



China embraces globalisation

*Comments on “China and the transformation of value chains” by
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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?

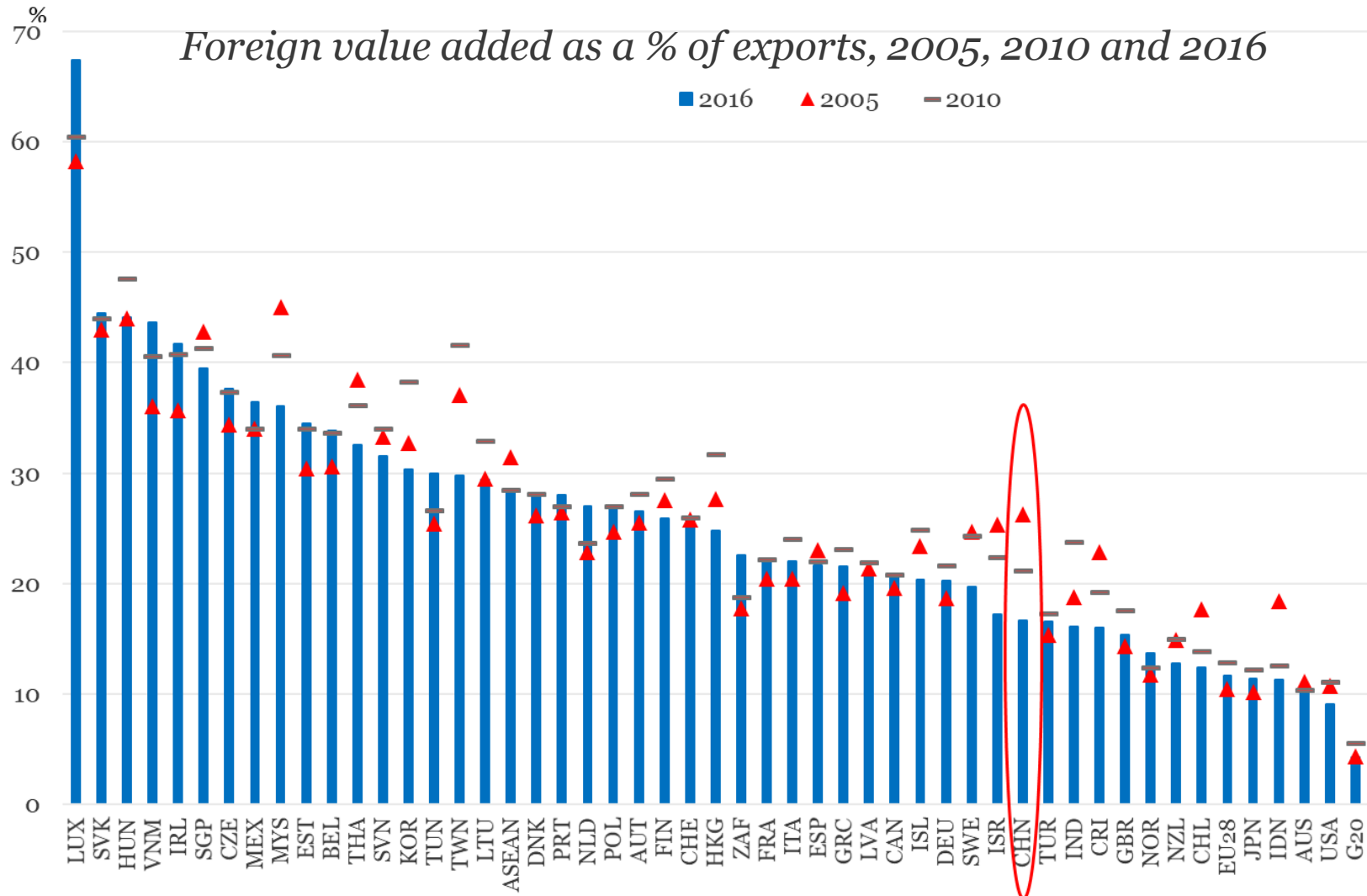


Weakening backward integration

- 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



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

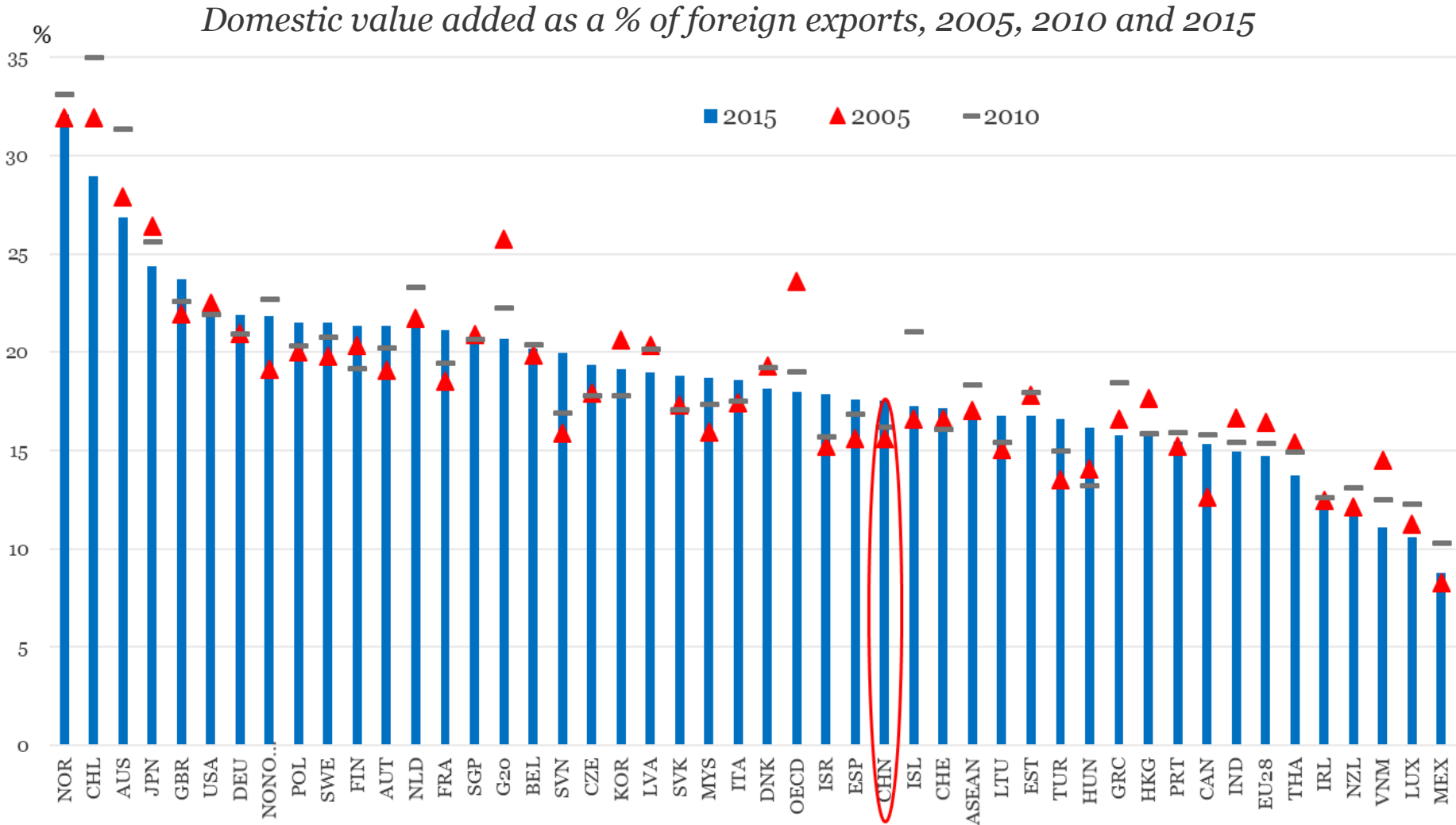


Strengthening forward integration

- 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



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



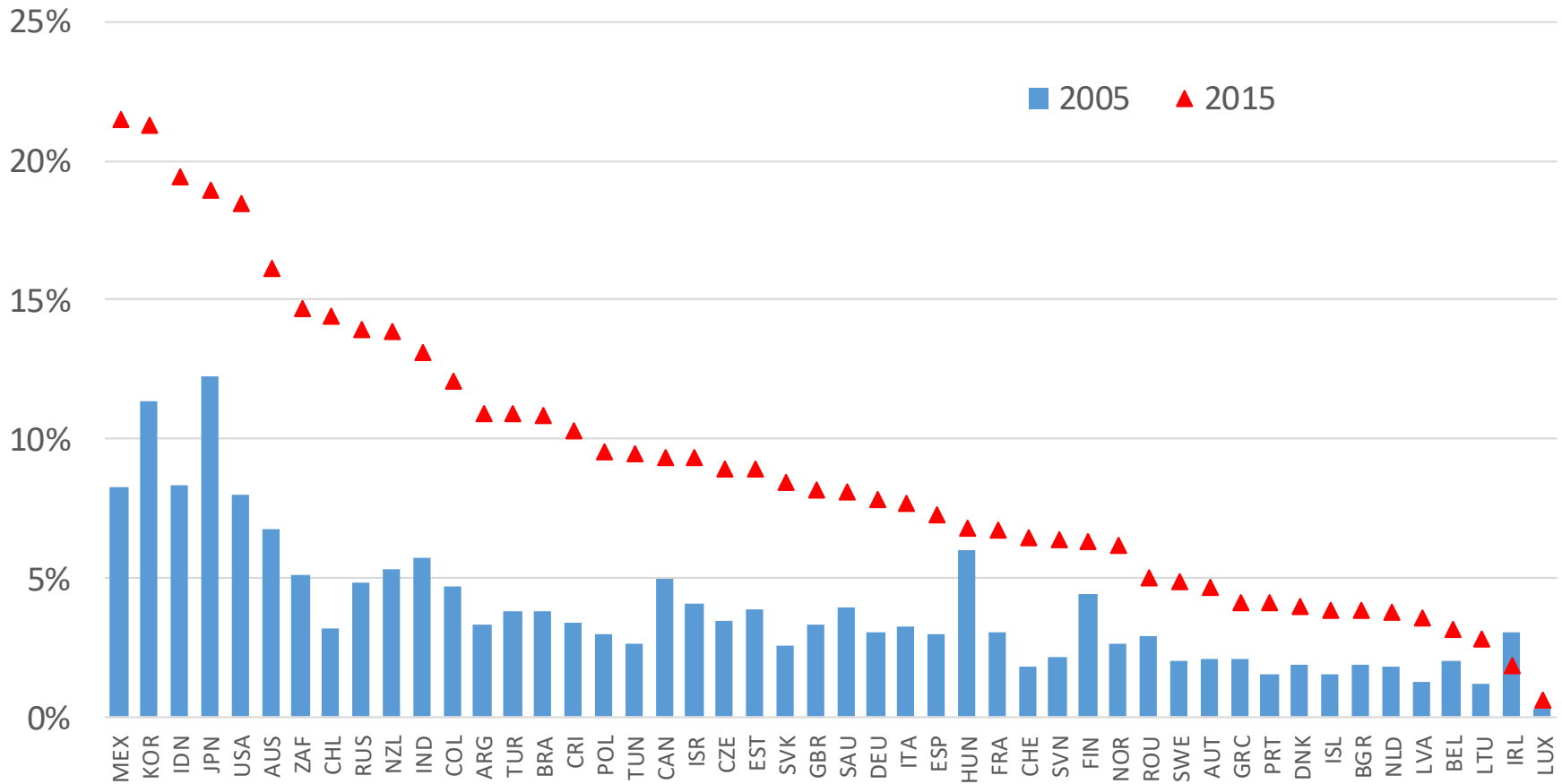
How dependent are countries on China's inputs for their exports?

- 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

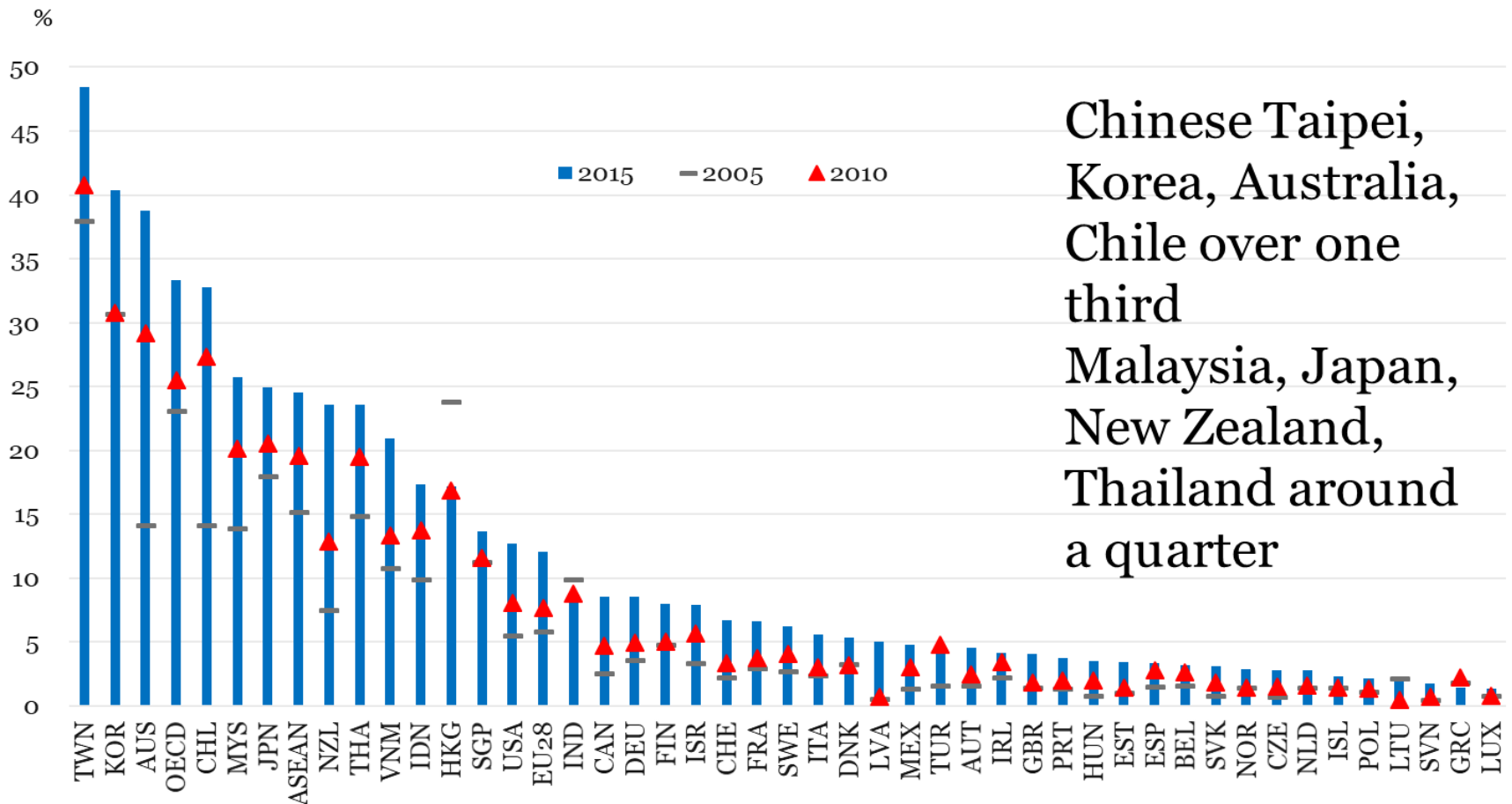


Source: OECD Trade in Value Added (TiVA) Database, December 2018 release; and OECD calculations.



China increased its inputs into intermediate exports of most economies

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



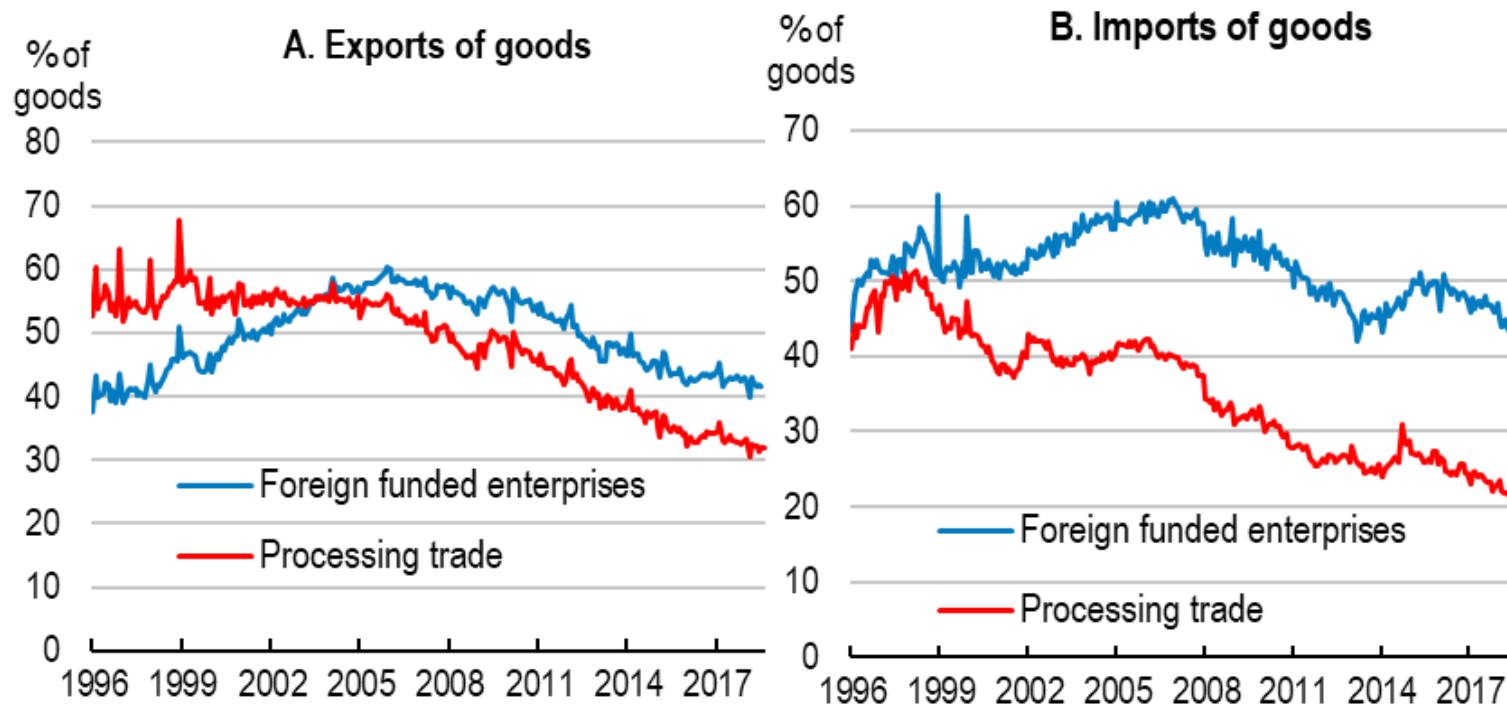
Chinese Taipei, Korea, Australia, Chile over one third
Malaysia, Japan, New Zealand, Thailand around a quarter



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

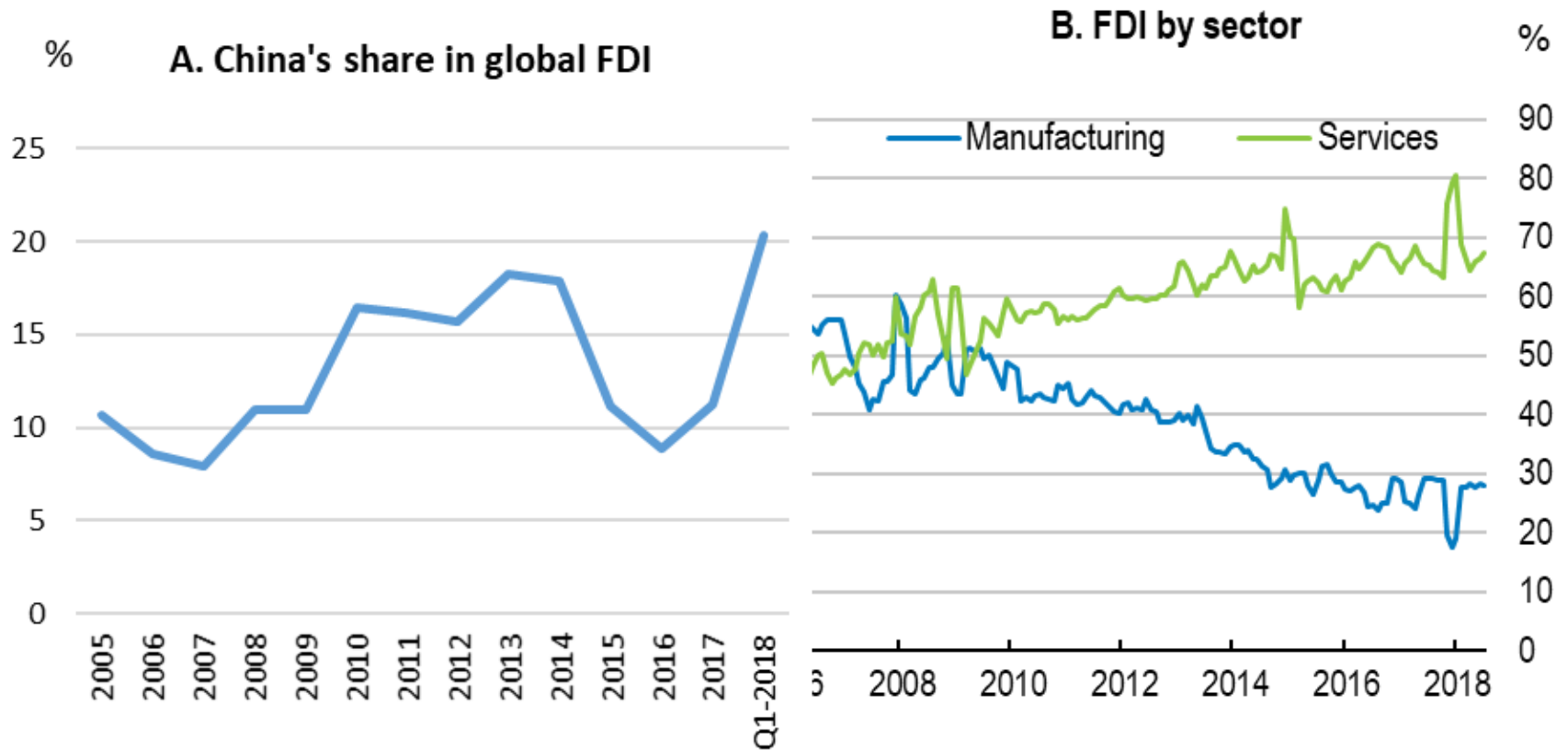
The role of processing trade is diminishing



Source: CEIC



China is still an attractive destination for FDI



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!

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