China at the heart of Asian value chains

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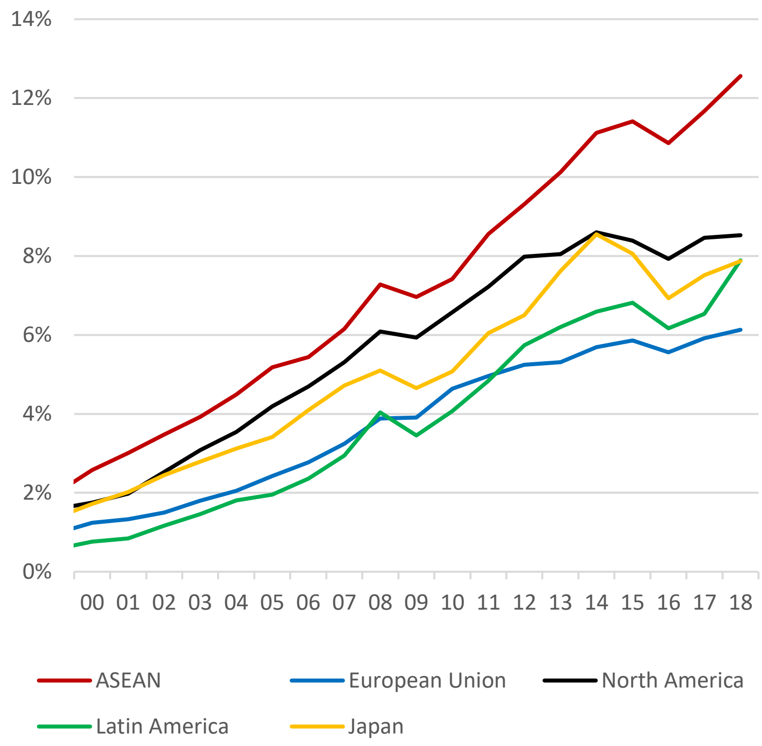
The Covid crisis has strengthened China's central role in global value chains. However, the rise in its position in these chains dates back to before the pandemic. It has become particularly closely integrated with ASEAN members, which import a growing share of intermediate goods from China.

Chart 1: China is building new dependencies on its products, especially in ASEAN countries



Source: OECD Trade in Value Added (TiVA) database.
Note: Share of Chinese value added in final demand, manufacturing industry.

China's rise in global value chains – a long-term trend

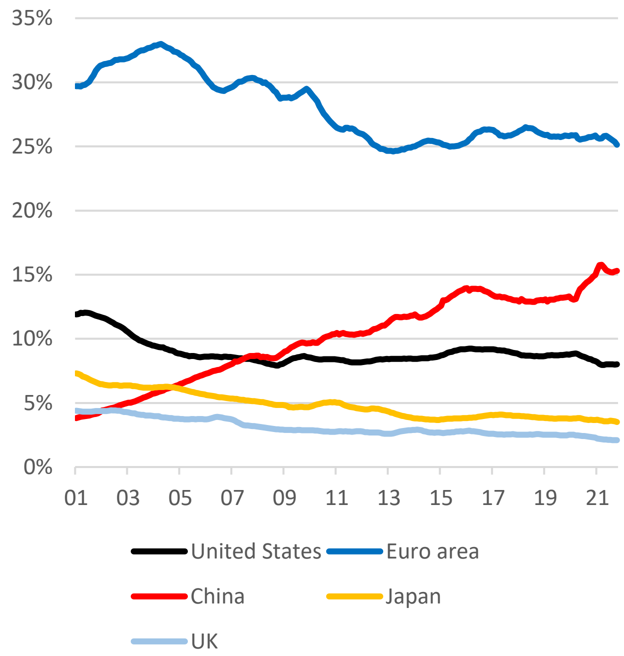
China's share in global exports more than doubled after it joined the World Trade Organisation (WTO) in 2001, reaching 13% (in value terms) in 2015. However, it subsequently reached a plateau and remained at this level until the start of the Covid crisis. Unit labour costs doubled in China between 2010 and 2017, which affected low value-added and/or labour-intensive activities such as textiles or furniture manufacture. To illustrate, Chinese textile industry exports declined in value between 2014 and 2019, suggesting that these sectors relocated their production to other countries. The phenomenon was amplified by domestic Chinese policies to limit overcapacity.

Nonetheless, the stagnation – at the aggregate level – in China's global trade share in the years leading up to the Covid crisis masks an increase in its number of trading partners, and strong disparities across regions. In Asia, China became the leading source of imports for 70% of countries in the region, and the leading export destination for 50% of countries.

It also became more closely integrated into value chains by exporting the intermediate goods used in other countries' production processes. According to the UNCTAD-Eora global value chain database, China accounted for a negligible share of the foreign value added embedded in global exports in 1990, but by 2019 this had risen to 20%, placing it just ahead of the European Union.

During the public health crisis, China's dominant role in the global supply of certain goods, especially electronic equipment, and its ability to maintain production despite the lockdowns, strengthened its role in global trade. Its share of global trade flows increased to 15% in value terms in 2021 (Chart 2).

Chart 2: The Covid crisis has strengthened China's share of global trade



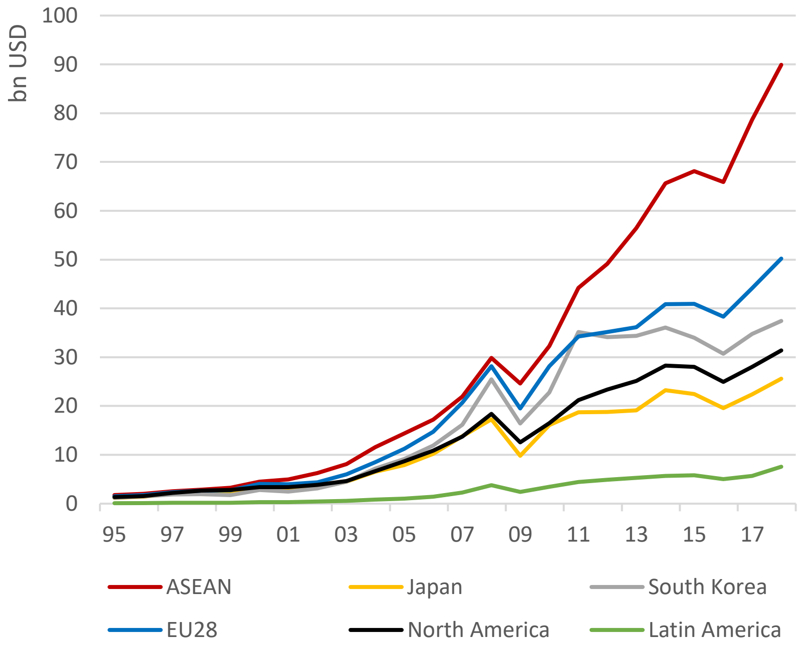
Source: IMF Direction of Trade Statistics (DOTS) data.
Note: Share of global exports, 12-month moving average.

Increasing integration with ASEAN countries

With the exception of the trade tensions with the United States, China has introduced reforms aimed at reducing tariffs and trade barriers with partner countries, especially in Asia. China's average weighted customs duty rate has declined steadily over the past decade, including after the start of the United States-China trade conflict.

Since 2010, the average customs duty rate on Chinese goods sold in ASEAN has fallen dramatically from 12.8% to 0.6%, while China has almost removed all duties on ASEAN goods sold in China, with the average rate dropping from 9.8% to 0.1%. Around 90% of all goods traded between China and the ASEAN+6 group (ASEAN countries plus China, Japan, South Korea, Australia, New Zealand and India) are subject to zero tariffs. This has helped to transform supply chains in the region. Excluding the products directly exported from China, ASEAN is the main platform for the transit of Chinese intermediate goods to the rest of the world (Chart 3). Some of the region's exporting sectors, for example textile manufacturing, are particularly reliant on Chinese inputs (Chart 4). This is especially true of countries such as Singapore and Vietnam. In total, China's share of ASEAN countries' global trade flows rose from less than 5% in 2000 to 16% in 2015, and has since continued to expand, reaching 20% in 2021.

Chart 3: ASEAN has become the main transit platform for Chinese intermediate goods

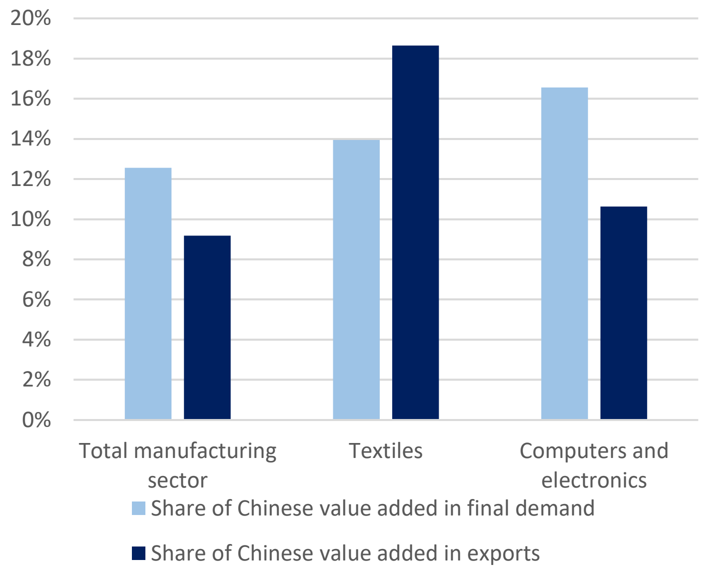


Source: OECD TiVA database.
Note: Chinese value added in total exports, manufacturing industry.

But in addition to this integration via the re-export of Chinese goods to the rest of the world, China has also become the leading foreign supplier of value added in ASEAN countries' final demand. In 2018, 12.6% of the value added embedded in the manufactured goods consumed in ASEAN had been produced in China, compared with 1.1% in 1995 (Chart 1). The share is particularly high in certain sectors such as textiles and electronic equipment (Chart 4). This strong rise has come at the expense of other countries that were traditionally suppliers of value added to ASEAN. For example, the European Union was the source of 4% of final demand in ASEAN countries in 2018, compared with 8% in 1995.

ASEAN is also the region with the highest share of Chinese value added in its final demand (Chart 1). In Japan, the United States and the EU, China's share of value added in final demand is between 2% and 3%.

Chart 4: ASEAN: very strong dependencies on Chinese products for final demand and exports



Source: OECD TiVA database.
Note: Share of Chinese value added in final demand and exports by sector, ASEAN.

Moreover, the strategic policies adopted by Beijing are expected to amplify these trends. The Regional Comprehensive Economic Partnership (RCEP) signed in November 2020 demonstrates China's commitment to deepening its regional integration. The agreement brings together the 15 largest economies in the Asia-Pacific region (with the exception of India), and creates the second-largest trade area in the world, accounting for 28% of global trade. In addition to tariff reductions on trade flows between members, the partnership also offers a new framework to encourage closer economic and financial ties in the Asia-Pacific (rules on origin, facilitation of investments, protection of intellectual copyright, etc.).

A realisation of the risks linked to trade dependency on China

The trade war between the United States and China, followed by the Covid-19 pandemic, have increased awareness of the risks associated with an over-concentration of global supplies, especially from China. This has prompted some countries to launch action plans to reduce their reliance on China (e.g. Taiwan and Japan). In addition, whereas most countries are opening up to a "post-Covid" era, China is continuing to deploy very restrictive measures to tackle the pandemic. This policy, combined with the structural deceleration of the Chinese economy, could undermine China's role as the cornerstone of global value chains. In the immediate term, it is leading to the global dissemination of China's domestic disruption.