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ASIA PACIFIC INSIGHT

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Asia Economics

Why China will deepen its presence in global supply chains

Trade tensions notwithstanding, China has continued to deepen its presence in global supply chains by capturing value-added content in global imports and increasing exports to EMs. We see this trend continuing, allowing China's global exports market share to rise to 16.5% by 2030, up from 15% now.

China's presence in global supply chains has been deepening: Despite the rise of protectionist measures, China has continued to deepen its presence in global supply chains. Its market share in global exports has risen by 2pp since 2017 and we estimate that its share of value-added content in global ex China imports has also risen by 2pp since 2017 in a broad-based manner across most manufacturing sectors.

Leading with innovation and indigenous technologies: China is at the forefront of emerging sectors, leading with innovation and indigenous technologies. It plays a critical role in supplying low-cost components and high-end capital goods, supported ably by a domestic supply chain that is fully integrated. As we have highlighted before, China's policymakers have already been planning for the next era of the industrial cycle. As we move into the embodied AI phase, China has already built up a dominant role in robotics and humanoids, and is working on applying embodied AI in an industrial setting (see China's Emerging Frontiers: China's Next Industrial Revolution, Sep. 9, 2026).

The US is still importing just as much value-added content from China, just not directly: The US's tariff and non-tariff-related measures have reduced China's share in US imports by 14pp since 2017, but we estimate China's value-added content in US imports has actually held steady. In other words, the US is in effect importing indirectly from China. Having said that, the US has at least stabilized the share of Chinese content in its imports against a backdrop where China's value-added content in the rest of the world's imports has risen by 2pp in the same period.

EMs are increasing their reliance on China: For the rest of the world, especially for EMs, their trade relationship with China continues to deepen. They are increasing their reliance on China to feed their domestic demand and are also relying on China to supply them with the parts and components needed to grow their exports basket. For instance, while India has made significant headway in electronics manufacturing, it still imports a large part of its intermediate and capital goods from China.

Why China will continue to widen its lead in global exports share: We believe the combination of targeting high growth sectors, executing with an integrated supply chain, having a financial system aligned with strategic goals, focusing on R&D and innovation, and a large skilled talent pool mean that China remains well-positioned to deepen its presence in global supply chains. We continue to expect China will raise its market share in global exports from 15% currently to 16.5% by 2030.

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For important disclosures, refer to the Disclosure Section, located at the end of this report.

Chart scan

Exhibit 1: DM economies are now de-industrializing as EMs – led by China – are continuing on the industrialization path

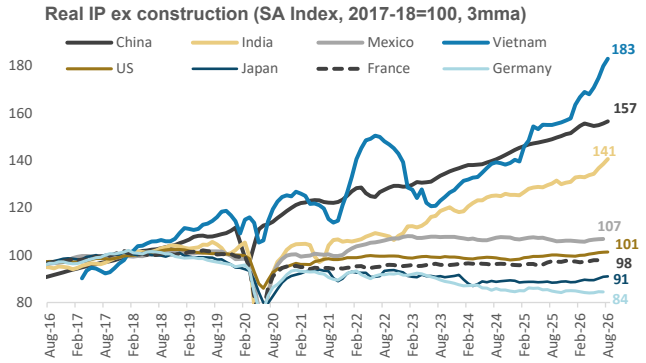


Exhibit 2: China has seen a sustained rise in global export market share

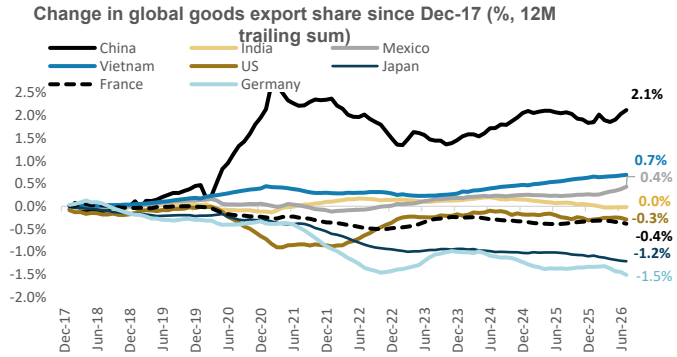


Exhibit 3: Mirroring the rise in global export shares, global reliance on Chinese value-added content has been rising

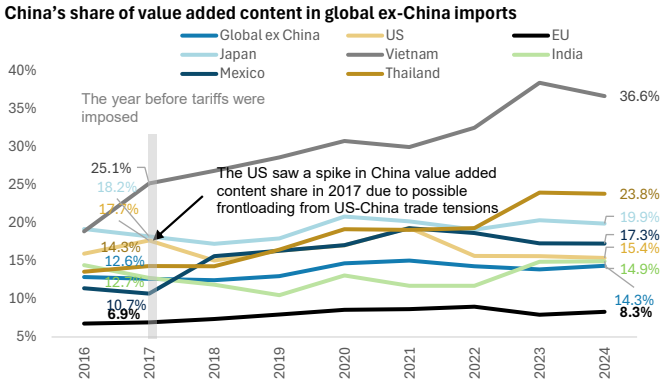
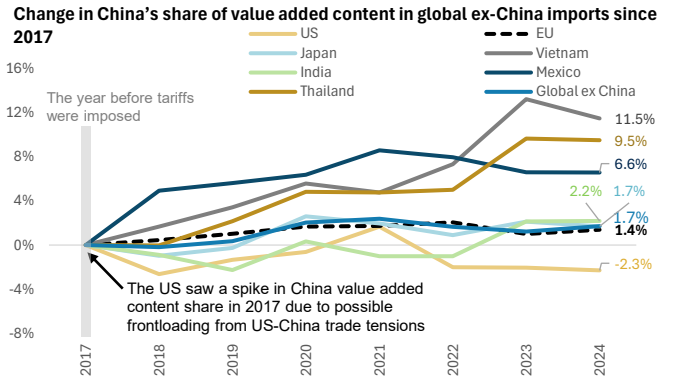


Exhibit 4: Vietnam, Thailand and Mexico saw the largest increases in China's share of value added in their imports



share in 2017 due to possible front-loading from US-China trade tensions

Exhibit 5: Even as China's share in US imports declined significantly in recent years, Chinese value-added content share in US imports has actually remained relatively stable

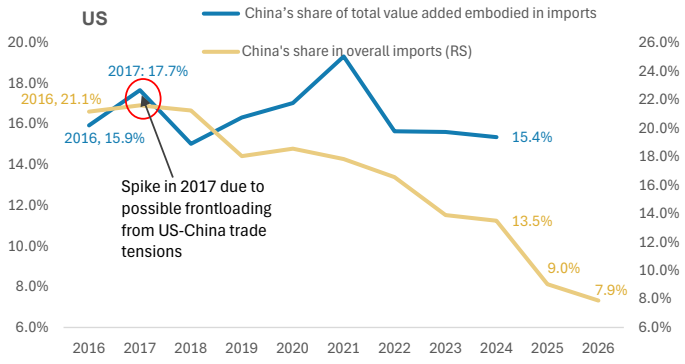


Exhibit 6: A growing share of Chinese value added content arriving into the US is now doing so indirectly, i.e., via other economies

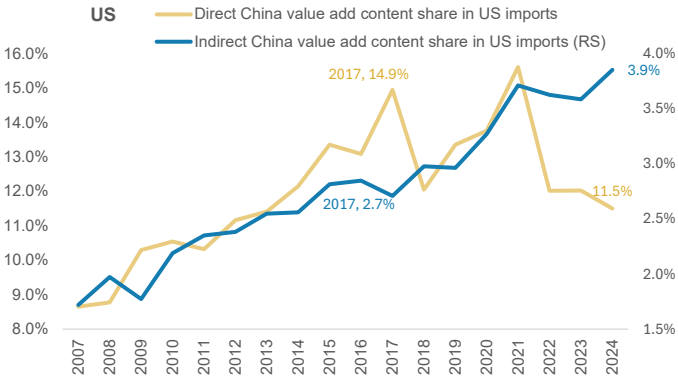


Exhibit 7: Close to 50% of China's indirect value add into the US is arriving via Mexico, Vietnam and Taiwan

Top 15	Third economies	Share of all Chinese value-added content going to the US via third economies	Chinese value-added content share in the economy exports to the US
1	Mexico	23.4%	7.8%
2	Vietnam	15.4%	21.0%
3	Taiwan	7.9%	9.7%
4	Canada	6.0%	2.0%
5	Rest of the World	5.7%	2.9%
6	Korea	5.6%	6.4%
7	Japan	3.9%	3.5%
8	Singapore	3.5%	6.9%
9	Germany	3.4%	2.5%
10	India	2.7%	2.6%
11	Thailand	2.4%	7.9%
12	Switzerland	1.7%	2.3%
13	Malaysia	1.6%	8.4%
14	Ireland	1.5%	1.7%
15	France	1.5%	2.0%

Exhibit 8: China's value-added share gains have been felt across most manufacturing sectors

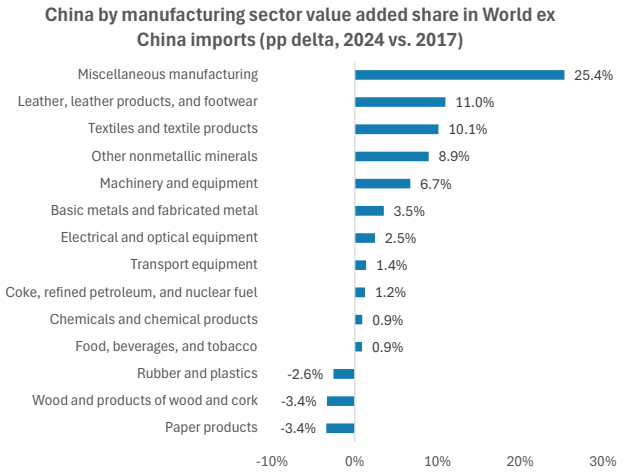
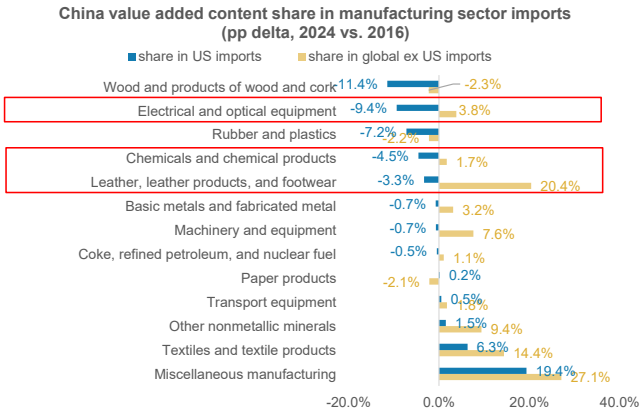
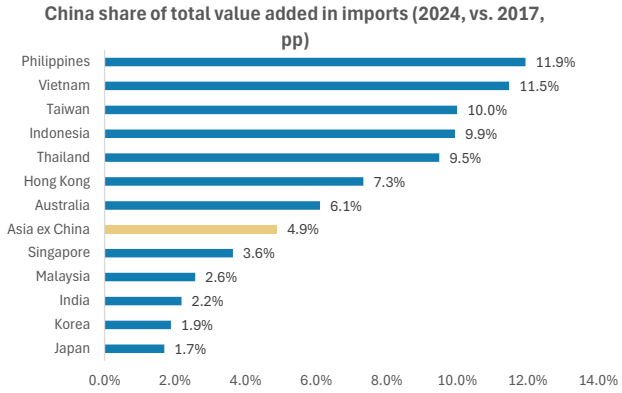


Exhibit 9: In the US, only 3 sectors in electrical and optical equipment, chemical products, and leather products and footwear have materially reduced Chinese content in their imports even when rest of the world has observed a rise in China value-added content over the same period



value-added content in the US in 2017 amid possible front-loading ahead of tariffs. Miscellaneous manufacturing includes toys.

Exhibit 10: China value added in imports share has increased across the board in Asia ex China





Executive summary



Efforts to reduce dependence on China have increased in recent years: The transition towards a multipolar world has intensified the focus on economic, national and tech security. As policymakers increasingly take up efforts to diversify supply chains and de-risk in strategic sectors, there is increasing focus on the bilateral trade balances (see quotes below). Faced with rising trade deficits with China, global trade partners – led by the US – have increasingly pursued ways to address this via tariffs and non-tariff barriers. But despite these measures, China's trade surplus with the rest of the world has continued to rise over the past six years, underpinned by rising competitiveness in key emerging new sectors as well as relatively subdued domestic demand.

> *"The world cannot have a China with a US$1.2 trillion trade surplus… The rest of the world is going to have to examine their terms of trade with China" – US Treasury Bessent, Aug-26*
>
> *"Our trade deficit with China is now €1 billion euro — a day. It has reached a tipping point… It leads to de-industrialisation in the industrial heartlands of Europe. This is unsustainable." - European Commission President von der Leyen, Sep-26*

Going beyond bilateral trade balances - A holistic approach to assess dependence on China: Bilateral trade flows provide a useful starting point, but they do not capture the full extent of how the rest of the world is dependent on China. In an increasingly multipolar world, tariffs and other trade barriers can redirect trade through third economies, whether through shipping or conducting final assembly in third economies. This can obscure an economy's importance in another economy's production and consumption. To provide a holistic view, we make use of the world input–output tables, tracing the origins of the value added content in each economy's imports and exports, including Chinese content that reaches its destination indirectly through other economies. This approach provides a more comprehensive assessment of China's presence in global supply chains, helping to distinguish shifts in trade routes from underlying changes in dependence on China.

Our analysis complements the overarching conclusion from our global and China economics team's work – that is, modern supply chains are geographically concentrated and technologically complex, requiring significant up-front investment to shift, with geopolitical distances between trade partners further complicating these shifts. In their analysis, our global economics team found that most low-hanging fruit from supply chain realignment opportunities has already been harvested. Instead, further rewiring of supply chains will take time to develop, introduce higher costs, and increase risk (see Global Economic Thematic: Multipolar World: Supply Chain Strain, Feb 17, 2025). For China, our findings also align with our China economics team's view that China's role in global trade is only changing form and not diminishing, from a "made in China" model towards a broader "made by China" model where products can be made elsewhere with increasing China value-added content (see Bluepaper: China's Next Industrial Revolution, Sep 9, 2026).

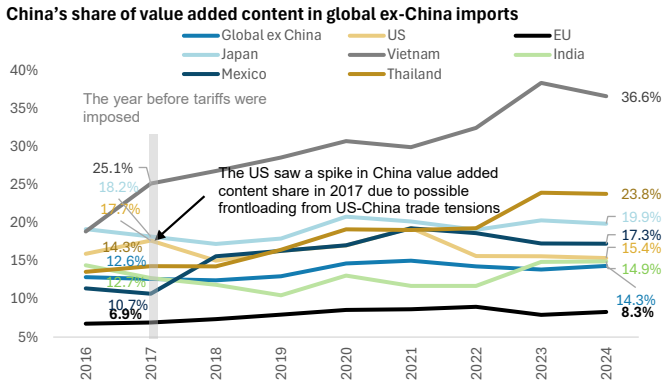
We highlight 7 key conclusions:

#1: Global reliance on Chinese value-added content continues to rise: China's value added content share in global imports (excluding its own imports) has risen from 12.6% in 2017 (before the onset of the first round of US-China trade tensions) to 14.3% in 2024. As importing destinations, the EU and the US have together accounted for ~80% of this increase, reflecting both their weight in global import demand and stable to rising Chinese content within their own imports. This is followed by Vietnam, India, Mexico and Thailand, reflecting greater use of Chinese inputs in these emerging manufacturing hubs.

Exhibit 11: The direction of travel is still towards greater global dependence on China



Exhibit 12: The US and EU explain a big part of the increased dependence



share in 2017 due to possible front-loading from US-China trade tensions

#2 China's value-added share gains have been felt across most manufacturing segments: Chinese value-added content share gains in global imports over the past decade have been broad-based, with gains in 10 out of the 13 broad manufacturing segments. Some of the largest gains have come in traditionally lower value-added segments in textiles, leather products, footwear and miscellaneous manufacturing, while China has also made further inroads into higher value-added segments. China now accounts for 33% value-added content share in electrical and optical equipment, 24% in machinery and equipment, and 10% in transport equipment. These patterns are consistent with China retaining higher-value production processes even as final assembly moves elsewhere, while China continues to supply the equipment and inputs needed by new manufacturing hubs.

Exhibit 13: China now holds substantial global value-added content shares across multiple manufacturing sectors

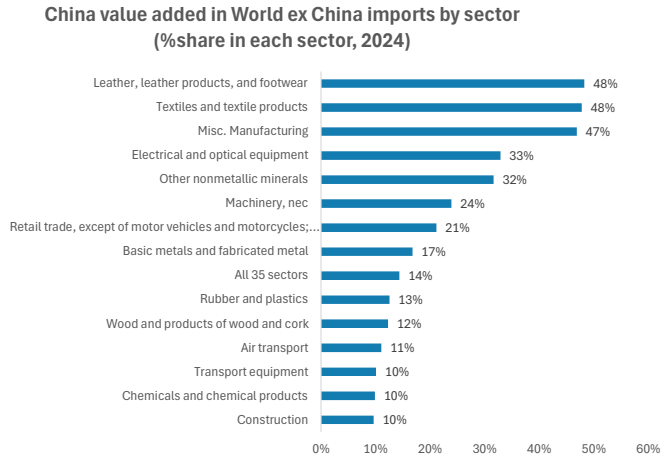
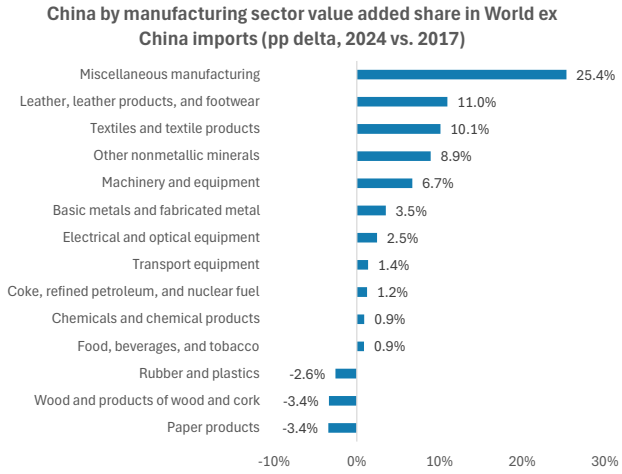


Exhibit 14: China's value-added share gains has been broad-based across both lower value-added sectors and higher value-added sectors



#3: The US is still importing from China, just not directly: The US has actively diversified away from China as an import source, as evidenced by the decline in China's share in US imports from 22% in 2017 to 8% currently. However, the approach has been less effective when considering Chinese value-added content in US imports generally. While Chinese value-added content in US imports has not risen like it has in rest of the world's imports, it has also not declined over time. Instead, China's share of value-added content in US imports has been broadly stable over the past few years, at 15.4% in 2024.

This has also meant that 25% of Chinese content in US imports now first go through third economies (versus arriving bilaterally), up 10 percentage points since 2017. This increased use of indirect channels, particularly since 2022, is unique to US-China trade and is consistent with relocation of production serving the US market, while remaining reliant on Chinese inputs. We do not observe a similar shift towards indirect channels in imports of the rest of the world outside the US, nor for EU imports.

Exhibit 15: In recent years, Chinese value-added content share in US imports has actually remained relatively stable, even as China's share in US imports declined significantly

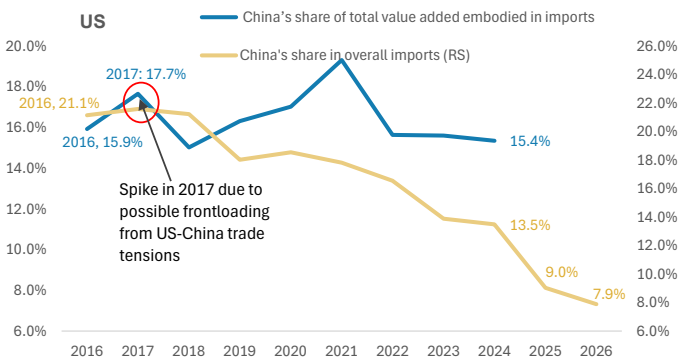
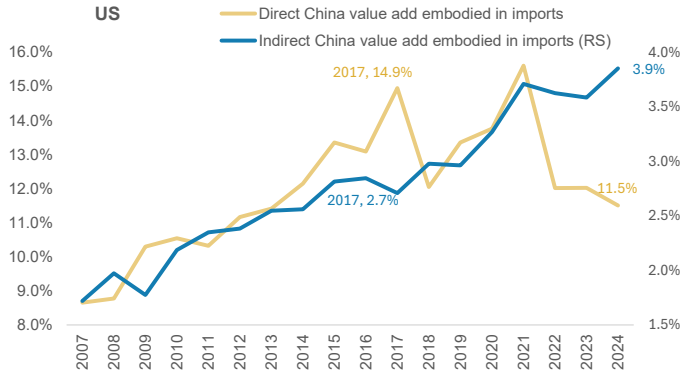


Exhibit 16: A quarter of Chinese value-added content arriving into the US is now doing so indirectly via other economies



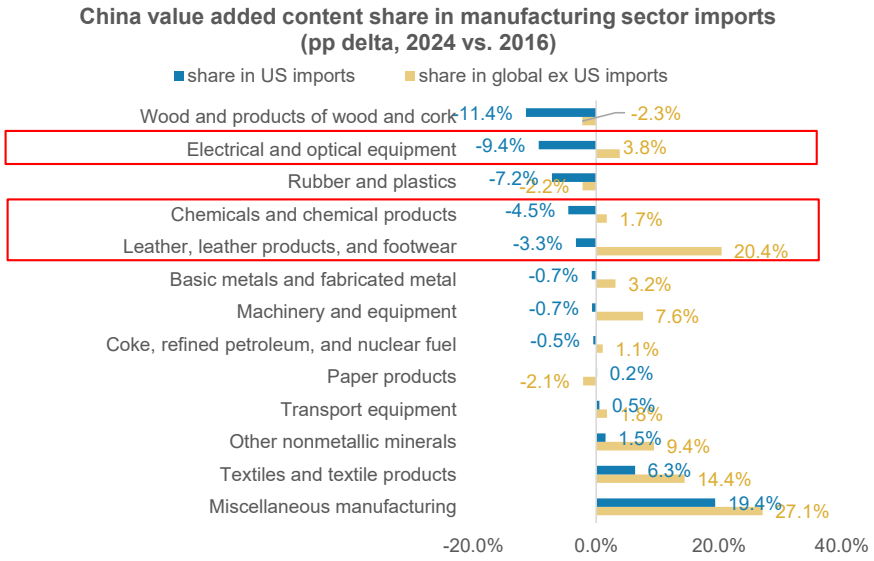
#4: ~ 50% of China's indirect value add into the US is arriving via Mexico, Vietnam and Taiwan: In 2024, close to half of the indirect Chinese value added reaching the US first went through Mexico, Vietnam or Taiwan. Within these economies, Vietnam stands out as having a much higher Chinese-content intensity in its exports to the US. Chinese value-added content accounted for 21% of Vietnam's exports to the US, vs. 8% of Mexico's exports to the US and 10% for Taiwan.

Exhibit 17: Close to 50% of China's indirect value add into the US is arriving via Mexico, Vietnam and Taiwan

Top 15	Third economies	Share of all Chinese value-added content going to the US via third economies	Chinese value-added content share in the economy exports to the US
1	Mexico	23.4%	7.8%
2	Vietnam	15.4%	21.0%
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5	Rest of the World	5.7%	2.9%
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10	India	2.7%	2.6%
11	Thailand	2.4%	7.9%
12	Switzerland	1.7%	2.3%
13	Malaysia	1.6%	8.4%
14	Ireland	1.5%	1.7%
15	France	1.5%	2.0%

#5: More sectors in the US have increased rather than reduced their dependence on China: Since 2016, only five of the 13 manufacturing sectors in the US have recorded a material reduction in Chinese value-added content in their imports. Two of these, wood products and rubber & plastics, also saw declines in Chinese content outside the US, suggesting this is a broader global trend rather than a result of US policy actions. Electrical and optical equipment, chemicals, and leather products and footwear therefore stand out as the three sectors where US import shares fell while Chinese content increased elsewhere. In contrast, textiles, miscellaneous manufacturing, nonmetallic minerals, paper products and metals saw rising Chinese content in US imports, underscoring the uneven nature of the adjustment.

Exhibit 18: In the US, only 3 sectors in electrical and optical equipment, chemical products, and leather products and footwear have materially reduced Chinese content in their imports even when rest of the world has observed a rise in China value-added content over the same period



amid possible front-loading ahead of tariffs. Miscellaneous manufacturing includes toys.

#6: For the rest of Asia, shifting away from China is challenging: China's value-added content share in Asia ex China's imports has risen by 5pp since 2017 - to 21.5% in 2024. This rise in value-add content from China has been broad-based across the region, and particularly evident in EM Asia economies. These Chinese inputs are increasingly used for exporting, and also for domestic investments for select economies. The linkages also differ significantly by economy: 55% of Vietnam's imported Chinese content now goes into exports, while 52% of India's goes into domestic capex. We also find that Chinese value-added content has not just increased in the rest of Asia's exports to the US, but also to non-US markets as well. Overall, these developments indicate broader regional supply-chain integration, centered around China.

Exhibit 19: Chinese value-added content in the rest of Asia's imports has also risen materially

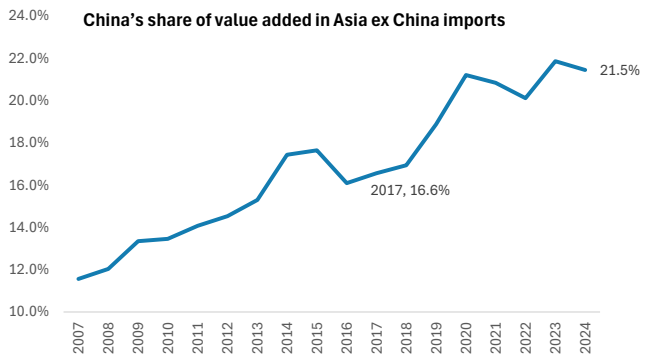
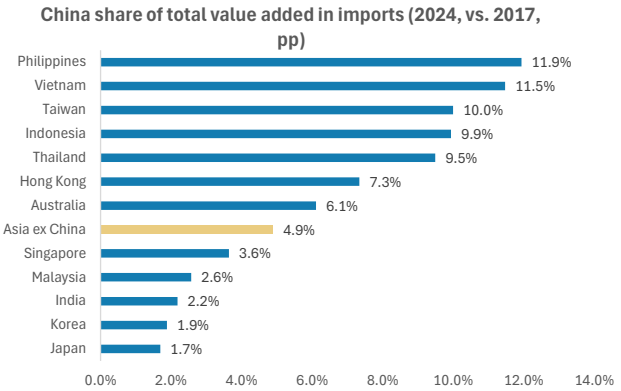


Exhibit 20: The increase has been across the board in Asia ex China



#7: Outlook: Diversification is achievable, but decoupling will be challenging: Our findings reaffirm our global economics team's views that achieving actual supply chain realignment – especially in the context of decoupling from Chinese value-added content – will take time, introduce higher costs for corporates, and increase risks as well (see Global Economic Thematic: Multipolar World: Supply Chain Strain, Feb. 17, 2025). US reshoring efforts will likely remain narrow and require a front-loading of imports to establish modern capital stock.

More importantly, China is now at the forefront of key emerging manufacturing sectors in terms of innovation and leads with indigenous technologies. China is increasingly playing a critical role in global supply chains, not just in low cost component supplies but also in high-end capital goods as well. Our China team also believes China's advantage in global manufacturing will be strengthened as it enters a new phase of industrial development in the form of "Industry 5.0" (see China's Emerging Frontiers: China's Next Industrial Revolution, Sep. 9, 2026). These factors should ensure China's value-added content share in not just US but also the rest of the world's imports will continue to rise.

Risks

However, we must also acknowledge that part of the reason why China's exports are competitive is because its companies appear to be comfortable with the trade-off between maintaining or gaining market share and the low expected returns that come with this approach. Policymakers expressed concern about excessive competition (involution) in July this year, which then coincided with a significant decline in manufacturing fixed asset investment. Yet the overall stance is still one of cutting back on older sectors, which face excess capacity, but continued investing in the new sectors that have been identified as future growth engines.

In our view, the key risk is if China's continued rise across its trade surplus, global export share and value-added content share trigger a significant escalation in protectionist measures, not just from the US, but also from other major trade partners. Policymakers are accelerating industrial policies globally, as perceived relative benefit of security over economic efficiency drives concerted efforts to derisk supply chains.

The world input-output table – an important input for our analysis

The world input-output table enables users to track transactions and inter-dependencies across sectors and economies – to what extent the output of one sector in one economy becomes an input in another sector in another economy – and how these trends evolve over time. In this report, we utilize the version published by the Asian Development Bank (ADB), which covers 61 economies in the world (plus a rest of the world component), and 35 goods and services sectors. Importantly, the data is available up to 2024, giving us a more updated look of the map of the global production network. We also utilize a methodology as laid out by the Peterson Institute of International Economics (PIIE) in their report (linked here).

One major advantage of input-output analysis is that it allows us to distinguish between gross exports and value-added content (gross exports less cost of intermediate goods and services bought). The input-output table allows us to

precisely tell what the value-added content from economy A is in in economy B's imports, even if the value-added content has traveled through intermediate economies. Furthermore, it provides information on the end-use of inputs, i.e., for intermediate transactions that go into exporting, or for final use in domestic investment or consumption.

For our analysis, its main advantage is that it allows us to estimate where the value embedded in trade was originally generated – not just which economy exported the finished product. By combining these tables with input-output calculations, we can estimate China's contribution to another economy's imports or exports, including Chinese value added that passes through several economies along the supply chain. For example, in a hypothetical case where Vietnam exports a $100 product to the US containing $20 of Chinese value added, the analysis would attribute that $20 to China rather than treating the entire $100 as value generated in Vietnam.

Glossary for major indicators in this report:

1. **Chinese value-added content in global ex-China imports:** This is the value created in China contained in all goods and services that the rest of the world imports. It counts only the portion of those imports' value created in China, and excludes any value created in other economies. This indicator captures both value created in China that is imported directly from China, as well as value created in China that is embedded in imports from other economies.
2. **Direct Chinese value-added content in US imports:** The portion of value created in China contained in goods and services that the US imports directly from China.
3. **Indirect Chinese value-added content in US imports:** The portion of value created in China contained in goods and services that the US imports indirectly from China, i.e., value created in China that is embedded in imports from other economies.
4. **Chinese value-added content in third economy exports to the US:** The value created in China contained in the goods and services that another economy exports to the US. This captures China's value contribution to that economy's exports to the US, such as in intermediate inputs and services used.

We see 7 key observations

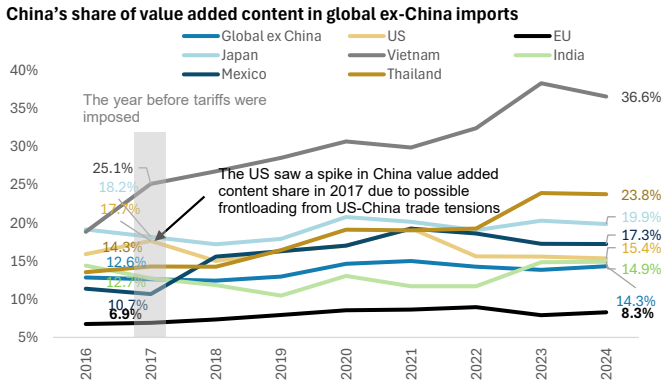
#1: Global reliance on Chinese value-added content has increased

The direction of travel is still towards greater dependence on China: Since the first round of US-trade tensions, China share of value-added content in global imports excluding China's own imports) has generally continued to be on an upward trajectory, rising by 1.7pp from 12.6% in 2017 to 14.3% in 2024. The progress has not always been linear, with shares temporarily troughing to 12.4% in 2018 during the first round of US-China trade tensions. However, China's ability to maintain production amid Covid's disruption to global supply chains drove a renewed rise in value-added content share in global imports. Since then, China's edge in new emerging sectors has helped to reinforce these global share gains. In other words, the world has not collectively reduced the Chinese content of its imports.

Exhibit 21: Global reliance on Chinese value-added content has been rising alongside rise in China's global export market share

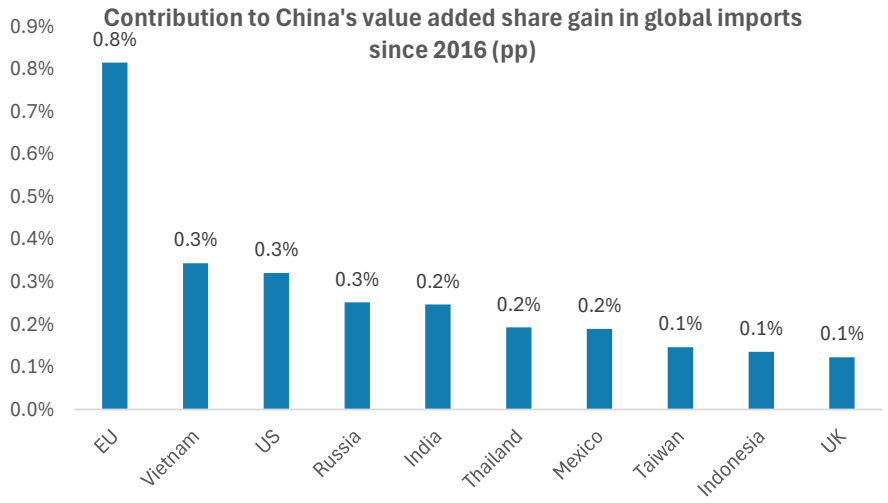


Exhibit 22: The direction of travel is still towards greater global dependence on China



The US and EU explain a big part of the increased dependence: To fully exclude the effects of US-China trade tensions on 2017-19 data when decomposing which destinations have driven this China value added share increase, we take 2016 as the base year for the following exercise. Of the 1.5pp increase since 2016, 0.8pp of the increase (or 77% of total) has been driven by the EU and 0.3pp of the US. To be sure, share contributions alone only tell part of the story – as larger contributions also reflect a larger weight in global import demand. As such, we also need to assess whether the penetration of Chinese value-added content in the US and the EU's own imports has also been either rising or held up over time. The data largely confirms this. China now accounts for 8.3% of value-added content in EU's imports, up 1.5pp vs. 2016. China now accounts for 15% of value-added content in US imports, roughly similar to what it was in 2016. In Asia ex China, we see an even larger delta with China's share rising 5.4pp since 2016 to 21.4% currently.

Exhibit 23: The US and EU explain a big part of the increased dependence



More Chinese value-added content also going to emerging manufacturing hubs: Outside of the EU and the US, our analysis shows that Chinese value-added content in Vietnam (+0.3pp), India (+0.2pp), Thailand (+0.2pp), and Mexico (+0.2pp) imports are the next largest contributors of China's global import share gains (notwithstanding content to Russia at +0.3pp, which is impacted by sanctions). We attribute the rise in China's value-added content in these economies to 1) an increase in Chinese value add meant for the US being sent through these economies, and 2) a rise in dependence on Chinese inputs as these economies build up domestic manufacturing capabilities. We explain these two phenomena in more details below.

Exhibit 24: Similarly, Chinese value-added content in the rest of Asia's imports has also risen materially



Exhibit 25: The rise is particularly evident in emerging manufacturing hubs such as Vietnam…

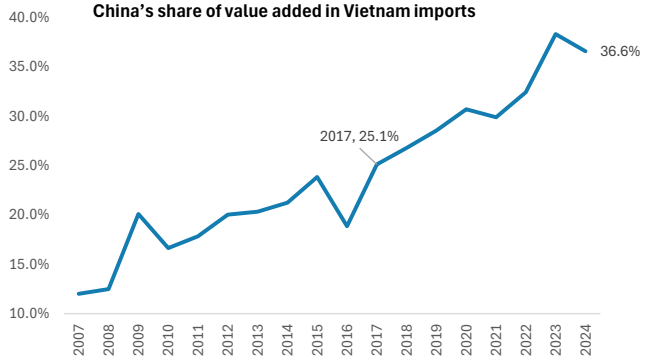


Exhibit 26: ...India and Thailand

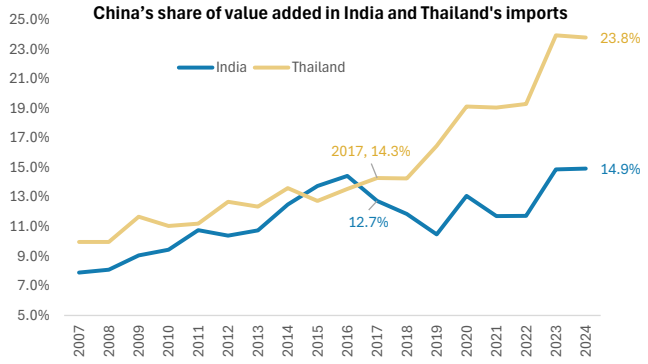
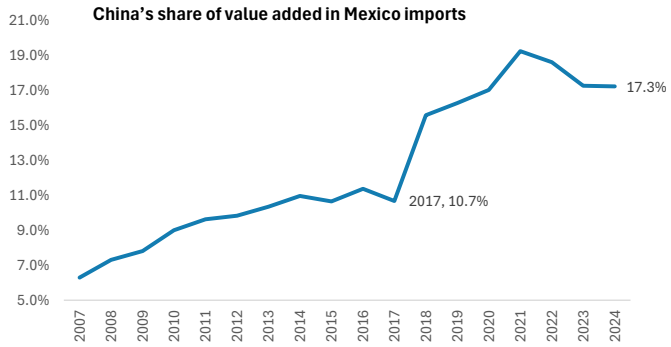


Exhibit 27: Mexico has also seen a similar rise in Chinese content



#2 China's value-added share gains has been felt across most manufacturing sectors

China's value-added share gains have been broad-based across both lower value-added sectors…: Since 2017, China has gained value-added content share in global imports across 10 of the 13 broad manufacturing sectors. Interestingly, the largest by sector share gains have come in lower-value added sectors such as textiles, leather products, footwear and miscellaneous manufacturing (such as toys). This contradicts the common thinking that China would lose competitiveness in lower value sectors to other emerging manufacturing hubs in ASEAN and India. Instead, China has moved to dominate higher value-added processes within the production process in these sectors, while not ceding lower value-added processes, such as final assembly, to those economies. This has allowed it to increase its overall value-added shares in these sectors.

…and higher value-added sectors: At the same time, building production capacity outside China still requires imported machinery, components and materials, as well as ongoing intermediate inputs, which are increasingly sourced from China. China has also made significant inroads into these higher value-added sectors, and now holds 33% value added share in electrical and optical equipment, 24% share in machinery and equipment, and 10% in transport equipment.

This reaffirms our long-standing view that China's strength in manufacturing is anchored by its industrial policy, which continually identifies new emerging high growth sectors in which to increase competitiveness, executed by a mature and integrated domestic manufacturing ecosystem, and backed a financial system aligned to these strategic goals.

Exhibit 28: China now holds substantial global value-added content shares across multiple manufacturing sectors

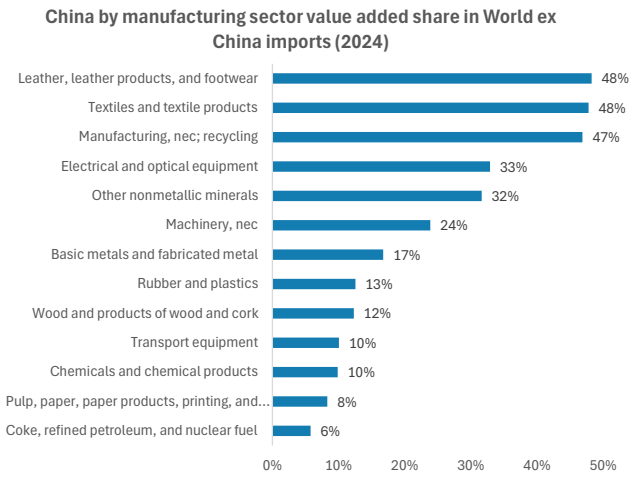


Exhibit 29: China's value-added share gains have been broad-based across both lower value added sectors…

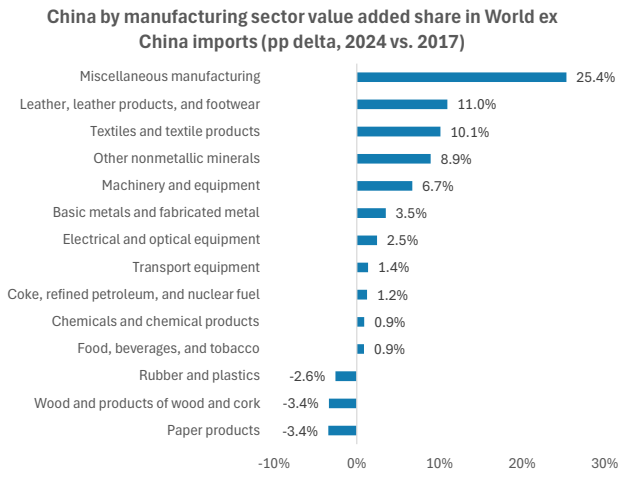


Exhibit 30: …and higher value added sectors, such as machinery and electrical & optical equipment…

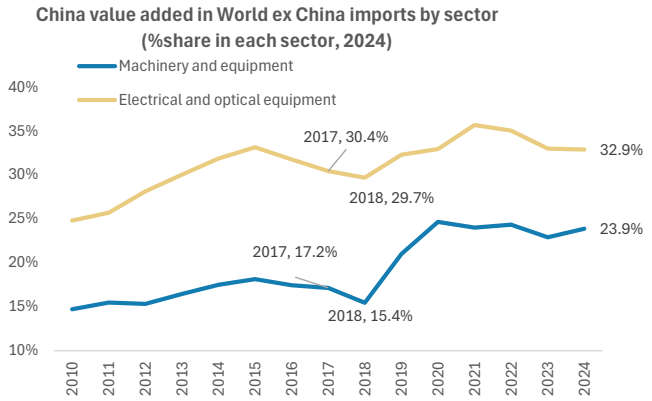
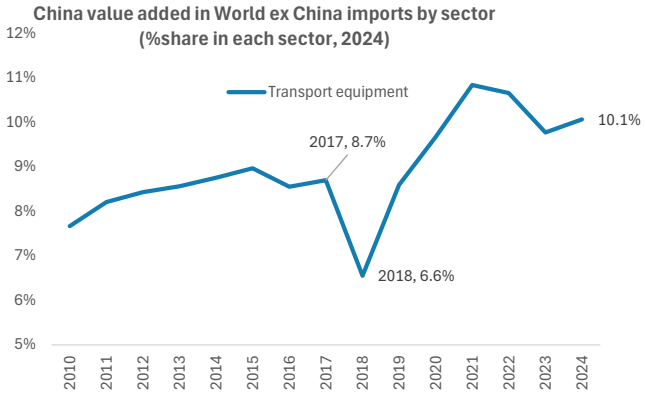


Exhibit 31: …as well as transport equipment



#3: Reducing reliance on China: The US experience of value-added content

Value-added content share in US imports has not declined…: Our analysis on the flow in value-added content provides new evidence that confirms this conclusion. We find that despite the drastic changes at the bilateral trade level, China's share of value-added content in US imports in 2024 is actually more or less the same as it was in 2018, at 15.4%. In other words, the bilateral trade data not only overstates the degree of US-China decoupling, but that the US's reliance on Chinese value-added content has not declined. Having said that, the US has at least stabilized the share of Chinese value-added content in its imports against a backdrop where China's content in the rest of the world ex-US's imports has risen by 2pp over the same period.

…But is increasingly arriving indirectly via other economies: The findings also mean a growing portion of China's value-added content is arriving into the US indirectly – i.e., via third economies – instead of via direct US-China trade. To find out just how much, we subtract the Chinese value add in US bilateral imports from China (i.e., direct Chinese value add) from the Chinese value add in US total imports (i.e., indirect Chinese value add). We find that the share of Chinese value-added content arriving indirectly into the US, expressed as a percentage of total Chinese value add in US imports, has risen from about 18% in 2016 to 25%. Multiplying 0.25 with 15.4%, we know that China indirect value-added content now accounts for 3.9% of value-added content in US imports, up from 2.7% in 2017. In USD terms, this is equivalent to $157bn.

More than pure trade rerouting, we see genuine production relocation while still being dependent on Chinese inputs: This increase in proportion of Chinese value-added content arriving into the US came in two distinct phases – once in 2018 during the first round of US-China tariffs, as share rose from 18% to 20%, and the second time being a persistent increase since 2022 to current levels. Since the second phase of increase is much more material and also predates the tariff actions in 2025, this suggest to us the second phase has been driven more by genuine relocation of production serving US demand to third economies by corporates, which are still reliant on Chinese inputs, rather than pure trade rerouting.

A situation unique to US-China trade: Additionally, we do not observe this same phenomenon when it comes to indirect Chinese value-added content in global ex-US imports. Instead, the ratio of indirect to direct Chinese value-added content in global ex-US imports has been relatively stable.

Exhibit 32: In recent years, Chinese value-added content share in US imports has actually remained relatively stable, even as China's share in US imports declined significantly

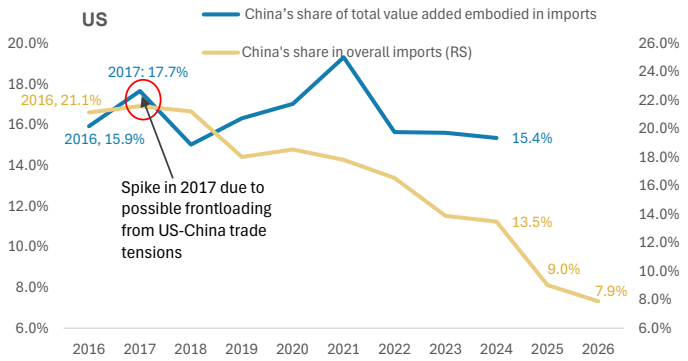


Exhibit 33: We do not observe the same dynamic in the world ex US

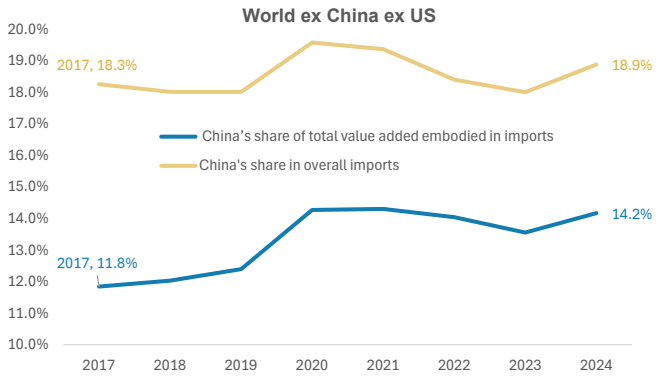


Exhibit 34: A growing share of Chinese value-added content arriving into the US is now doing so indirectly, i.e., via other economies

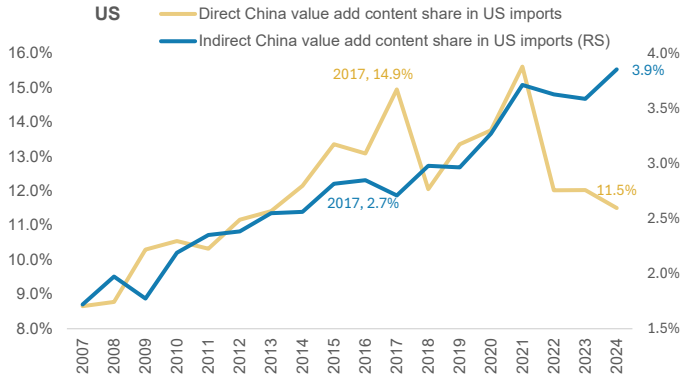


Exhibit 35: The indirect share has now risen to 25%, up 10pp since 2017



Exhibit 36: The same dynamic is not playing out in rest of the world's imports from China…

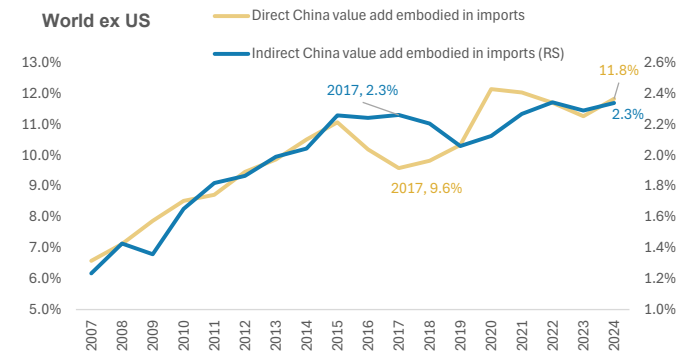
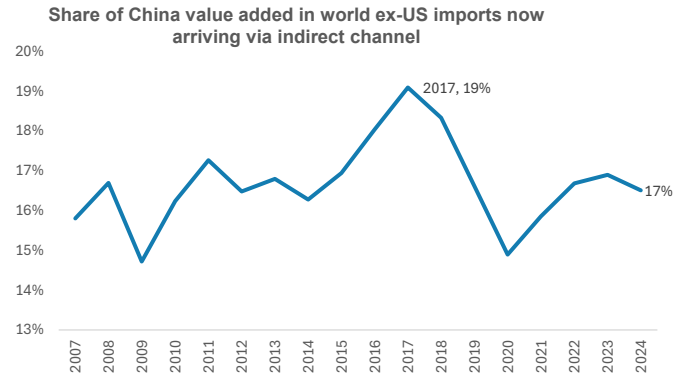


Exhibit 37: …suggesting this remains largely a US-China specific situation



#4: Through which economies is China value-added content going through to reach the US?

Mexico, Vietnam and Taiwan dominate; Asia accounts for half of all indirect flows: Of the US$157bn in indirect Chinese value-added content in US imports, we find that 47% (or $73bn) now goes through Mexico, Vietnam and Taiwan. Mexico accounts for 23%, followed by Vietnam at 15% and Taiwan at 8%. Canada also makes up 6%. Within Asia, Korea (6%), Japan (4%), Singapore (3%), India (3%) and Thailand (2%) are the other major channels. Together, the Asia ex China aggregate (including 11 economies under MS coverage and Vietnam) accounts for 46% of the indirect Chinese value-added content in US imports, underlining Asia's intraregional production network.

Asia stands out on intensity of Chinese value-added content in its US exports: Within major indirect trade routes carrying Chinese content into the US, we find that the intensity, or share of Chinese value-added content in their exports to the US, is highest in Vietnam. For example, while Vietnam accounts for 15% of all indirect Chinese value-added content reaching the US, Chinese value-added content make up 21% of Vietnam's exports to the US. In contrast, the intensity of Chinese value-added content in Mexico's exports to the US is much lower at 8%, even though Mexico makes up a larger 23% of all indirect Chinese value add reaching the US. For the rest of Asia, it is the case that intensity of Chinese value-added content in their exports to the US has risen since 2017 (with the exception of Australia). Apart from Vietnam, Taiwan, Malaysia and Thailand have the highest intensity among MS covered economies.

Exhibit 38: Close to 50% of China's indirect value add into the US is arriving via Mexico, Vietnam and Taiwan

Top 15	Third economies	Share of all Chinese value-added content going to the US via third economies	Chinese value-added content share in the economy exports to the US
1	Mexico	23.4%	7.8%
2	Vietnam	15.4%	21.0%
3	Taiwan	7.9%	9.7%
4	Canada	6.0%	2.0%
5	Rest of the World	5.7%	2.9%
6	Korea	5.6%	6.4%
7	Japan	3.9%	3.5%
8	Singapore	3.5%	6.9%
9	Germany	3.4%	2.5%
10	India	2.7%	2.6%
11	Thailand	2.4%	7.9%
12	Switzerland	1.7%	2.3%
13	Malaysia	1.6%	8.4%
14	Ireland	1.5%	1.7%
15	France	1.5%	2.0%

Exhibit 39: Asia stands out on its intensity of Chinese value-added content in its exports to the US…

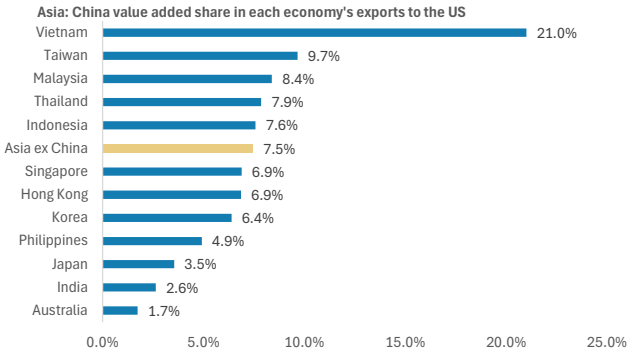
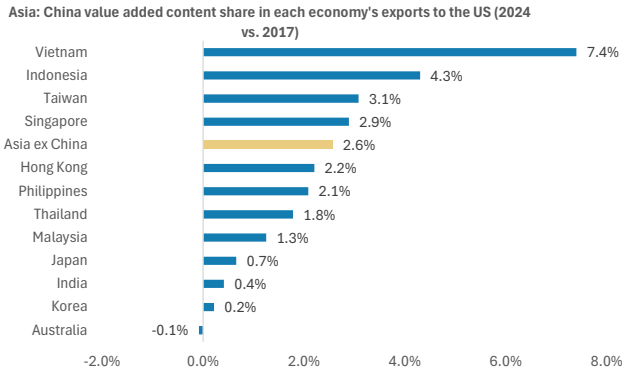


Exhibit 40: …with a broad-based rise in intensity since 2017

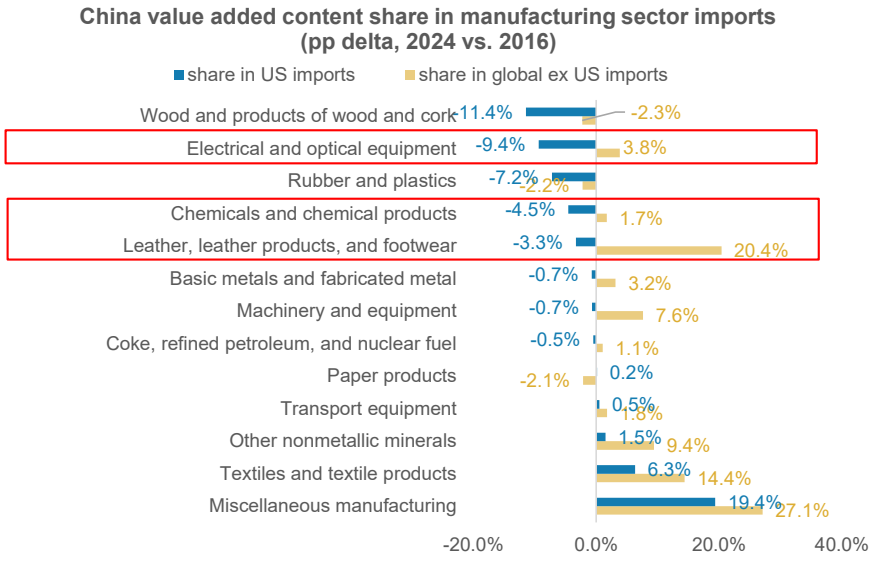


#5: Which US sectors have reduced dependence on China? Which sectors have not?

Only a handful of sectors have reduced their Chinese content: Of the 13 broad manufacturing sectors, only five in the US have seen more than a 1pp decline in China value-added content share in their imports over the past decade. Of those five sectors, we remove wood products, and rubber and plastics, as these sectors are not technologically sensitive and also saw China's value-added content share in the rest of the world ex-US imports decline over the same period, suggesting this may be a part of a global trend rather than necessarily a US-specific supply chain de-risking situation. As such, we identify **electrical and optical equipment, chemical products, and leather products and footwear** as three sectors where China value-added content share in US imports has materially declined, even when the rest of the world ex US imports have observed a rise in China value-added content over the same period.

Close to half of the manufacturing sectors saw increased import dependence on China: Sectors such as miscellaneous manufacturing (including toys), textiles, nonmetallic minerals, paper products and metals all saw varying degrees of increase in Chinese value-added content in their imports. This is broadly consistent with our US public policy team's view, where US de-risking is limited to select sensitive sectors and is slow-paced, while less sensitive sectors remain open for selective cooperation.

Exhibit 41: In the US, only 3 sectors in electrical and optical equipment, chemical products, and leather products and footwear have materially reduced Chinese content in their imports during a period when the rest of the world observed an increase



amid possible front-loading ahead of tariffs. Miscellaneous manufacturing includes toys.

#6: For the rest of Asia, shifting away from China is too challenging

China is now a bigger source of imports for the rest of Asia: Over the past 15 years, China has become an increasingly key import source for the rest of the region, gradually displacing DM exporters such as Europe, Japan and the US as the critical supplier of intermediate inputs and equipment. China's share of rest of Asia imports rose sharply from a trough of 19% in 2012 to a peak of 26% in 2016, before its share temporarily stalled amid rising trade tensions and slowing global trade in 2H18-19. Notwithstanding the Covid-related surge in 2020-21, China's shares in rest of Asia imports has since seen a period of renewed upward momentum, rising to a new high of 27% in 2024.

Exhibit 42: China is now a bigger source of imports for the rest of Asia

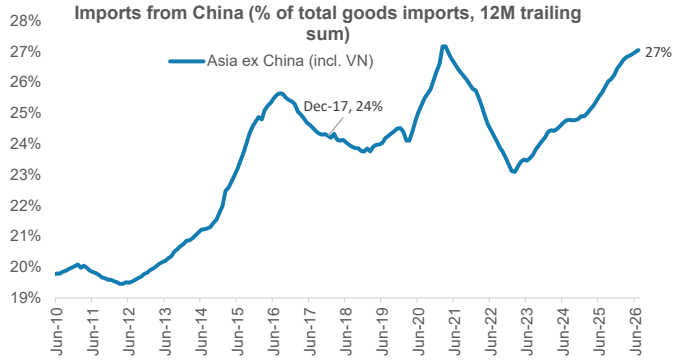
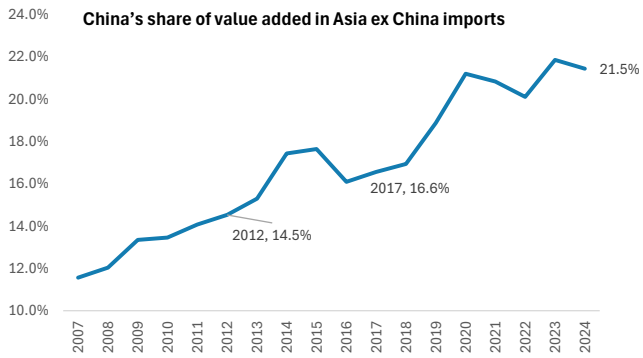


Exhibit 43: China's share of value added in the rest of Asia's imports is also rising



Rest of Asia is importing more Chinese content in its imports on a broad base: Our analysis shows that China's share of value-added content in the rest of Asia's imports has also been rising from 16.6% in 2017, to 21.5% in 2024. The rise in Chinese value-added content in their imports has also been relatively broad-based across all Asia ex China economies, with ASEAN economies and Taiwan seeing larger deltas. Reflecting this, these economies also now have relatively higher Chinese content shares at 24-37%.

Exhibit 44: China value added in rest of the region's imports is highest in Vietnam, Indonesia, and Taiwan

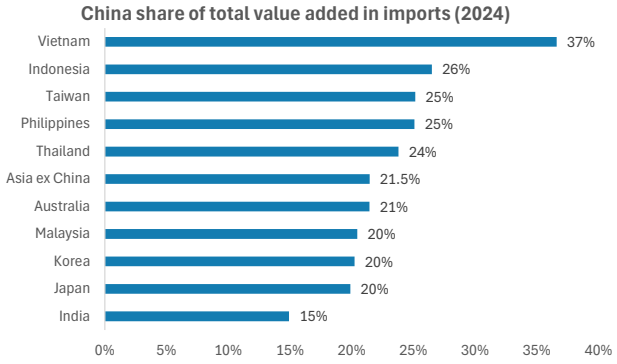
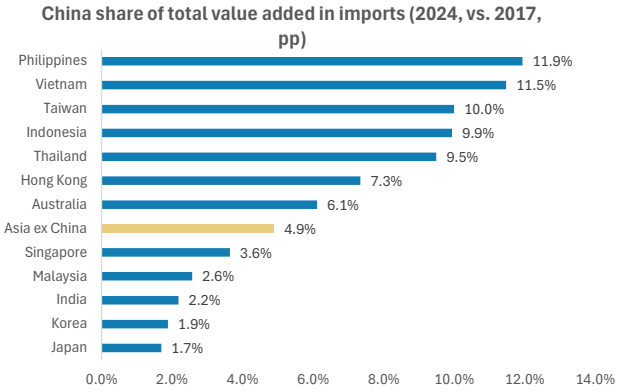


Exhibit 45: China value added in import share has increased across the board in Asia ex China



Chinese content going to rest of Asia is increasingly used for exporting or domestic capex, pointing to regional supply chain integration centred around China: Our analysis also shows that compared to a decade ago, the Chinese value-added content going into rest of Asia is also increasingly used in intermediate inputs for exporting or for domestic capex vs. goods for domestic consumption.

- In 2024, 31% of Chinese content going into rest of Asia was inputs for exporting, up 2pp compared to 2017.
- 31.5% went to domestic capex, roughly constant in recent years, with the delta more narrowly driven by Taiwan, India, Australia and Indonesia.
- 37.6% went to domestic consumption – down 2pp vs. 2017 and 3pp vs. 2014.

To be sure, the aggregate story understates the larger moves at the individual economy level. For example, in Vietnam, the export share is up 5pp vs. 2017 to 55%, while the domestic capex share is up 7pp to 25%. In India, 52% of Chinese content is now used for domestic capex, up 6pp vs. 2017.

Exhibit 46: Chinese content going to rest of Asia increasingly used for exporting or domestic capex, pointing to regional supply chain integration centred around China

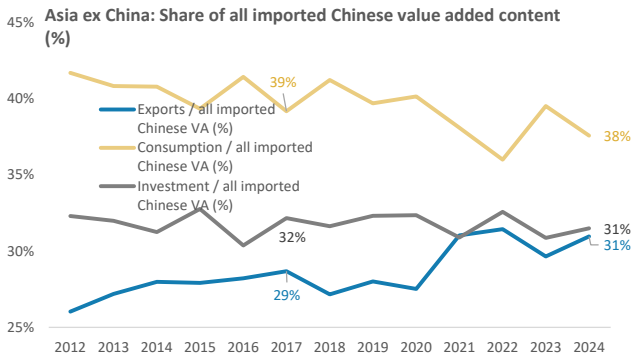


Exhibit 47: In Singapore, Vietnam, and Taiwan, the majority of Chinese value added content goes into exports

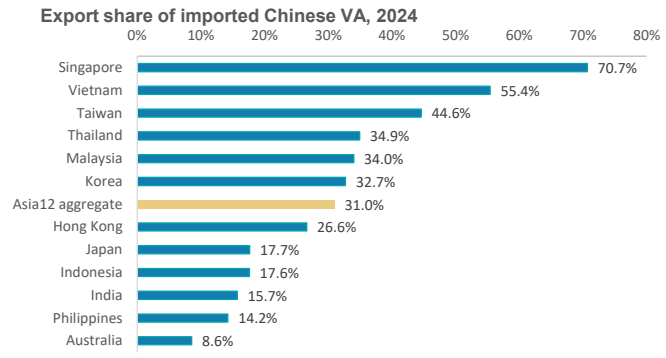


Exhibit 48: Chinese content into India and Indonesia is going mostly towards domestic capex purposes

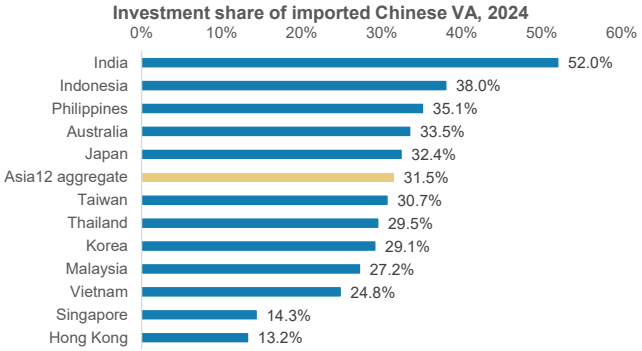
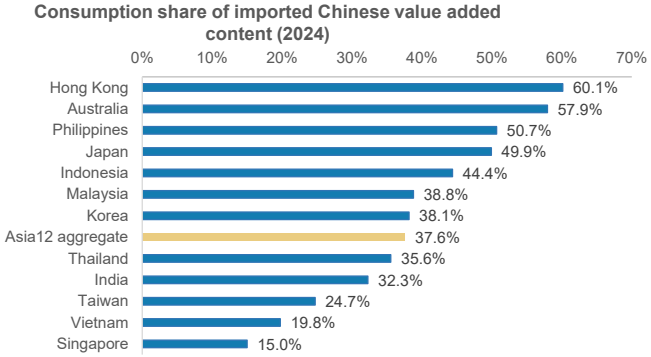


Exhibit 49: Largest share of Chinese content still goes into regional consumption, though shares have been decreasing over time



Chinese content is rising across export destinations: The same rise in Chinese value-added content is also visible from rest of Asia's exports as well. Over the past decade, the value add share has increased almost 2pp to 6.1% of overall rest of Asia exports. It would be easy to attribute most of this rise to exports to the US, but we observe a rise in Chinese value-added content in both rest of Asia exports to the US as well as non-US destinations. In this sense, the rise cannot be purely explained as an alternative way for China to serve the US market. Rather, we think a material shift towards reliance on Chinese inputs in regional supply chains has taken place.

FDI from China is reinforcing these linkages in ASEAN: Alongside trade in inputs, foreign direct investment from China is providing another channel through which production networks are being strengthened in the region, in particular in ASEAN. China's outbound investments into ASEAN economies now account for 30% of its total FDI inflows. To be sure, there may be an understatement of actual flows for ASEAN economies as FDI flows from China tend to be redirected via conduit economies, such as Singapore and Hong Kong, before reaching ASEAN, with China's outward FDI into Singapore and Hong Kong accounting for two-thirds of its overall outward FDI. Within ASEAN, the increases have been more pronounced for Singapore (+2.6pp), Thailand and Vietnam (+0.6pp). For India, while FDI inflows from China have been depressed due to geopolitical tensions, recent moves to ease restrictions on Chinese investments may pave the way for increased flows. For the rest of Asia, such as Japan, Korea, and Taiwan, these economies tend to have a lower reliance on FDI at the starting point.

Exhibit 50: China value-added share in the region's ex China's exports is rising for both exports to the US, as well as to the rest of the world

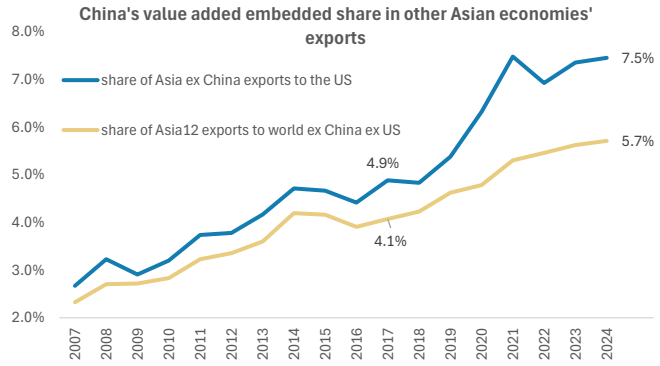
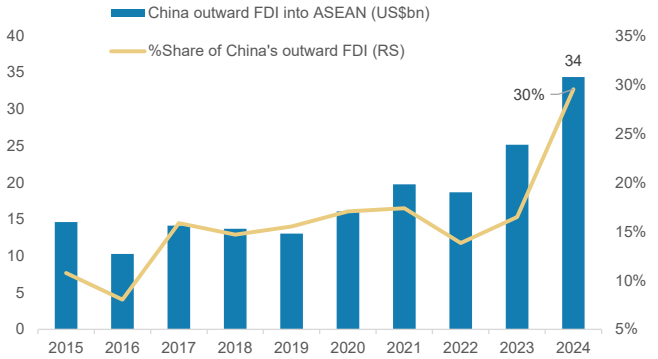


Exhibit 51: FDI from China is reinforcing these linkages in ASEAN



#7: Outlook: Diversification is achievable, but decoupling will be challenging

Decoupling will be challenging, reaffirming our global base case: Our findings above reaffirm our global economics team's views that even as global pressures to de-risk supply chains continue to rise under a multipolar world, achieving actual supply chain realignment – especially in the context of decoupling from Chinese value-added content – remains challenging (see Global Economic Thematic: Multipolar World: Supply Chain Strain, Feb. 17, 2025). Modern supply chains are geographically concentrated and technologically complex, which in turn take significant up-front investment to shift, with geopolitical distances between trade partners further complicating these shifts. As such, further rewiring of supply chains away from China will take time to develop, introduce higher costs for corporates, and increase risks as well.

For the US, limited onshoring will constrain the ability to decouple from China value-added content: On the US front, our global economics team argues that true reshoring requires sustained growth in domestic capital stock and manufacturing capability. Given the US has such a shortage of modern capital stock after years of under-investment and such high import dependency, any reshoring efforts are likely to be narrowly focused, highly technical, and in any case require a front-loading of imports to establish modern capital stock (see Global Economic Briefing: Reshoring? Not Quite Yet, Jun. 9, 2026).

China's manufacturing strength underpins this challenge: Importantly, we believe China will continue to consolidate its dominance in global manufacturing, complicating any efforts to reduce reliance on Chinese value-added content. As we have been highlighting in past reports, China's industrial policy-driven growth model has been built on anticipating global demand trends and building capacity to meet future demand in new emerging sectors (see Asia Economics: Why China will widen its lead in global manufacturing exports, Dec. 7, 2025).

In the next phase, our China economics team sees China entering a new phase of industrial development in the form of "Industry 5.0", featuring AI- and robotics enabled manufacturing. Even as China +1 strategy and reshoring efforts intensify, China's upstream ecosystem strength will mean it will increasingly become a case of 'Made by China' rather than 'Made in China', with China supplying the components, machinery, production systems, technology, and service networks for manufacturing overseas (see Bluepaper: China's Next Industrial Revolution, Sep. 9, 2026). By 2030, we project China's market share in global exports will reach 16.5%, up from the current 15%. These factors will likely ensure China's value-added content share in not just US but also the rest of the world's imports will continue to rise.

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