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China Forces Global Shift in Commerce

By DAVID WESSEL And PAULO PRADA

A decade ago, China wasn't the top trading partner for even one of the Group of 20 economies. Today, it's the biggest trading partner for six (Australia, Japan, Korea, India, Russia and South Africa), has replaced the U.S. as the top export market for a seventh (Brazil), and risen in import for the rest.

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Associated Press

A forklift arranges the shipping containers near a port in Shanghai.

"When somebody writes the history of our time 50 or 100 years from now," says Lawrence Summers, the Harvard University economist and former Obama aide, "it is unlikely to be about the Great Recession of 2008...or about the fiscal problem that America confronted in the second decade of the 21st century. It will be about how the world adjusted to the movement of the theater of history toward China."

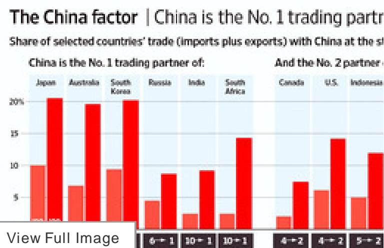
China's growth is felt in nearly every corner of the globe—in ways not always welcome. Its rise as a trading power is reshaping other economies, shifting national business models from manufacturing back to raw materials, pushing currencies in sometimes unwanted directions and prompting worries about wages in the U.S.

China, which reported a trade deficit for February in part because of the timing of the Lunar New Year, said exports for the first two months of this year ran 21.3% above year-ago levels; imports were up 36%. The U.S., meanwhile, said Thursday it ran a bigger trade deficit in January with China than with any other country. In January, at current exchange rates, China's global exports were 35% greater than U.S. exports; its global imports 14% smaller.

While China's official statistics may inflate the value of exports by underestimating the value of imported components, signposts of its trade heft are plentiful.

In Japan, the largest maker of construction equipment, Komatsu Ltd., drew 2.3% of revenue from China a decade ago; today it gets 19%. Newly hired college graduates take a two-week quickie Chinese course, replacing English classes the company used to require.

In South Africa, China now supplies half the imported clothes and more than two-thirds of the toys. In exchange, Chinese consumers enjoy oranges from Egypt, cocoa from Ghana and wine from South Africa.



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In Brazil, China's unquenchable appetite for raw materials is changing the landscape—literally. Brazil's richest man, Eike Batista, is building a $2.6 billion superport north of Rio de Janeiro for massive tankers headed for China. Brazil and Peru have nearly completed a highway to carry goods from Brazilian farms through the Amazon and over the Andes to Peru's Pacific ports.

China's trade machine shows few signs of slowing. After plunging in 2009 when global trade flows dried up during the global financial crisis, Chinese exports and imports rebounded in 2010. The flow of Chinese investment overseas and investment in China by foreign multinationals will, if history is a guide, spur still more trade between China and others.

For emerging markets, the boost to incomes that comes from selling to China is welcome, but there are worries about unwelcome side effects.

For years, Brazil and neighbors sought to reduce dependence on the U.S. by fortifying local industries and nurturing a regional market to supply each other with everything from energy to washing machines. Now a boom in exports to China is pushing Brazil away from high-value manufactures and back toward commodities. In 2000, less than 2% of Brazil's exports of goods went to China; by 2009, 12.5% did, according to the International Monetary Fund.

According to Brazilian government data, about 80% of Brazil's exports to China are agricultural and mineral commodities; about 90% of its imports from China are manufactured goods, many of them things that Brazil can't make as cheaply as China because wages are higher in Brazil. Brazilian officials argue with increasing vehemence that China is giving its exports an extra advantage by undervaluing the yuan.

And some Brazilians worry about the long-term effects. "China is an important market, but Brazil shouldn't be putting all its eggs in one basket," says Rubens Ricupero, a former Brazilian finance minister and former head of the U.N. Conference on Trade & Development.

In South Africa, under pressure from trade unions, the government last year asked China to voluntarily limit textile exports, resuming quotas that were lifted in 2008. China refused. If Chinese firms aren't selling to South Africa, it will be other countries who take our place," China's ambassador, Zhong Jianhua, said in an interview.

In Indonesia, textile, furniture and electronics manufacturers are shouting about imports from China that followed the lifting of tariffs in a regional free-trade pact. "We are totally outcompeted even though our labor is cheaper than theirs," says Sofjan Wanandi, chairman of the Indonesian Employers Association. Lousy infrastructure and high interest rates boost costs in Indonesia, he argues. "People are going out of business or

becoming importers of Chinese goods." Imports from China rose 50% last year, more than offsetting Indonesia's increased commodities exports to China.

About 30% of China's trade is with developing countries—up from less than 20% in 2000, the IMF says. But the bulk is still with developed countries.

China accounts for 25% of Australia's exports, up from 4% of just a decade ago. Demand for raw materials and the related trade surplus, a surge in the Australian dollar and increase in interest rates are twisting the economy, strengthening western mining regions while undercutting tourism and nonmining industries.

"We've got resources that the world needs. But we need to organize our affairs to take best advantage of that and overcoming issues of the bipolar economy," Roger Corbett, former chief executive of retailer Woolworths Ltd. and a member of the Australian central bank board, said recently. He advocates a tax on the mining industry, which he sees, in essence, as a tax on China.

The thorniest question is whether the rise of China and other emerging-markets is affecting wages in the U.S. The textbook view is that trade hurts some workers and helps others and on balance is a net plus.

But some economists argue that when rich countries traded mainly with other rich countries—the U.S. with Germany, for instance—they specialized, but didn't compete on wages. They say the dynamics of trade with low-wage emerging markets are different: Even some who preach the virtues of free trade suggest China's—and India's—growing weight and move to more sophisticated products may contribute to sluggish wage increases in the U.S. and a widening gap between job-market winners and losers.

"For advanced countries, more imports today are coming from middle- and low-income countries," says Matthew Slaughter of Dartmouth's Tuck School of Business, a former Bush White House adviser. "Even though these emerging trading partners are becoming richer, their wages are on average still much lower than in the U.S." U.S. wages for all but the best-educated workers—the ones immune from competition with China—are depressed, as a consequence, he says.

Other economists insist the evidence doesn't support the case that trade, as opposed to technology, is the culprit for disappointing U.S. wage growth. Harvard University's Robert Lawrence, who is writing a book on the issue, says, "The U.S. economy has become so specialized that less-skilled U.S. workers no longer compete head to head with emerging-economy workers."

—Eric Bellman, Enda Curran, Yuka Hayashi and Peter Wonacott contributed to this article.

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