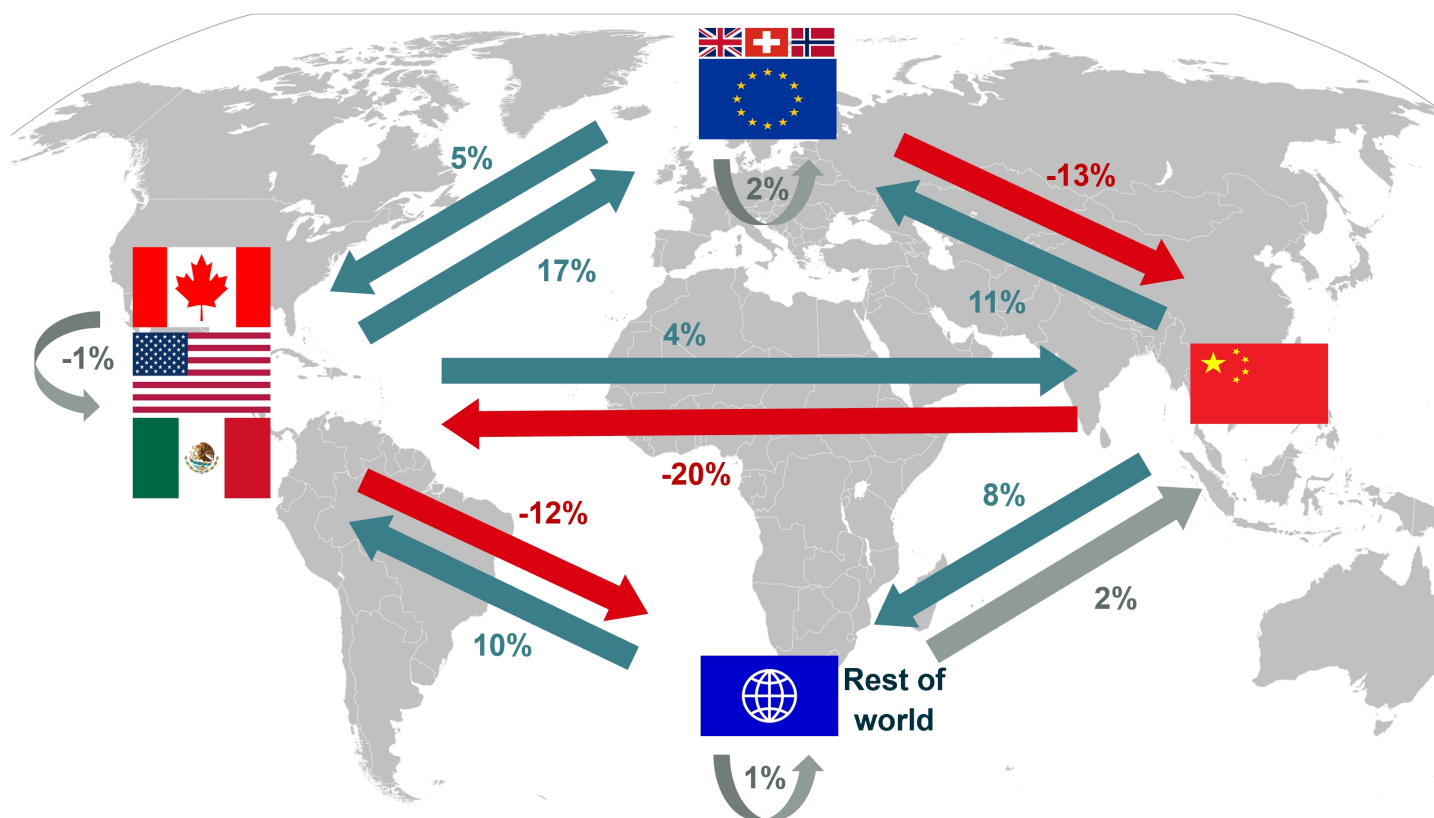
Below the global level, different developments are emerging in the trade corridors. Due to the trade war between the US and China, which Donald Trump started during his first presidency, the countries of North America imported 20% fewer goods from China last year than four years previously (Chart 3). As this trade war has not yet spread to other trading partners of China and the US, the affected trade between China and the US has shifted to other regions: The United States is importing more from the rest of the world and Europe. On the other hand, China is exporting more to Europe and the rest of the world. However, this shift in trade flows is only possible because trade conflicts have not yet broken out on other trade corridors and tariffs have not been raised. The collapse in trade between the US and China is therefore also a warning of the consequences of trade wars.

European foreign trade has also shifted significantly in recent years. While transatlantic trade in goods is flourishing, Europe's exports to China are falling significantly. On the one hand, this is due to the fact that Chinese production has become technologically more advanced and the country is increasingly producing more complex goods such as machines itself, which it used to import from Germany, for example. On the other hand, German companies are also producing more and more in China for the domestic market instead of manufacturing the goods in Germany and exporting them. This could also be an expression of political tensions, if companies opt for relocating production primarily to avoid the threat of trade barriers. We already discussed these trends in a previous [Week in Focus](#).



Chart 3 - Global trade readjusts to geopolitical tensions

Change in trade in goods from 2019 to 2023 between the blocs USA, Canada and Mexico, the EU, Switzerland, the United Kingdom and Norway and China including Hong Kong, price adjustment with the CPB world trade deflator



Quelle: UN Comtrade, Commerzbank-Research

Supply chains are still expanding and dependence on China is increasing

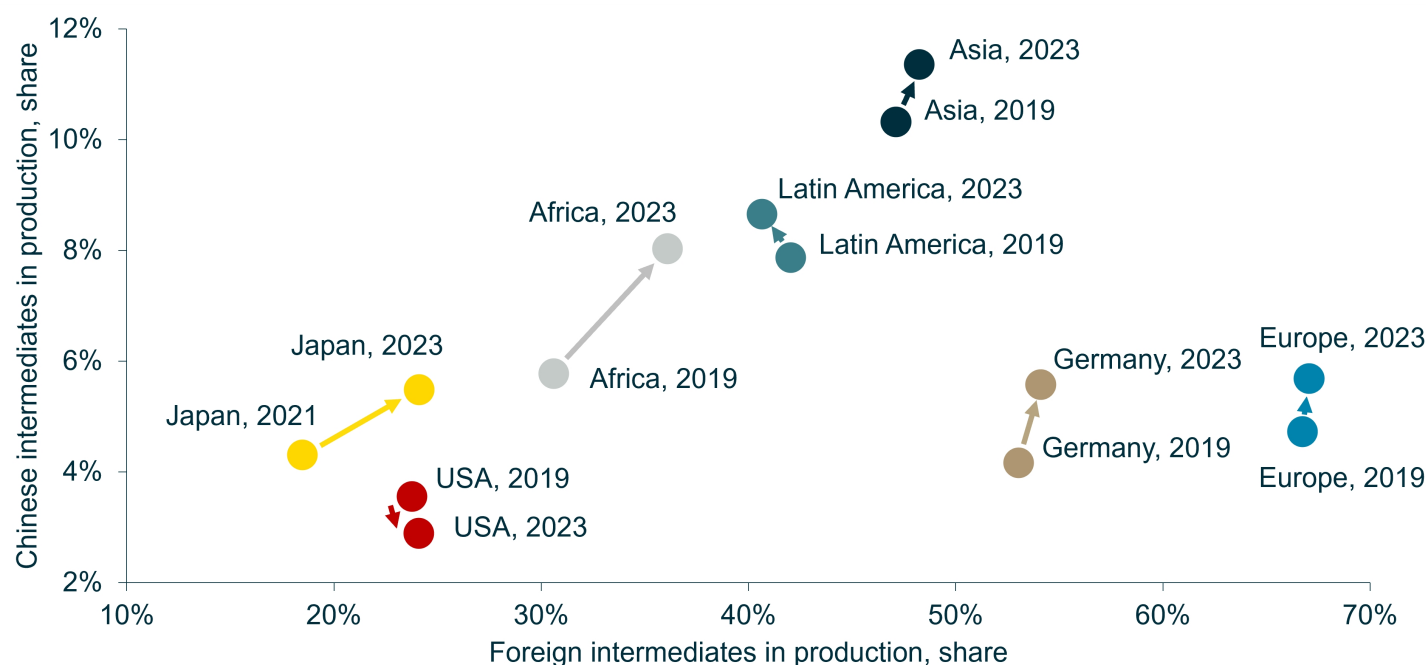
The flip side of falling European exports to China should conversely be lower imports from China. Obviously, the opposite is the case. From 2019 to 2023, European economies imported 11% more from China (Chart 3). And that's not all: dependence on Chinese inputs also appears to have increased during this period. For example, the ratio of intermediate goods imported from China to Germany in relation to Germany's production volume rose from 4% in 2019 to just under 6% in 2023 (Chart 4). This can be observed in almost all economies around the world – especially in Africa. At around 12% of production value, imports of Chinese inputs are at a particularly high level in Asia. Only the United States is making its supply chains less dependent on China in this regard.[1]

Overall, supply chains do not appear to be becoming shorter or even completely renationalized as expected following the supply bottlenecks of recent years. Germany and Europe continue to be characterized by a high proportion of foreign intermediate goods in production. This share rose again in Germany from 53% in 2019 to 54% in 2023. A similar movement (from left to right in Chart 3) towards more international supply chains can also be observed for the other regions of the world except Latin America. [2]



Chart 4 - Supply chains expand and increase their dependence from China

Share of intermediate good imports from China and the world as compared to national production, comparison between 2019 and 2023, Europe includes all countries on the geographic continent except Germany, Asia excludes China



Quelle: UN Comtrade, World Bank, Commerzbank-Research

Europe has a lot to lose

Globalization has undoubtedly lost momentum. Without the development in China, the share of world trade in global economic output remains constant. Similarly, there are no signs of a renewed surge in globalization as in the two decades prior to 2005. This means that the positive effects of globalization – such as a dampening effect on domestic prices – have already disappeared. If trade barriers continue to be erected, this could even have a price-accelerating effect. However, a second presidency under Donald Trump or aggression by China against Taiwan could enforce precisely such trade barriers.

In addition, growing global trade does not necessarily mean more exports from the EU to the rest of the world. The weak development of German exports in recent years in particular shows this. While China's role is developing from a buyer of German products to a competitor, Europe's competitiveness is eroding due to high labor costs and other inadequate location factors. At the same time, European industries are becoming more dependent on Chinese intermediate goods than they were five years ago. The EU should therefore continue to strive for free trade agreements with emerging countries such as the Mercosur states, India and Africa and diversify trade more strongly.

[1] This does not include the dependence of American production on China through the supply of raw materials. As China is the world market leader in lithium production and various rare earths in particular, the USA may nevertheless become dependent on China. ([Back to text](#))

[2] Imports of intermediate goods include intra-EU trade. It is therefore not surprising for Europe and Germany that the internationalization of supply chains is high. ([Back to text](#))



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