Ashmore

EM trade patterns after two years of Trump

By Jan Dehn

This report is an update of a 2017 report on intra-EM trade patterns.[1] The 2017 report relied on data up to 2016. This report adds two more years of data and therefore covers the first two years of the administration of United States (US) President Donald Trump. This period was characterised by growing US protectionist rhetoric, which soon morphed into the US withdrawal from the Trans-Pacific Partnership, the dissolution of NAFTA and, by mid-2018, the start of the US trade war with China.

The data shows that Trump's protectionism has generally been positive for trade patterns in Emerging Markets (EM). Intra-EM trade has expanded at a sizzling pace of 33% in just two years.[2] There is also evidence that some EM regions, notably Emerging Europe and Latin America, have benefitted from diversion of US-China trade.

The continuing past pace of growth in intra-EM trade and more diverse trade should be viewed very positively by investors. After all, the linkages between international trade and long-term economic prosperity are well-established in both theory and empirical fact.

Recent changes in the EM trade landscape

Intra-EM trade surged by a whopping 33% in Dollar-terms in the first two years of the Trump presidency

EM's share of global trade has increased by 2% in just two years, while developed markets' share of global trade is down by the same amount (Figure 1). The increase in EM's share of global trade has taken place in spite of a 2% decline in EM trade with developed economies. This reflects a sharp rise in intra-EM trade, which is now by far the fastest growing segment of global trade. In the period 2016 to 2018, coinciding with the first two years of the presidency of Donald Trump, intra-EM trade surged by a whopping 33% in Dollar-terms. This compares to 27% growth for EM trade overall and 19% growth in trade in developed economies.[3]

Fig 1: **Trends in global trade (selected years from 1990 to 2018)**

	USD (billion)					
World trade	**1990**	**2000**	**2010**	**2016**	**2018**	**% change**
Intra-EM trade	**323**	**810**	**4,460**	**5,015**	**6,672**	**33%**
% of EM trade	*25%*	*27%*	*40%*	*42%*	*44%*	*2%*
EM trade with DMs	**965**	**2223**	**6736**	**7056**	**8630**	**22%**
% of EM trade	*75%*	*73%*	*60%*	*58%*	*56%*	*-2%*
Total EM trade	**1,288**	**3,033**	**11,195**	**12,071**	**15,302**	**27%**
% of global trade	*19%*	*23%*	*37%*	*38%*	*39%*	*2%*
Global trade	**6,883**	**12,976**	**30,541**	**31,912**	**38,863**	**22%**
DM trade	**5,596**	**9,943**	**19,346**	**19,841**	**23,561**	**19%**
% of global trade	*81%*	*77%*	*63%*	*62%*	*61%*	*-2%*

Source: Ashmore, IMF.

1 See: *'Intra-EM trade'*, The Emerging View, 6 September 2017.
2 All the data in this report comes from IMF's Direction of Trade Statistics (DOTS). The data is annual and covers the period from 1990 up the end of 2018. The data is reported in US dollars. The data can be found here: https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85
3 Throughout the report and across all countries, trade is defined as the sum of imports and exports.

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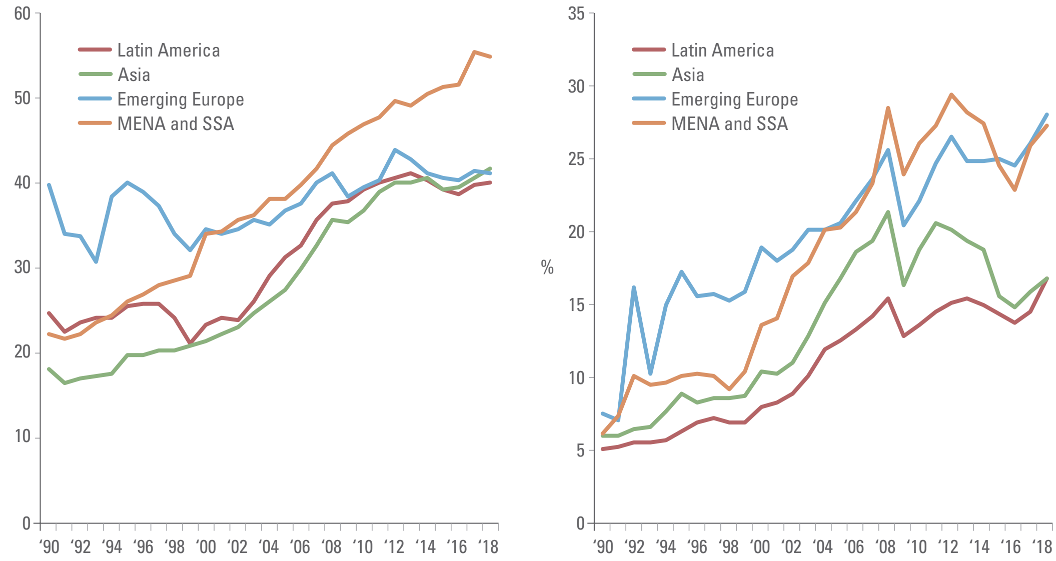
Broad-based growth in intra-EM trade

All regions of EM are trading more with each other. Figures 2a and 2b show how intra-EM trade has grown as a share of each region's total trade and each region's GDP since 1990, respectively. The dip in intra-EM trade observed around the time of the Taper Tantrum is over and intra-EM trade has picked up significantly in the last two years, despite US protectionism.

Fig 2a and 2b: **Trends in intra-EM trade by EM region (% of regional trade)**



Source: Ashmore, IMF.

Trade between EM regions is now greater than intra-regional trade

Intra-EM trade breaks down into trade between EM regions ('cross-regional trade') and trade within EM regions ('intra-regional trade'). On average, 52% of all intra-EM trade is now cross-regional, while the rest (48%) is intra-regional (Figure 3). Gravity effects likely contribute significantly to the high share of intra-regional trade, which is also observed in developed countries.

Within EM, cross-regional trade overtook intra-regional trade ten years ago and now makes up the majority of all EM to EM trade

Fig 3: **Intra-intra EM trade and EM trade with other EM regions**

EM Region	Region's trade with:		Inter-regional EM trade (as % of all intra-EM trade)
	Itself	Other EM regions	
Asia	1,691	1,524	47%
Emerging Europe	608	478	44%
MENA and SSA	555	938	63%
Latin America	340	539	61%
Total	3,193	3,478	52%

Source: Ashmore, IMF. Data as at 31 December 2018.

Yet, interestingly, cross-regional trade is growing steadily. As recently as the early 1990s, nearly 65% of all EM trade was purely of the intra-regional variety. This is patently no longer the case. Cross-regional trade overtook intra-regional trade ten years ago and now makes up the majority (52%) of intra-EM trade. The trend is shown in Figure 4.

The implications of rising cross-regional trade are ambiguous. On the one hand, if a problem arises in an important country within a particular region then the other countries in that region could be severely affected if trade is predominantly intra-regional. On the other hand, if trade is cross-regional then other regions of EM could also be impacted. Relatively high levels of

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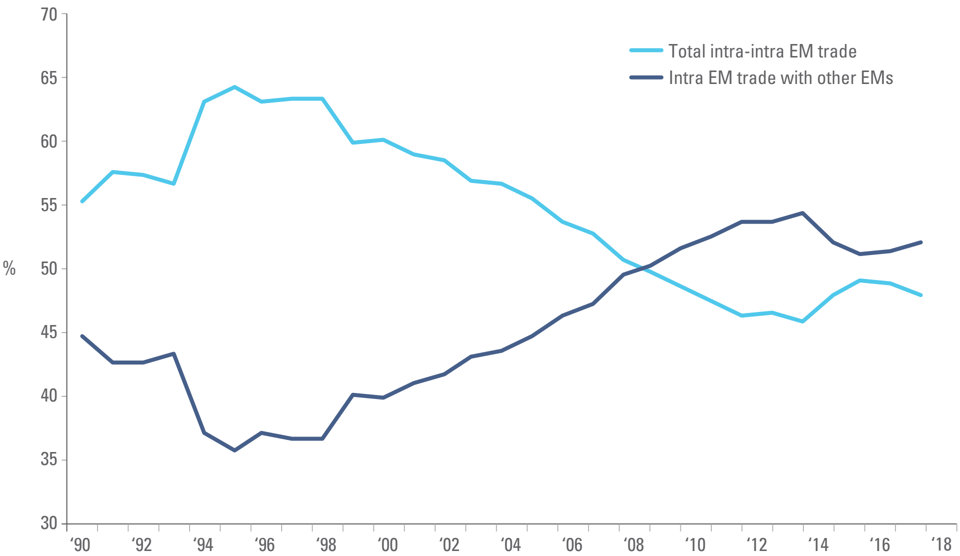
intra-regional trade probably explain why Asia has been disproportionately impacted by Coronavirus compared to Emerging Europe, Middle East and Africa and Latin America. Balancing the pros and cons of intra-regional versus cross-regional EM trade, we strongly believe the trend towards greater diversification of trade links across regions to be highly advantageous, despite the greater potential for cross-regional fallout from regional shocks, such as Coronavirus. After all, shocks such as Coronavirus tend to be transitory, but benefits of broader trade ties are permanent.

The trend towards greater diversification of trade links within EM is highly advantageous despite the potential for fallout across EM regions from shocks such as Coronavirus

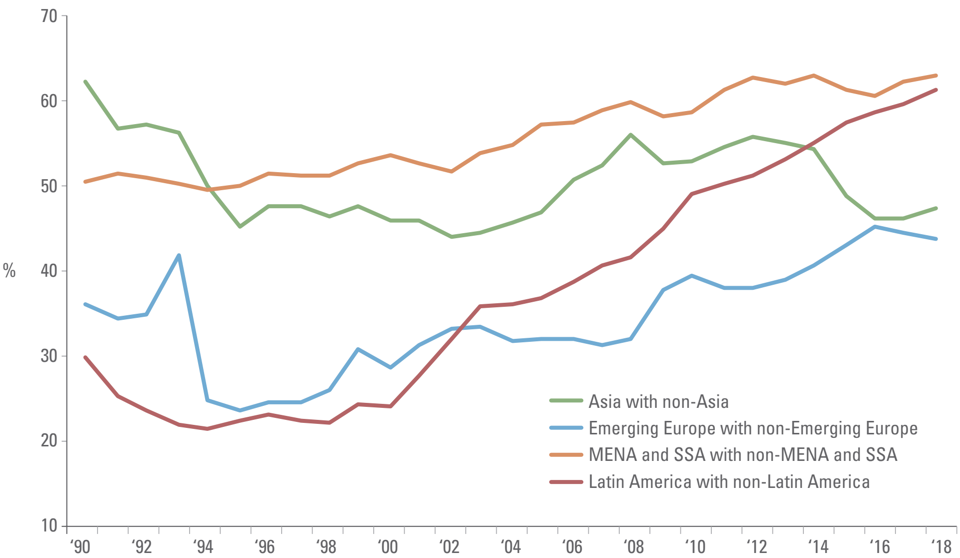
Fig 4: **Trade between EM regions now surpasses trade within EM regions**



Source: Ashmore, IMF.

It is therefore also positive, in our view, that the tendency for more cross-regional trade in EM is broad-based. This is evident in Figure 5, which shows the evolution of cross-regional trade across EM, expressed as a share of total intra-EM trade. Since the early 1990s, trade across EM regions has gone up in Emerging Europe, Middle East & North Africa and Sub-Saharan Africa as well as Latin America. The only exception is Asia, where the share of cross-EM trade has gone down from 62% in 1990 to 47% in 2018.

Fig 5: **Trends in trade between EM regions**

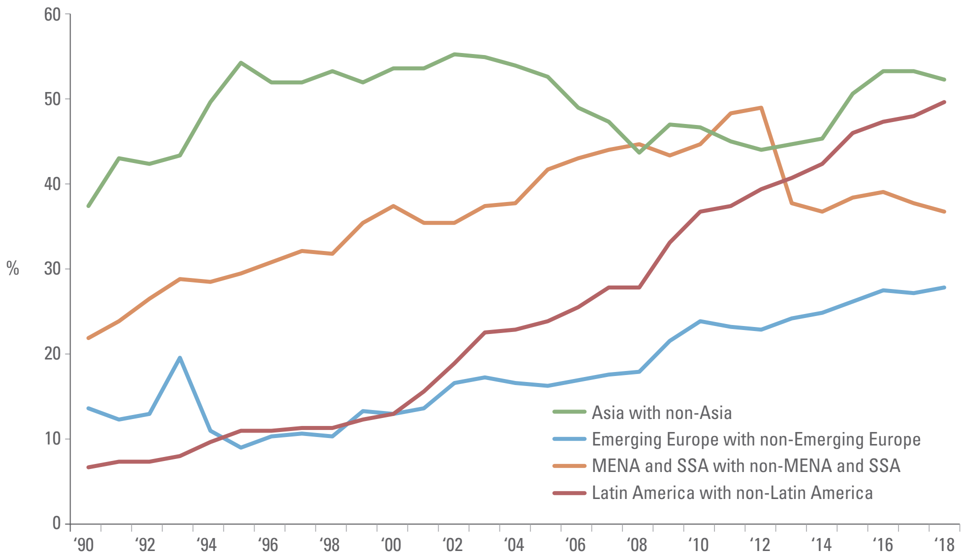


Source: Ashmore, IMF.

The decline in cross-regional Asian trade does not imply that Asia has de-linked from the rest EM. Rather, it just reflects the enormous size of the Asian markets. The real insight is that everyone is trading more with Asia, including Asia itself. Latin America and Asia now trade 50% or more of their total EM trade with Asia, but the percentages have also gone up in Emerging Europe and MENA/SSA (Figure 6).

Everyone is trading more with Asia, including Asia itself!

Fig 6: **Trade with Asia by EM region (% of EM trade)**

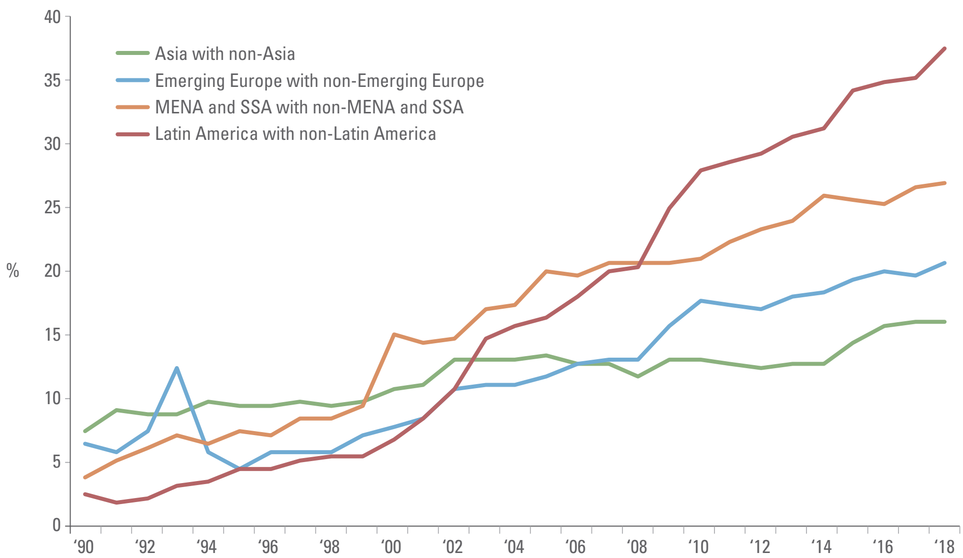


Source: Ashmore, IMF.

Why has Asia's share of cross-EM trade gone up so much? Unsurprisingly, China is a big part of the answer. Figure 7 shows China's share of EM trade by region. Since 1990, trade with China has increased from less than 10% of total EM trade to between 15% and 38% as of 2018. The expansion has been particularly rapid in Latin America and MENA/SSA. Interestingly, the size of the China trade did not decline in the aftermath of the halving of commodity prices in 2014. Clearly, China trade – and EM trade more generally – is no longer just a commodity story.

China trade has not declined in the aftermath of the halving of commodity prices in 2014; China trade is much more than a commodity story

Fig 7: **Trade with China as % of total trade with EM only (by EM region)**



Source: Ashmore, IMF.

In addition to carving out a bigger share of intra-EM trade, China has also managed to increase its share of total EM trade, i.e. including trade with developed economies. Figure 8 illustrates this point. China trade as a percentage of all trade in EM has gone up from around 2% in 1990 to about 15% in Latin America and MENA/SSA and about 6-8% in Emerging Europe and Asia.

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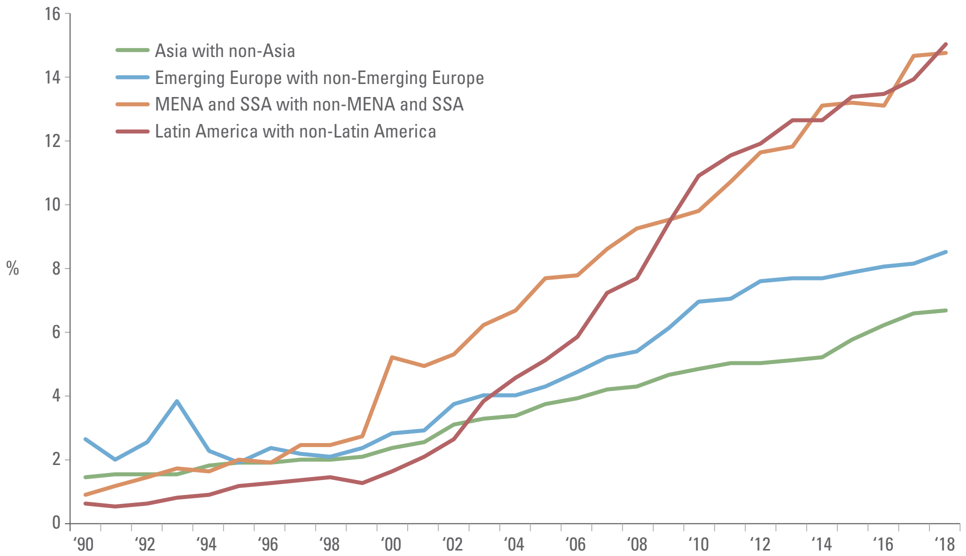
Fig 8: **China rising share of total EM trade (including EM trade with developed countries)**



Source: Ashmore, IMF.

Should investors be concerned about the rise in Chinese trade? No! They should rejoice

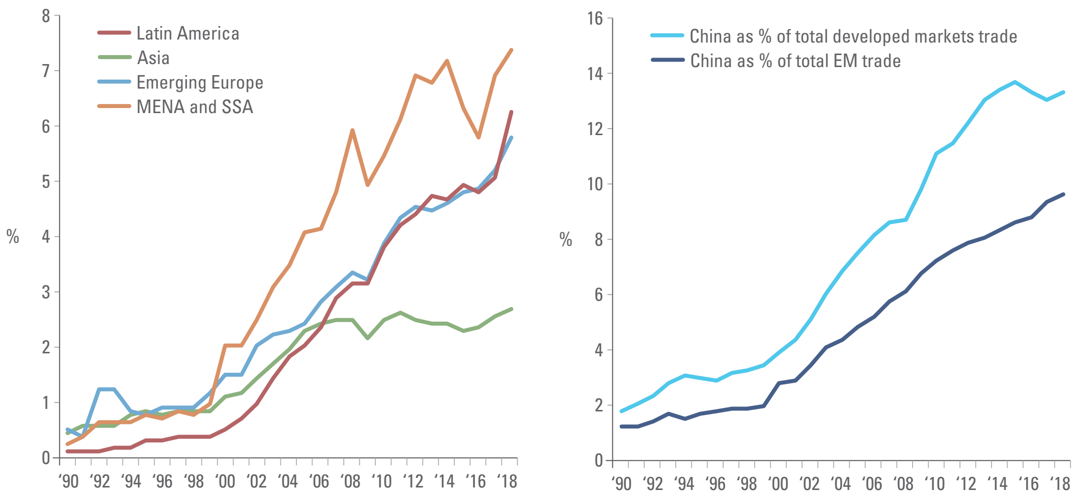
Should investors be concerned about the rise in Chinese trade? Our view is that they should rejoice. No country in world history has ever developed as quickly as China. China trades with and invests more in EM countries than developed economies ever did. China also interacts with EM countries in a far more civilised way than Western economies ever did.[4] China's constant focus on economic reforms and market liberalisation ensure that it will continue to be a reliable economic tailwind for EM economies, whereas populism and excessive reliance on short term stimulus in preference to fundamental reforms in developed economies raises questions about the sustainability of their expansions, in our opinion.

It is also important to bear in mind that despite the rapid growth of trade with China in the last two decades, China trade still only makes up a relatively modest part of GDP in all four major regions of EM as shown in Figure 9a. Trade with China measures just over 7% of GDP in MENA/SSA and 3% of GDP in Asia, although this percentage rises to 9% of GDP when China is omitted from Asian GDP. Trade with China makes up 6% of GDP in both Emerging Europe and Latin America.

Emerging Europe, Latin America and Asia ex-China increased trade with China in the past two years, possibly a diversion of US-China trade

Interestingly, Emerging Europe, Latin America and Asia ex-China have increased their trade with China over the past two years. This may be a result of a diversion of trade from both China and the United States as a result of Trump's trade war. Finally, we note that EM trades less with China than developed countries as shown in Figure 9b.

Fig 9a and 9b: **China trade as a % of GDP and as a % of total trade**



Source: Ashmore, IMF.

[4] In this context, we are remembering the long history of slavery, colonialism and sponsorship of EM dictatorships during the Cold War period by the West.

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Conclusion

More than four tenths of all EM trade is now with other EM countries compared to just a quarter in the early 1990s. Within overall intra-EM trade, more than half now crosses different regions of EM, up from a third in the early 1990s.

The growing regional diversification of EM trade is a clear positive, in our view. For one, it reduces the historical dependence on trade ties with developed economies, where economic policies continue to deteriorate. Moreover, in our view, since EM economies are likely to grow faster than developed economies in the coming years, EM countries can look forward to growing even faster if they trade more with each other.

The rise in trade with China is also a positive. As China shifts to consumption-led growth her domestic markets become more and more attractive for EM's exporters. Some of the recent expansion in EM trade with China probably reflects diversion of US-China trade due to Trump's trade war. After all, trade imbalances are determined by aggregate demand and supply, not tariffs. Hence, US tariffs on China and Chinese retaliatory tariffs will have shifted trade somewhere else, probably to non-China EM.

Contact

Head office

Ashmore Investment Management Limited
61 Aldwych, London
WC2B 4AE

T: +44 (0)20 3077 6000

@AshmoreEM

www.ashmoregroup.com

Bogota
T: +57 1 316 2070

Dubai
T: +971 440 195 86

Dublin
T: +353 1588 1300

Jakarta
T: +6221 2953 9000

Mumbai
T: +9122 6269 0000

New York
T: +1 212 661 0061

Riyadh
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