

CHINA'S EVOLVING ROLE IN GLOBAL AND REGIONAL SUPPLY CHAINS

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Executive Summary

1. China's role in the global and regional supply chains has continued to evolve despite its status as a hub from which global trade networks are formed.
2. It has developed comparative advantages in electrical industries (such as telecommunications equipment) and the precision machinery industry, particularly at the intermediate stage of production.
3. Chinese manufacturers are also now performing more supply chain activities within the country and moving into higher value-added production.
4. China's efforts to promote industrial upgrading have accelerated the exports of capital machinery goods and reduced the country's reliance on imported inputs (for instance, technological-intensive intermediate goods) for production and export. In the process, its trade with East Asia has also experienced notable shifts and changes.
5. One such notable shift is the composition of trade and industries. The intra-industry index for parts and components of information and communication technology (ICT) had declined from 0.51 in 2003 to 0.47 in 2016, suggesting that structural changes did take place in China's intermediate goods trade with East Asia.
6. Despite China's evolving role in the regional supply chain, it has remained highly integrated with the East Asian economies via intra-regional trade and investment, particularly in ICT products. However, it is still a net importer of certain electronic components like semiconductor devices and increasingly upgrading its indigenous semiconductor production capacity.
7. China's "Made in China 2025" initiative, which aims to raise the domestic content of products and alleviate import dependence by strengthening China's manufacturing capabilities in industries such as key materials and semiconductor, will impact future regional supply chain.

8. China's drive towards a knowledge-driven and high value-added economy has important implications for East Asia's production and trade network. Regional countries would need to find new niches and upgrade their manufacturing capabilities in order to thrive in this shifting competitive landscape.