

**GLOBAL SUPPLY CHAINS (II):
IS A CHINA-CENTRIC ASIAN
PRODUCTION NETWORK
STILL IN EXISTENCE?**

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EAI Background Brief No. 1756

Executive Summary

1. Supply chain shocks from the COVID-19 pandemic and geopolitical tensions, particularly the US-China trade war, have heightened worldwide concerns about the over-reliance of supply chains on China. In response, the United States is pursuing policies of “friend shoring” or “near shoring” or reshoring.
2. The deterioration in US-China trade relations has far-reaching implications for economies around the world given the integrated nature of global supply chains. China’s share in US imports fell from 21.9% in 2017 to 17.1% in 2022, especially for advanced technology products like electronics and semiconductors.
3. The question is whether China still plays an integral role in the global supply chains, given that the United States’ direct economic engagement with China through trade and foreign direct investment (FDI) has been declining since 2017.
4. While there has been some direct decoupling of US supply chains from China, the United States nonetheless remains indirectly linked to China considering the strong trade links between China and third countries such as Vietnam.
5. Evidence suggests that China continues to play a significant role in global production network. Countries that have benefitted from rapid export growth to the United States from 2018 to 2022 are deeply engaged in supply chains with China via intra-industry trade (IIT), particularly in information and communications technology (ICT) products.
6. The computed Grubel-Lloyd or IIT index shows that China is most integrated with Taiwan in ICT intermediate products such as the related parts of computers, mobile phones and electronics. Vietnam also had intense intra-industry trade with China in various types of electrical and electronics equipment, which corresponds with higher US market share of imports from Vietnam in these categories.

7. The index indicates that China remains highly integrated with East Asia despite declining from 0.61 in 2017 to 0.56 in 2022. This suggests a shift of activities away from China's intermediate goods trade with the region; the IIT index has broadly remained stable around 0.56 in 2002 and 2022. Anything more than 0.33 for the index (which varies between zero and 1) suggests higher intra-industry trade.
8. This supports IMF findings that the shift away from China may not have reduced US dependence on China. The decoupling in trade between the two superpowers may have obscured the indirect linkages between the two through the industrial supply chains of their partners.
9. China's outbound FDI in Vietnam and Mexico have nearly tripled and grown fivefold respectively in the 2017 – 2022 period, implying that United States may *de facto* remain dependent on China through third countries such as Vietnam and Mexico.
10. The upshot is that rather than deglobalisation, the global supply chain may become more fragmented with reallocation of trade and FDI flows across economies but with China still occupying a pivotal role.