China embraces globalisation

Comments on “China and the transformation of value chains” by Alicia Garcia Herrero and Trinh Dieu Nguyen
Bruegel Institute, Brussels, 18 November 2019

Margit Molnar
Head of China Desk, OECD
Disintegration of global value chains?

• China’s backward integration into GVCs has become weaker, but forward integration stronger
• China is climbing up the value chain
• What role for overseas direct investment and multinationals?
Weakening backward integration

- China’s backward integration into GVCs fell ca. 10 pp over the past decade
- Many economies experienced decreasing use of foreign inputs in their exports:
  - the share fell to a similarly large extent in India, Israel, Malaysia
  - Even more in Korea
  - 4 pp in the US and Japan
- Some became more tightly integrated: Belgium, Mexico, Philippines, Tunisia
China uses less foreign-sourced inputs in its exports

*Foreign value added as a % of exports, 2005, 2010 and 2016*

Source: OECD Trade in Value Added (TiVA) Database, December 2018 release; and OECD calculations.
Strengthening forward integration

• China’s forward integration with GVCs is increasing
• Same for: UK, DEU, FRA, ITA and a number of smaller EU countries
• Forward integration weakening: JPN, IND, VNM, THA
China provides more inputs into other countries’ exports

**Domestic value added as a % of foreign exports, 2005, 2010 and 2015**

Source: OECD Trade in Value Added (TiVA) Database, December 2018 release; and OECD calculations.
How dependent are countries on China’s inputs for their exports?

• China provides more inputs into other countries’ exports in general, but for which countries is China more important?

• Most countries, except Ireland and Luxembourg increased China’s share in their foreign VA embedded in exports

• For Mexico, Korea, Indonesia and Japan China provides roughly a fifth, for the US and Australia a sixth of foreign VA
China has become a major source of foreign VA for many economies

Chinese value added as a % of total foreign value added in gross exports

Source: OECD Trade in Value Added (TiVA) Database, December 2018 release; and OECD calculations.
China increased its inputs into intermediate exports of most economies

Chinese value added in exports of intermediate products, 2005, 2010 and 2015

Chinese Taipei, Korea, Australia, Chile over one third
Malaysia, Japan, New Zealand, Thailand around a quarter

Source: OECD Trade in Value Added (TiVA) Database, December 2018 release; and OECD calculations.
Localisation of inputs production

- As China climbs up the value chain, it becomes competitive in an increasing number of goods, including intermediates.
- Also, with steadily rising incomes, China is an increasingly attractive market and less so as just an assembly platform.
The role of processing trade is diminishing

A. Exports of goods

B. Imports of goods

Source: CEIC
China is still an attractive destination for FDI

**A. China's share in global FDI**

**B. FDI by sector**

(source: OECD FDI Statistics and CEIC database)
Foreign multinationals’ moves – example of Japanese firms

• Sales are increasingly localised in Asia (73% in 2008 vs. 79% in 2017) with increased sourcing from the region (63% → 75%) and less reliance on inputs from Japan (36% → 22%)

• Sourcing of inputs is increasingly localised in Europe (59% → 66%) with less reliance for inputs from Japan (35% → 26%), but Europe is increasingly used as a production platform to export to Asia, North America and Japan

• Sales/No. of firms in China peaked in 2015
China is an increasingly important global investor

- Its share in global manufacturing ODI stock at ca. 5% in 2017 (from below 1% in 2007) is the same as Japan’s
- China’s ODI is concentrated in resource-based manufacturing industries, whose value chains are less sliceable than those of electronics or vehicle manufacturing → implications for the future of GVCs
Thank you!

margit.molnar@oecd.org