

Box 2.4:**Where Do China and ASEAN Stand in the Ongoing Trade Reconfiguration?**

China has managed to maintain its position as a global trade hub despite its trade conflict with the United States (US). Uncertainties arising from the trade tensions and concerns about supply chain security post-pandemic have raised questions about trade relocating outside China, potentially diminishing its leading role in global trade. In aggregate, China's share of global exports ceased its upward trajectory around 2015 and then stabilized, with a temporary reversal in 2020.

A detailed analysis of sectors by Zhao and Ho (2023) at the HS 4-digit level reveals a decline in China's export shares in certain, mainly labor-intensive sectors such as clothing and footwear. Among its medium- to large-sized sectors, about 30 percent experienced a decrease in their global export share from 2015 to 2022, accounting for about 26 percent of China's total exports.¹ The global export share in the top half of these "declining" sectors fell from 39 percent in 2015 to 29 percent in 2022 (Figure 2.4.1, left panel). The decline coincided with China's industrial upgrading strategy and deliberate offshoring efforts to address rising costs.

Nevertheless, China continues to gain advantage in a majority of industries. In about 70 percent of medium- to large-sized sectors, which contribute to more than half of China's total exports, China's global export shares increased from 2015 to 2022. The global export share in the top half of these "ascendant" sectors surged from 18 percent in 2015 to nearly 29 percent in 2022 (Figure 2.4.1, right panel). A significant portion of these are medium- or high-skill and technology-intensive industries, aligning with China's economic development and policy direction.

The significance of the US as a major trade partner to China has been impacted by the ongoing trade conflict. Following the tariff hikes in 2018, bilateral trade between the world's two biggest economies experienced a reduction in absolute value terms, with

a temporary reversal during the pandemic period. The share of China's exports to the US as a percentage of its total exports declined to 16.7 percent in 2019 from 19.3 percent in 2018. Despite a slight rebound in 2020, the importance of the US as a destination for China's exports continued to diminish in 2021 and 2022 (Figure 2.4.2). Moreover, the US contribution to China's total export growth in 2022 was only 0.1 percentage point (out of the 7 percent overall growth), a significant contrast to the period prior to 2018. China's imports from the US exhibited a similar performance (Zhao 2024). Although China's export shares to the US in China's declining sectors remained relatively stable, growth of its exports to the US in its ascendant sectors—where China is gaining global market shares—has been slower relative to exports to other trade partners.

ASEAN economies, with Vietnam at the forefront, have gained global market shares and attracted foreign direct investment (FDI) amid the ongoing trade reconfiguration. In sectors where China's global export shares have fallen, ASEAN has partially substituted for China's losses—though to a lesser extent than the European Union. Vietnam, in particular, has benefited not only from the rise in export share in China's declining sectors, but also achieved modest gains in its ascending sectors (Figure 2.4.3). This trend is underscored by substantial and growing FDI inflows. Vietnam has become a preferred destination for FDI from economies such as Korea, Singapore, Japan, and China, due to its cost-competitive and abundant workforce, growing domestic market, and stable political environment, among other factors. The country's increasing appeal as a favorable alternative manufacturing location has occurred together with widespread adoption of the "Plus One" strategy by manufacturers. As a result, the US has been increasing its investments in Vietnam, particularly in high-tech sectors (del Rosario and Zhao 2023). Meanwhile, China has extended its FDI flows to Vietnam toward more advanced sectors such as electronics, semiconductors, and energy storage (batteries).

This box was written by Hongyan Zhao, and is largely based on Zhao and Ho (2023).

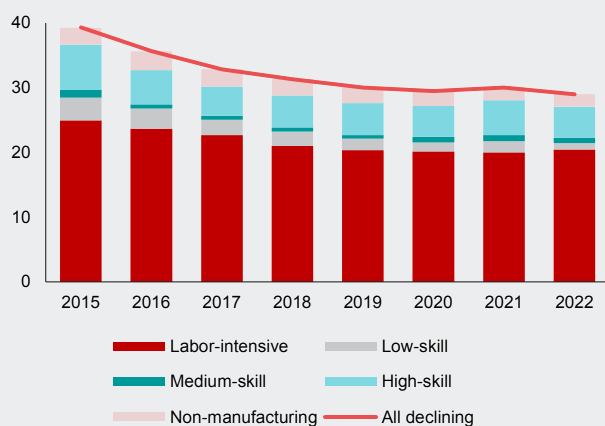
¹ The medium- or large-sized sectors refer to those with export shares exceeding the average share of each sector in China's total exports. At the HS 4-digit level, there are more than 1,000 sectors. The average share is about 0.08 percent, with 226 sectors at the HS 4-digit level exceeding this threshold.

Despite navigating trade reconfiguration relatively well so far, ASEAN economies face limitations in increasing their domestic value added in trade. China and ASEAN have enhanced their participation in global value chains (GVCs), leading to a rise in their shares of global exports and global domestic value-added. However, although domestic value-added in ASEAN has grown over the years, its proportion to ASEAN’s gross exports is considerably lower than that in China, at about 60 percent compared to China’s 80 percent over 1995–2020.

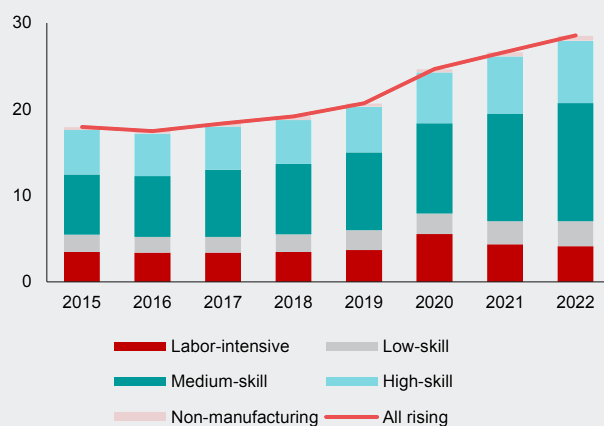
Among ASEAN economies, Vietnam’s figure is even lower and continues to decrease (from 68 percent in 1995 to 45 percent in 2020). This is due to the slower growth in domestic value-added than for gross exports, indicating limited spillovers from international trade to domestic production. Cultivating a robust domestic industrial ecosystem will be crucial to incorporate more stages of production within the economy and capture greater value-added along GVCs (Zhao and Ho 2024).

Figure 2.4.1. China: Share of Global Exports, by Sector
(Percent of global exports of sectors)

Declining Sectors

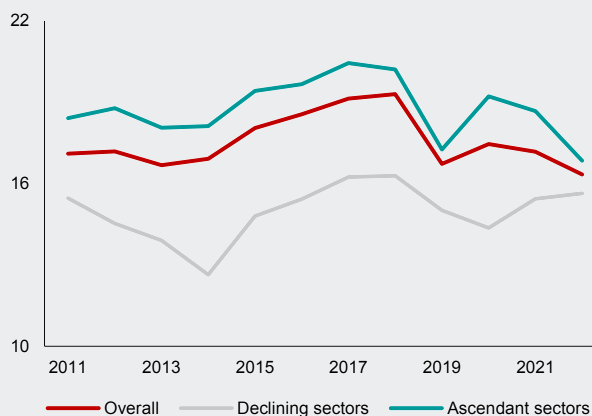


Ascendant Sectors



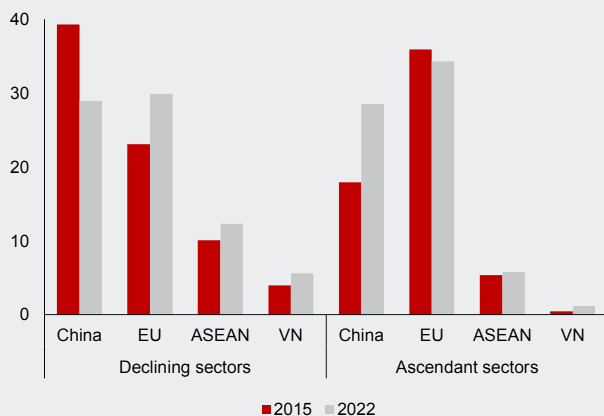
Source: IHS Markit; UNCOMTRADE; AMRO staff calculations.

Figure 2.4.2. China: Export Shares to the United States, 2011–2022
(Percent of total exports)



Source: IHS Markit; UNCOMTRADE; AMRO staff calculations.
Note: The rebound in China’s exports to the United States in 2020 reflected the increase in its exports of medical and health-related products, especially as US domestic production for these goods has been affected by COVID-19 pandemic restrictions.

Figure 2.4.3. Selected Economies: Global Export Shares in China’s Declining and Ascendant Sectors, 2015–2022
(Percent)



Source: IHS Markit; UNCOMTRDADE; AMRO staff calculations.
Note: US = United States; VN = Vietnam. EU here refers to 17 countries of the European Union, with 10 countries excluded—Bulgaria, Croatia, Cyprus, Estonia, Greece, Latvia, Lithuania, Luxembourg, Malta, and Slovenia—due to data unavailability. ASEAN excludes Cambodia, Lao PDR, and Myanmar, also due to data unavailability.