

Asia Chart of the Week

Asia, COVID-19, and supply chains

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Economics - Asia

Cast your mind back, if you would, to the start of the pandemic. Plenty of talk at the time about broken supply chains. Well, they were swiftly mended, at least in Asia. Closed borders, transportation bottlenecks, and plenty of other headaches besides: no matter, the region's large exporters have proven surprisingly resilient this year. More so, arguably, than in many other parts of the world. As a result, the global export share of mainland China climbed back to its earlier peak reached in early 2016. And many other Asian economies are not far behind. 'Ah', you might say, that's simply a temporary aberration brought about by the coronavirus: and once we are done with it, supply chains will resume their migration elsewhere. Well, not quite. First, if anything, this year has highlighted the resilience of Asian manufacturing networks. And such resilience will, surely, be valued even more in the coming years. Second, for all the worries about US-China trade tensions, in recent years, the world's dependence on Asia, and mainland China, in particular, for components of all sorts, has only increased, not diminished; a trend already well underway before COVID-19 struck, and arguably re-enforced by it. Third, the just completed RCEP deal will concentrate supply chains further in the region. Manufacturing in Asia, where it's at...

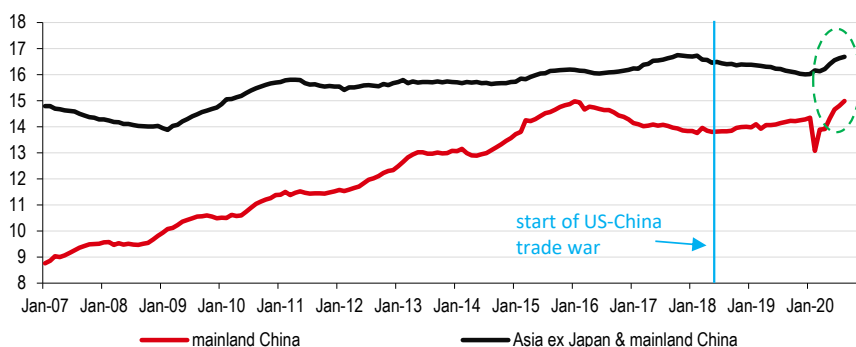
That money talks, I'll not deny; I heard it once, it said, 'Goodbye'.

Richard Armour

Our first chart is simple enough. It shows global export market shares. Start with the red line, which is mainland China. After peaking in early 2016 at close to 15 per cent, it started to drop, partly because the renminbi appreciated sharply, partly because some companies shortened supply chains by moving production closer to home. But, note that mainland China's global export market share bottomed just when the tariff war with the US started: despite these tensions, the share of Chinese exports started to *rise* again. And after a stumble earlier this year, we are now back to the 2016 peak. Meanwhile, the rest of the region followed a similar pattern, though with a delay (black line).

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Chart 1: Global export market share (% , 12mma)



Source: WTO, HSBC

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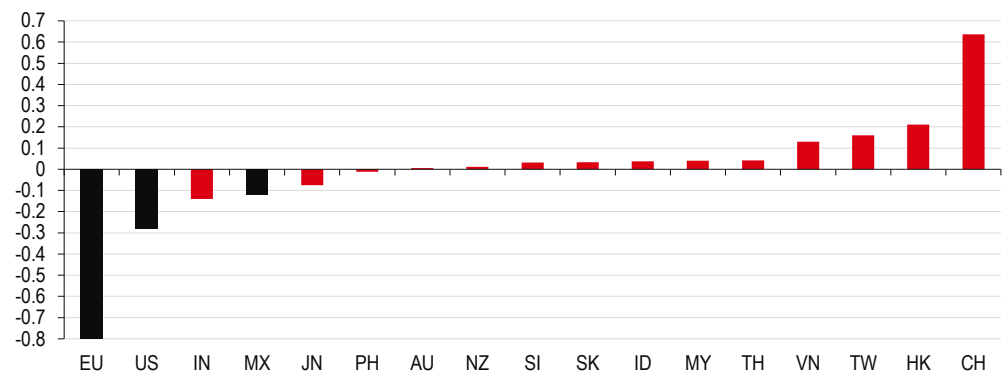
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Ok, that's very impressive. But sceptics will argue that the spike this year is simply an aberration: reflecting the fact that Asian factories are humming as those elsewhere remain entangled in various pandemic-related restrictions. Plus, COVID-19 prompted a temporary shift in demand towards goods produced in Asia: protective gear, toys, work-from-home gadgets, etc. ...all true.

Still, the supply chain resilience in the region has been remarkable, and anyone contemplating the risk of future global disruptions will certainly draw the lesson that keeping some production or, at least sourcing, in Asia makes for sensible corporate strategy. Of course, mainland China is the stand-out, and Chart 1 shows that it has already clawed back global market share since around 2018. More recently, its share has surged, but other economies in the region have done well, too.

Chart 2: Change in global market shares since start of the end 2019 (%)

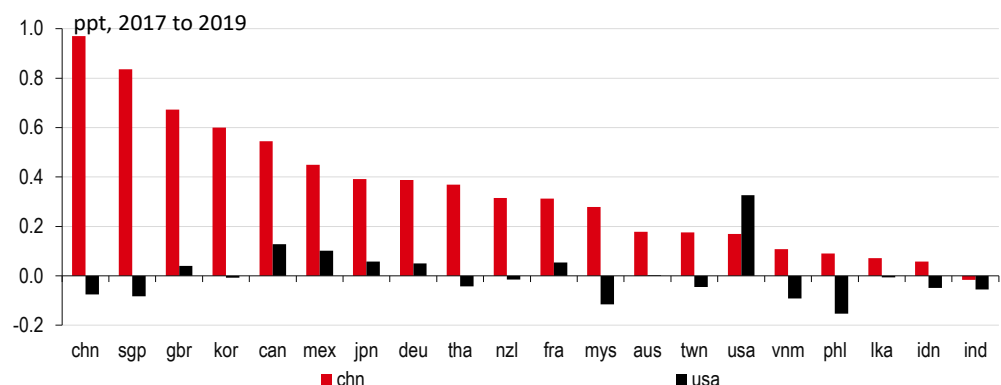


Source: WTO, HSBC. Note: CH refers to mainland China; for EU excludes intra-EU exports.

Chart 2 shows the change in global export market shares since the end of last year. Mainland China, as noted, gained the most (and Hong Kong's growing share may partly reflect mainland China's). Next, Taiwan and Vietnam have gained, too, as have many other economies in the region. By contrast, a number of key economies have lost global export market share, notably the EU, the US, India, Mexico, and Japan.

Again, this year's market share changes are partly distorted by the pandemic. But consider another chart that shows the growing centrality of Asia's supply chains, or, more specifically, the importance of Chinese produced components for manufacturers elsewhere. Chart 3 shows the change in the share of inputs from mainland China and the US used in an economy's exports between 2017 and 2019, the height of the US-China trade war but *before* the pandemic. Every major market, including the US, has become more dependent on Chinese components, and many sharply so (the US raised the share of locally produced components in its exports by even more, however)... Asia, where it's at.

Chart 3: Change in share of inputs from mainland China and the US in economy's exports



Source: UNCTAD-EORIA, HSBC. Note: chn refers to mainland China.

Disclosure appendix

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