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THE DEGLOBALIZATION MYTH

HOW ASIA'S SUPPLY CHAINS ARE CHANGING

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About Oxford Economics

Oxford Economics is a world leader in global forecasting and quantitative analysis.

- Our worldwide client base comprises over **2,000** international corporations, financial institutions, government organizations and universities.
- Founded in 1981 as a commercial venture with Oxford University's business college, Oxford Economics is now a leading independent economic consultancy.
- Headquartered in Oxford, with offices around the world, we employ over 500 people, including some **350 economists**.
- Our best-of-class global economic and industry models and analytical tools give us an unparalleled ability to forecast external market trends and assess their economic, social and business impact.

Key messages

- **For all the talk of near/re/on-shoring, global supply chains have in fact been expanding:**
  - Intermediate goods trade grew 6.0% annually in 2018-22,
  - Regional sourcing is not happening at global level.

- **Asia's supply chain is undergoing major changes:**
  - China's supply chain become less important for US and Japan, but more important in other G7,
  - Multiple "hotspots" are emerging, e.g. Vietnam and Indonesia.

- **There is more than one winning formula for countries to navigate the reconfiguration of global supply chain:**
  - Hotspot countries vary re/ their economic and geopolitical orientation

Definition

- We evaluates the evolution of global trade in Intermediate Goods (IG) excluding fuels. Intermediate goods are inputs used to produce a final product. They range from crops used in food production to textiles, metals and computer chips needed to manufacture goods.

- Trade in IGs is an indicator of the activity in supply chains:

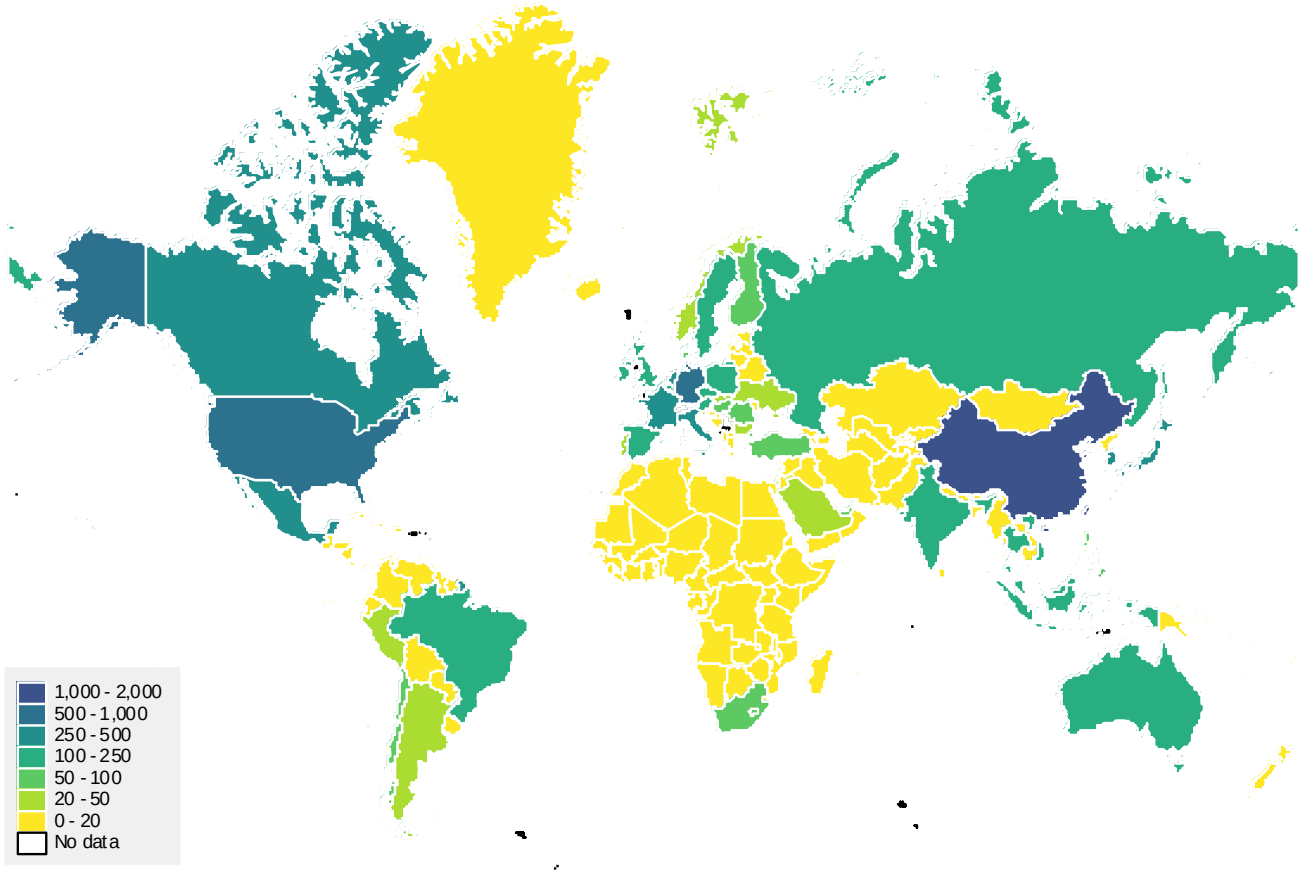
✓ Focused on supply chain, and less prone to trade diversion than consumer goods,

✓ Comprehensive sectoral, global and bilateral,

✓ High quality and internationally comparable,

✓ Up-to-date information (especially when compared to TiVA).

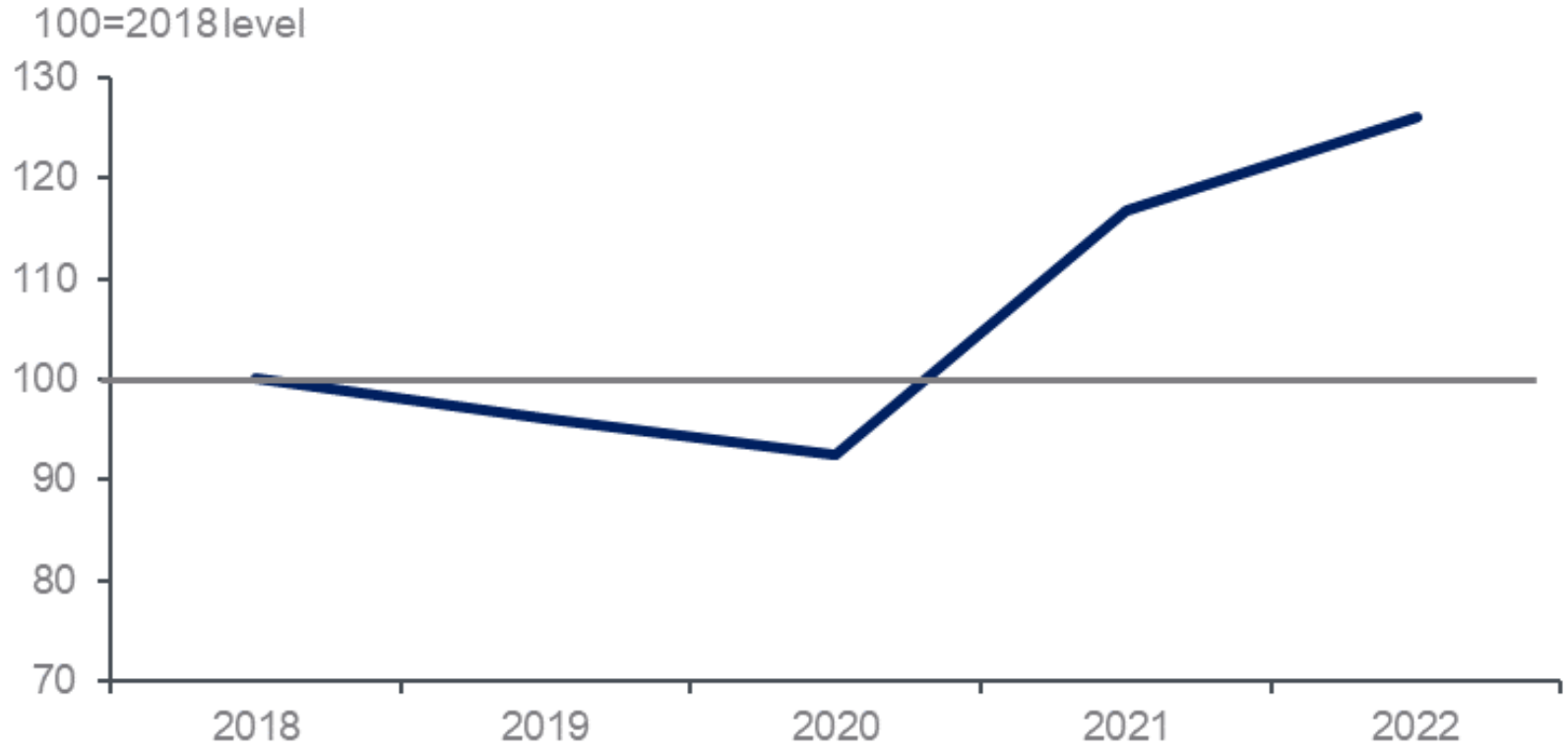
Average annual IG exports, 2018-22 (in USD billion)



Source: Oxford Economics

Global IG trade has risen despite a difficult period

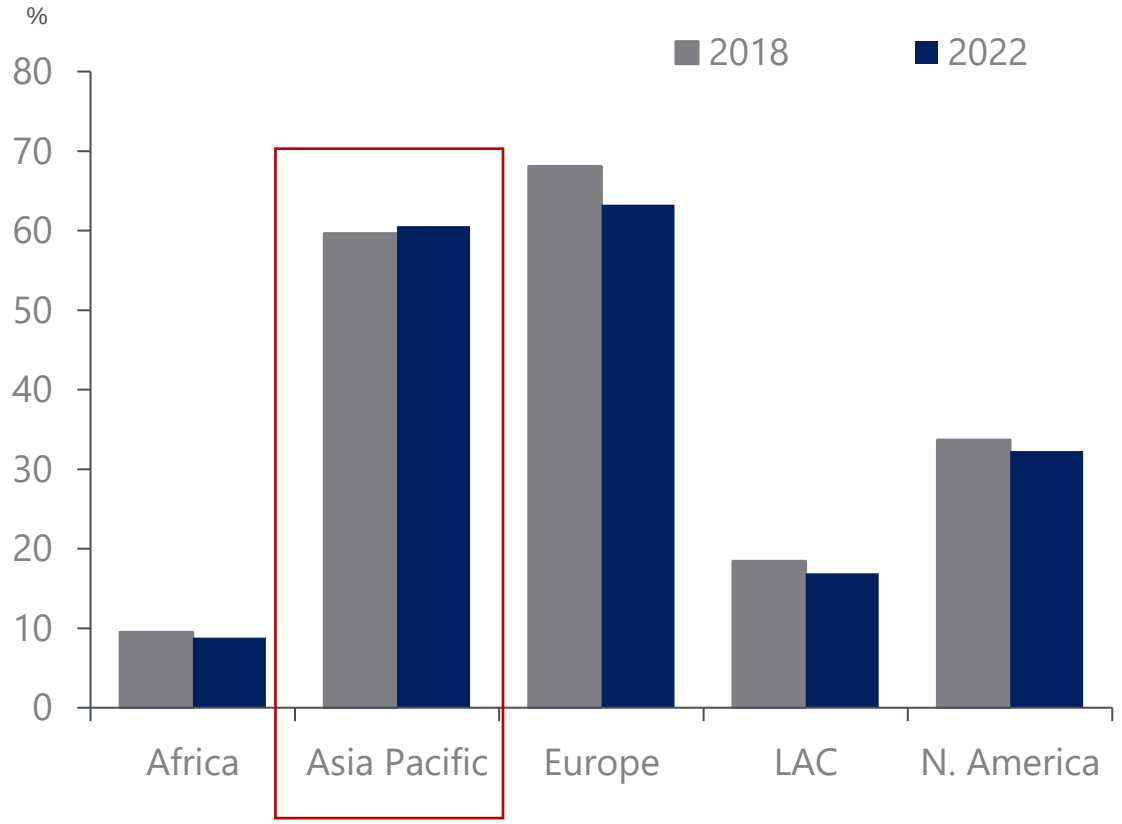
Evolution of global IG trade, 2018-22



Near-shoring has not materialized at the global level

- Intra-regional sourcing, as measured by the share of intra-regional trade in each region's IG imports, also declined in most regions over the sample period. The Asia-Pacific is the only exception where regional sourcing has increased (albeit minor change)
- These results refute broad assumptions that global MNEs are already bringing their international supply chains closer to home, with key exceptions. Why? Places are ***sticky***
- Outside Asia, Mexico-US is another exception. since November 2022, Mexico has overtaken China as the top provider of international inputs for the US.

Intra-regional trade as % of region's total IG imports



Source: Oxford Economics

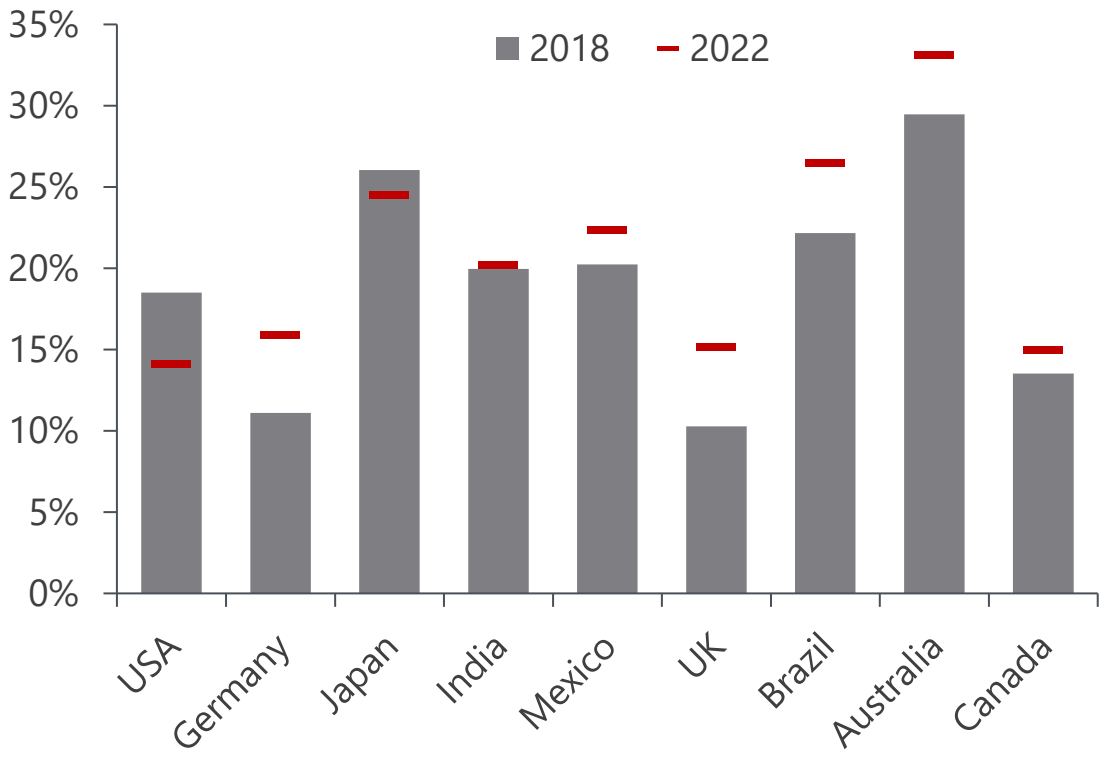
China is decoupling - but only in the US & Japan

- **Trade decoupling still looks to be largely a US phenomenon**. China's share of IG imports into the US has dropped fell from 18.5% in 2018 to 14.1% in 2022. The largest drop occurred in 2018-19 during the tariff escalations of the Trump's administration.

- **China's importance for supply chain imports also dropped in Japan**, declining from 26.5% to 24.0% - reflecting the "de-risking" commitment.

- In contrast, China has gained importance as a source of inputs for several G7 countries. For example, between 2018 and 2022, China's share of total IG imports increased from 11.1% to 15.9% in Germany, and from 10.3% to 15.1% in the United Kingdom.

China's share in total IG imports of major countries

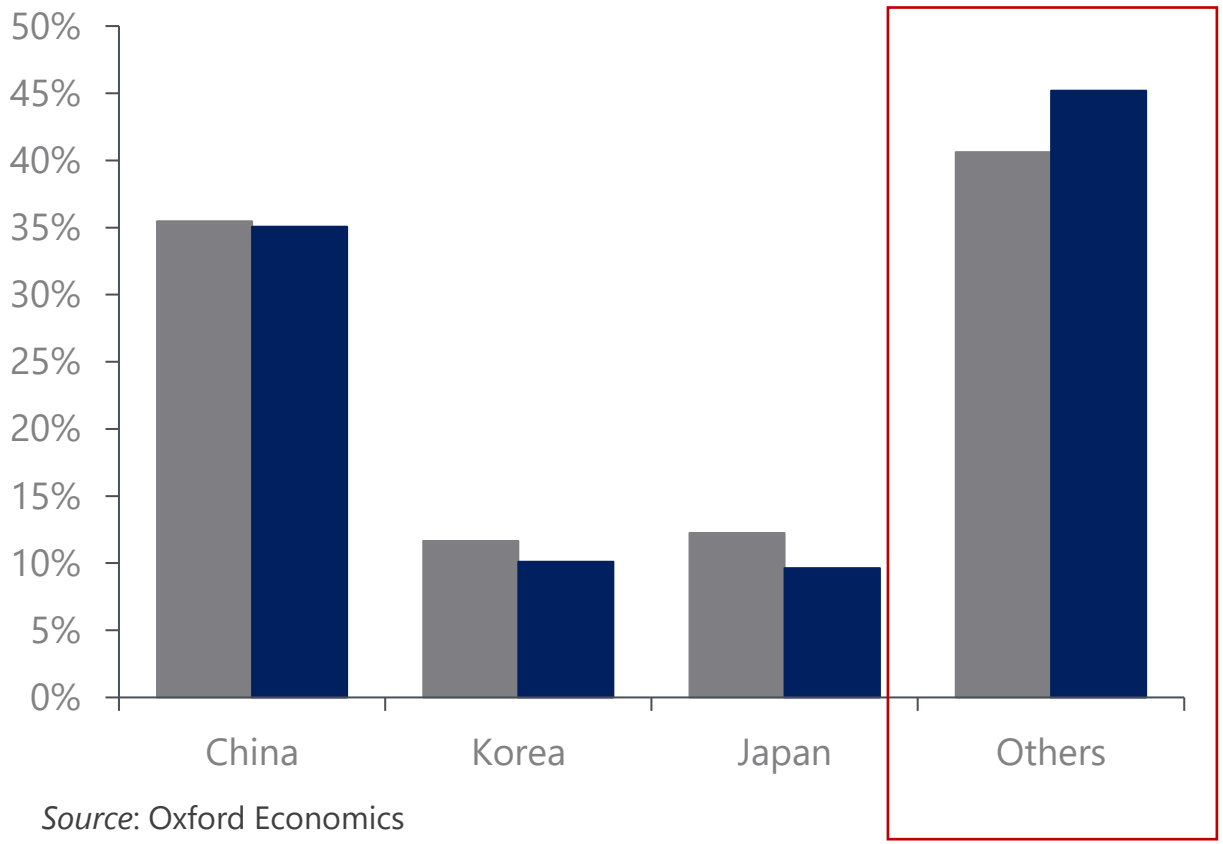


Source: Oxford Economics

Asia’s regional supply chain is diversifying

- **Rest of region now account for 45.2% of region’s IG export**, up from 40.6% in 2018.
- The share of China, Korea and Japan in Asia’s IG exports has declined from 59.4% in 2018 to 54.8% in 2022.
- **China remains the most important player for Factory Asia**, accounting for 35.1% of the region’s IG exports.

Composition of APAC's IG Exports, 2018 -22



Source: Oxford Economics

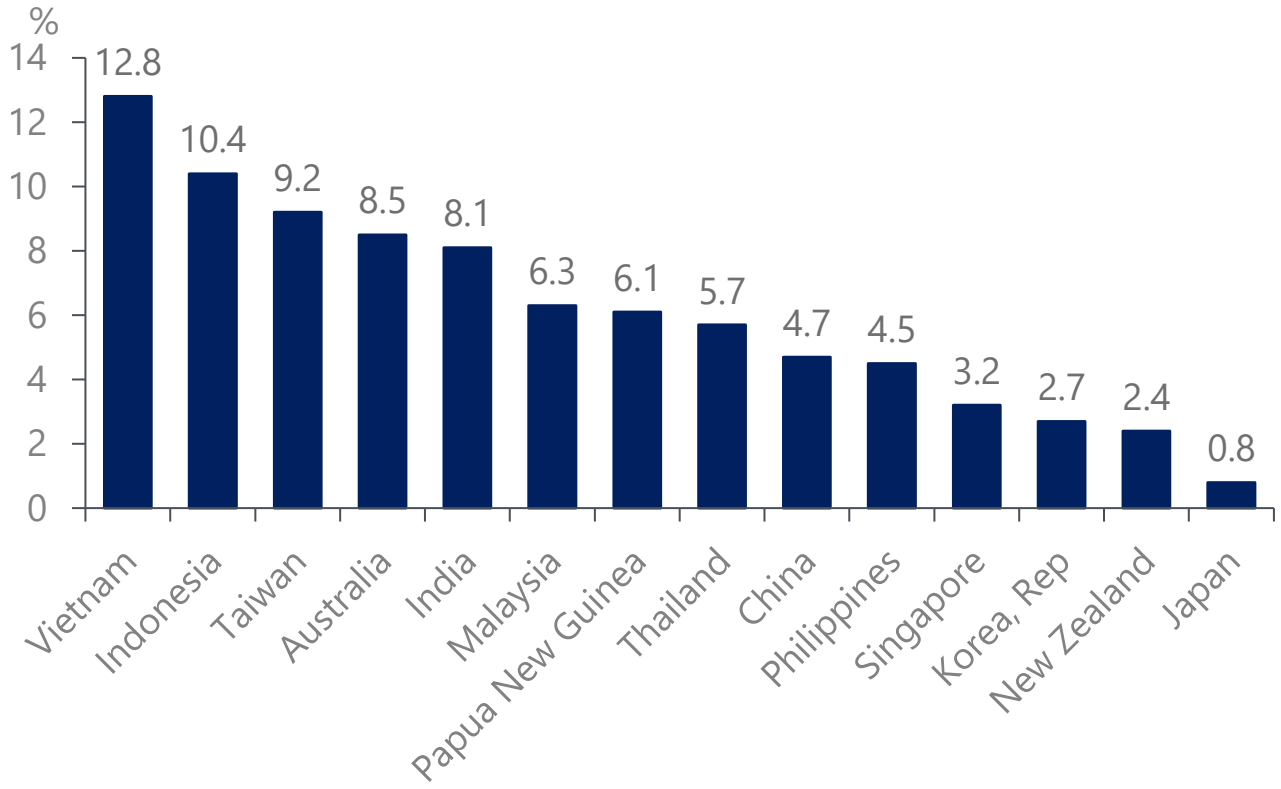
New supply chain “hotspots” are emerging in Asia

- **Vietnam and Indonesia registered double-digit annual growth in IG exports between 2018 and 2022**. For comparison, the average country in Asia-Pacific has grown their annual IG export by 5.9% during this period.

- The growth of IG exports in multiple countries (and China’s own trade data) suggest that ‘China plus one’ investment strategy is giving way to **a 'China plus one, two, three'-type strategy**.

- The rest of this section will focus on 7 hotspots countries with higher-than-average growth (Vietnam, Indonesia, Taiwan, Australia, India, Malaysia and Papua New Guinea)

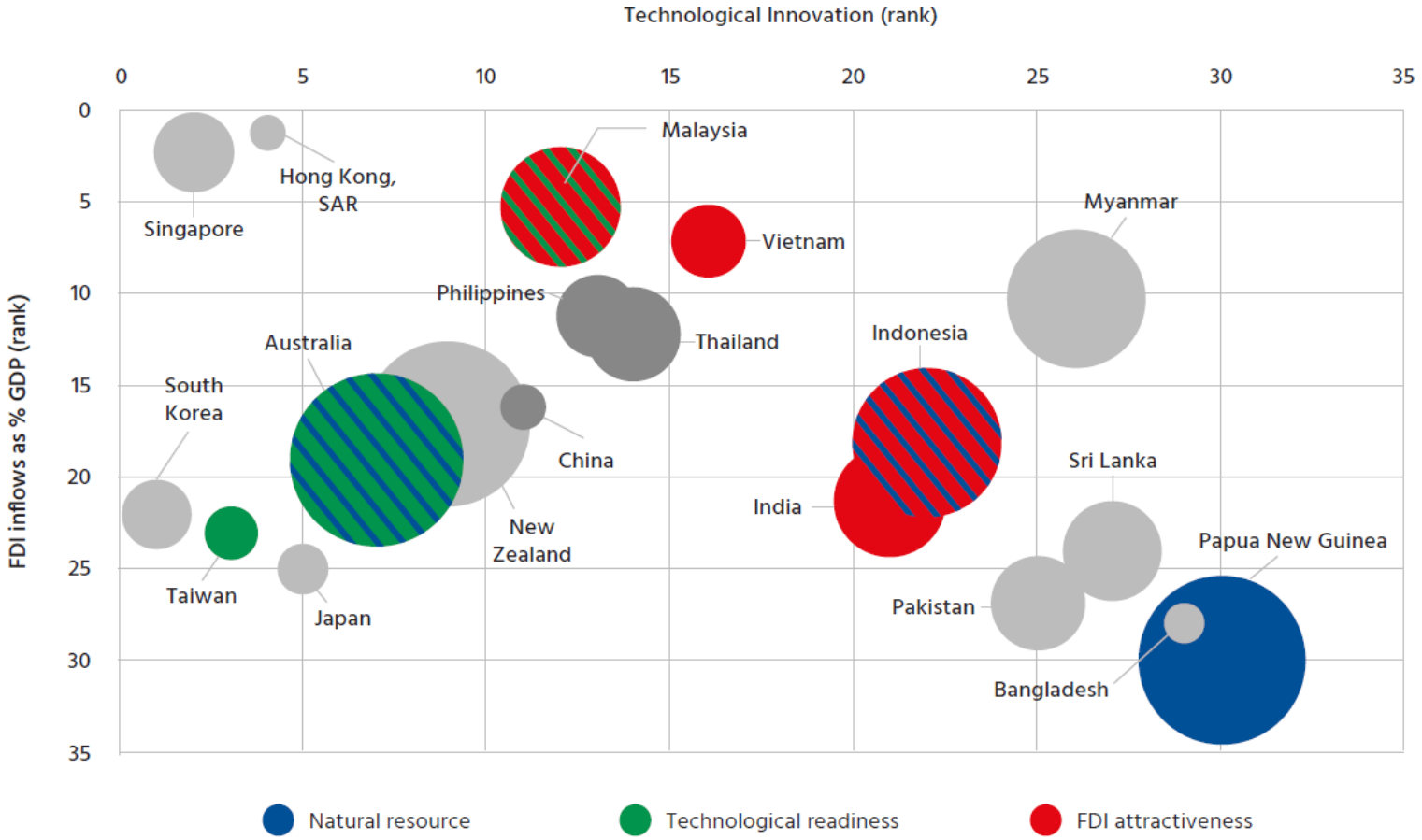
Growth in total IG exports, 2018-22



Note: Only countries exporting at least US$10bn in IG in 2022 are included
Source: Oxford Economics

Multiple pathways to navigate supply chain reconfiguration

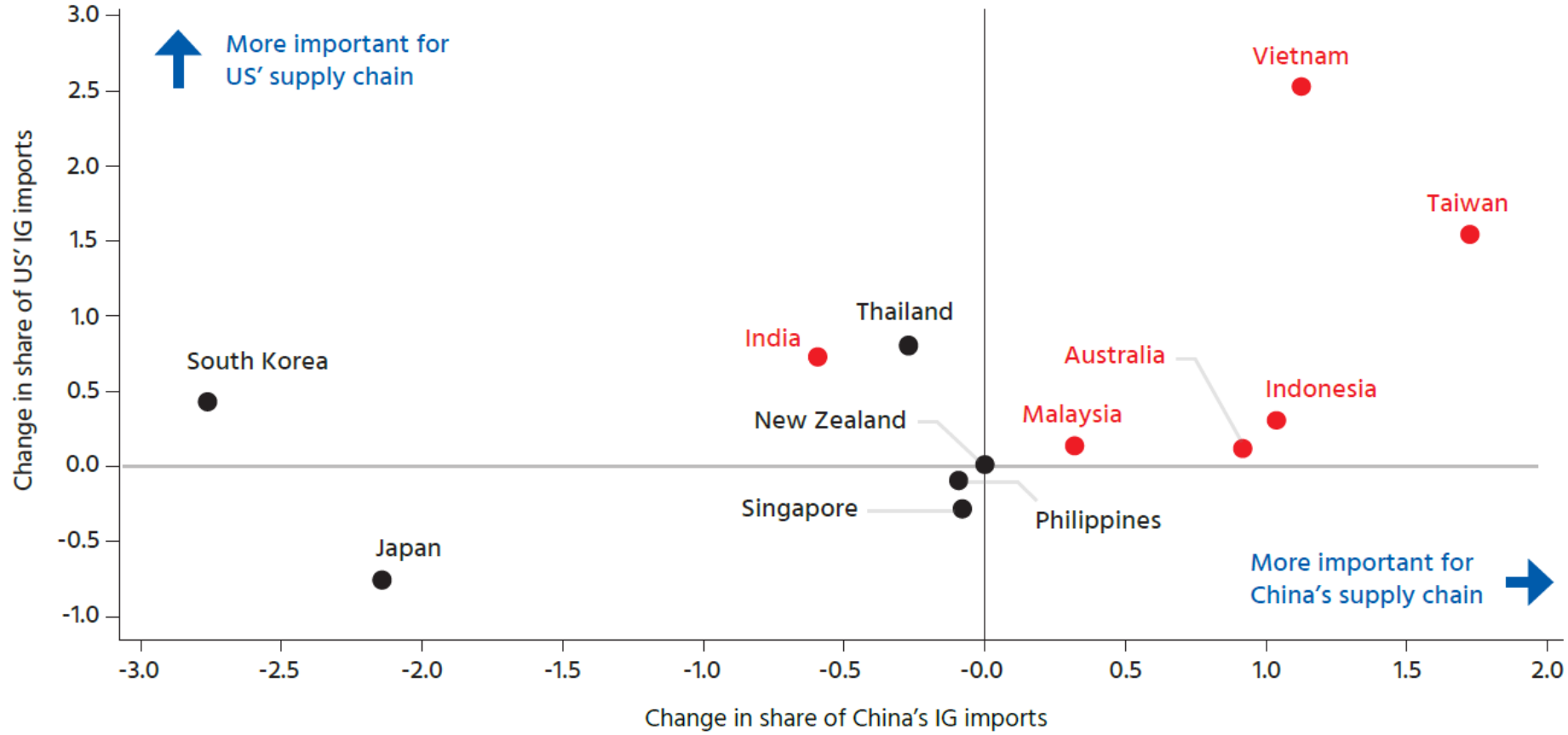
Figure 10 – The economic diversity of Asia's supply-chain growth hotspots



Note: The size of the bubbles reflect the share of Share of natural resources in trade. The bubbles for Australia, Indonesia and Malaysia are striped to reflect the mix of economic offerings by these economies. For example, the red and blue stripes reflect both the importance of natural resource (blue) and FDI attractiveness (red) for Australia.
Source: Oxford Economics based on data from Hinrich-IMD Sustainable Trade Index 2023.

Hotspots follows different paths to US-China relation

Figure 9 – Change in share of international sourcing to China and the US, 2018-2022



Source: Oxford Economics

Summary & What to watch

- **For all the talk of near/re/on-shoring, global supply chains have in fact been expanding**
- **Asia's supply chain is undergoing major changes:** decoupling + hotspots
- **There is more than one winning formula for countries to navigate the reconfiguration of global supply chain.**
- **What to watch?**
  - (1) Geopolitics,
  - (2) Industrial & environmental policies, and
  - (3) Agglomeration economies.

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Thank you

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China's also reconfiguring its own international supply chain

Top 15 exporters to China in 2022
(as % of China's IG imports)

Economy	2018	2022	Change 2018-22
Taiwan	12.2%	14.0%	+ 1.8%
Vietnam	3.0%	4.2%	+ 1.2%
Indonesia	1.4%	2.4%	+ 1.1%
Australia	5.4%	6.3%	+ 0.9%
Chile	1.4%	1.8%	+ 0.4%
Brazil	3.3%	3.7%	+ 0.3%
Malaysia	4.3%	4.7%	+ 0.3%
Canada	1.4%	1.6%	+ 0.2%
Singapore	3.6%	3.5%	- 0.1%
Thailand	2.7%	2.4%	- 0.2%
Switzerland	2.5%	2.2%	- 0.3%
Germany	5.0%	4.0%	- 1.0%
United States	8.4%	7.5%	- 1.0%
Japan	10.8%	8.6%	-2.1%
South Korea	12.7%	10.0%	-2.8%

Source: Oxford Economics/Hinrich Foundation