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China's flood of cheap goods is angering its allies, too

Torrent of exports to the developing world is causing factories to close and killing jobs

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A deluge of cheap Chinese goods washing over the developing world is jacking up tensions between China and the Global South, complicating Beijing's plans to build alliances as it confronts escalating trade tensions with the U.S.

With President-elect Donald Trump saying he plans to significantly increase tariffs on China, Beijing is hoping to unload more of its excess factory production to developing-world countries, from Indonesia to Pakistan to Brazil.

But many of those countries are pushing back, as cut-price Chinese imports put pressure on their factories, killing jobs and blocking efforts to grow manufacturing at home. Many poorer countries have been counting on expanding manufacturing as the best way to propel their rise up the development ladder.

For China, the emerging backlash threatens to undermine its goal of being a leader of the developing world, whose support it has courted as a means of building its own alliances to counter the U.S.

Many developing countries now fear they will endure the same kind of "China Shock" that gutted U.S. industry starting a quarter-century ago. Economists estimate the U.S. lost more than two million jobs between 1999 and 2011 as makers of furniture, toys and clothes buckled under competition from Chinese imports.

A similar pattern appears to be playing out in some of China's developing-world trading partners. In Thailand, more than 1,700 factories closed from the start of 2023 through the first quarter of 2024 after Chinese exports to the country surged, according to KKP Research, part of Thai bank Kiatnakin Phatra Financial Group.

New factory openings are helping offset those closures, the bank said, but "the future outlook is likely to become more challenging."

To fight back, developing countries have implemented almost 250 trade-defense measures affecting Chinese imports since the start of 2022, including tariffs, antidumping investigations and antisubsidy probes, according to Global Trade Alert, a nonprofit based in Switzerland that supports open trade.

Brazil, a key member of the Brics group of developing economies that includes China, accounts for more than 120 of those interventions. Despite close personal ties between Brazilian President Luiz Inácio Lula da Silva and Chinese leader Xi Jinping, Brazil has raised tariffs on auto parts, telecommunications equipment and steel made in China and other countries.

In October, Indonesia banned Temu, the Chinese-origin app that shuttles cheap goods directly from Chinese factories to consumers' doors worldwide. Indonesia said the model raises risks of predatory pricing.

"If foreign products enter with prices far lower than products from our own small businesses, consumers will choose the cheaper offerings," said Prabunindya Revta Revolusi, director general of Indonesia's Communications Ministry. "Our small businesses will struggle to compete."

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China's Commerce Ministry didn't respond to requests for comment.

Trading mangoes

Some developing-world leaders have carried their frustration all the way to Beijing. In a visit to the Chinese capital in July, Bangladesh's then-Prime Minister Sheikh Hasina said she wished to create a "more equitable trade relationship" with China, which has a $22 billion annual trade surplus with Bangladesh. She got a commitment to start importing Bangladeshi mangoes, but not much more.

In September, South African President Cyril Ramaphosa made similar pleas during a Beijing visit. Chinese exports to South Africa have doubled since 2016, even as South Africa's economy has stagnated.

On the other side of the ledger, China has extended billions of dollars in loans and investment deals to the Global South. It touts these funds as evidence that China is more reliable than the U.S., whose pledges of support have at times fallen through or come with restrictions.


Much of the current discord stems from China's efforts to support its factories to keep its economy steady. BLOOMBERG

In November, Xi officially opened a vast new deep-water port in Peru built with Chinese money. Many emerging markets sell massive amounts of commodities, such as soybeans and iron ore, to China, and some have free-trade agreements with Beijing.

Developing-world countries also have many geopolitical reasons to deepen ties with China, including, in some cases, distrust of the U.S. Xi and Brazil's da Silva, whose country is among the minority that boasts a trade surplus with China, sealed their bromance in November with a bear hug after the two sides signed trade and investment deals.

These crosscurrents show how Beijing's relationships are growing more complex when China needs as many friends as it can get. Trump has said he would raise tariffs on Chinese imports to the U.S. to 60% or more. Even smaller increases could rock a Chinese economy that is struggling to recover from a real estate bust and other problems.

China could respond by letting its currency weaken, making its goods cheaper for alternative buyers. But that would likely accelerate China's shift toward selling more to developing-world nations, with its own economy too weak to buy much more of their exports, pushing trade tensions higher.

China's excess

Much of the current discord stems from China's efforts to support its factory sector to keep its economy steady. Since the real-estate bubble popped in 2021, China's leaders have been pouring money into industry, which has led to ballooning production and a surge in exports.

With the U.S. and Europe hiking tariffs to keep that excess production out, the developing world has become a logical outlet.

Since the start of 2022, the value of Chinese exports to emerging economies has risen 19%, according to International Monetary Fund data. Imports from emerging markets over the same period have risen 11%.

As a result, in the 12 months through August, China's trade surplus with emerging economies reached $384 billion, 56% bigger than in 2021.

It is a bitter pill for developing countries to swallow because many were expecting China to give up on low-end manufacturing as its economy matured. That, they hoped, would open the door for other nations to move into labor-intensive industries such as textiles and steel, accelerating their economic rise.

Instead, China has held on to big chunks of manufacturing, while doing little to stimulate consumer spending so it can absorb what it produces. China's share of global goods exports in 2023 was 15%, up 2 percentage points since 2019.

"There is a lack of opportunity for emerging economies to export those low- to mid-end products, in which they could actually be competitive," said Camille Boullenois, associate director with Rhodium Group in Brussels. "They are sort of stuck."

Brazil brouhaha

In Brazil, business leaders lay much of the blame for the country's shrinking industrial sector on China. Manufacturing, which accounted for 36% of Brazil's gross domestic product in 1985, contributed less than 11% last year.

Steel is a major bone of contention. Brazil has one of the world's largest supplies of iron ore, a key component in steel. But it is often cheaper to ship it over 10,000 miles to China and import it back as steel, rather than produce locally, causing some businesses to rethink investments in Brazil.

"What's the point of investing in a country where some 20% to 23% of steel is already imported? It's a horrible market for us," said Jefferson de Paula, head of ArcelorMittal in Brazil.

While Brazil's government doubled import tariffs recently on some steel products such as wire and cables, businesses have called for outright limits on imports.

In India, officials have raised duties on imports from China and other countries of circuit boards, industrial lasers and vinyl sheets used to make signs.

Ashish Bharat Ram, chairman of Indian chemicals company SRF, said Chinese competition isn't just an issue for the domestic market—it is also squeezing profits emerging-market firms earn abroad.

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Net profit at SRF in the six months through September was down 29% compared with the previous year, at about $76 million, in large part because the company was forced to slash prices to compete with cheap Chinese competition in Europe and other big markets, Bharat Ram said.

"This is their typical strategy of gaining market share at any price," he said.

To be sure, inexpensive Chinese imports bring considerable benefits to poorer consumers, who find in Chinese products affordable alternatives to Western-made cars and home appliances. Developing-world companies that sell products to China also create jobs.

The World Bank, in an October report, said that the gains developing countries got from China after it emerged as a global trading powerhouse outweighed downsides from Chinese competition. Between 2008 and 2019, a 1 percentage point increase in Chinese growth boosted growth in emerging and developing economies in Asia by around 0.14 percentage point.

But the bank also found the effect is shrinking, and might reverse if recent trends continue.

Cautious pushback

In Indonesia, Chinese companies have spent billions of dollars investing in natural resources, boosting Indonesia's exports of nickel and other commodities.

But for smaller businesses such as Pt. GMS, a family-owned toy maker in the city of Surabaya, Chinese competition is making it hard to survive. Chinese toy exports to the country doubled from just under $400 million in 2018 to around $850 million in 2023.

"It's like they're burning money to make the sales cheap," said Winata Riangsaputra, the company's director.

Riangsaputra said the decades-old factory is cutting staff and turning to lower-value products requiring fewer workers, such as paper puzzles, where he can save on costs by buying raw materials locally.

Other groups have called for tougher trade action against China, including the Indonesian Ceramic Industry Association, which says more than six Indonesian ceramics factories have closed because of cheap Chinese plates and bowls.

But retaliating can be dangerous, some locals say, given Indonesia's commodity exports to China.

In a speech in July, Indonesia's trade minister at the time, Zulkifli Hasan, said the country was being flooded with products as Chinese exporters struggled with overcapacity. Hasan said he would soon finalize tariffs of up to 200% on products such as textiles and ceramics to protect local industry.

Days later, another Indonesian minister clarified that any tariffs wouldn't target China specifically. At a press conference, a spokesman for China's Foreign Ministry referenced the debate and warned that Beijing would "take necessary measures to safeguard the legitimate rights and interests of Chinese companies."

The tariffs were never implemented. Indonesia's trade ministry didn't respond to requests for comment.

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