



# **RCAS Commentary**

## **China Weathers Supply Chain Turbulence**

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## About RCAS

RCAS is a non-profit research organization focusing on the maritime issues and regional integration in the Indo-Pacific region. It is a newly-established institution founded in February 2022 by Dr. Nian Peng, Associate Professor of the School of Foreign Studies at Hainan Normal University, Haikou, China. We, at the moment, have an international research team with resident/non-resident researchers from China and other Asian states.

RCAS seizes the opportunity that China is building Hainan Free-Trade Port in which the Hainan Island will become an important window for China's opening up to the Pacific Ocean and the Indian Ocean to become a leading research institute and think tank on maritime affairs in the Indo-Pacific region. So far, RCAS focuses on the maritime disputes and maritime cooperation in the Pacific Ocean and the Indian Ocean, and various regional cooperation mechanisms such as BRI, LMC, RCEP and so on. It is committed to promoting the maritime cooperation, regional integration and academic exchanges in the Indo-Pacific region at large.

RCAS has received a number of research funding from universities and foundations, and conducted research programs of the South China Sea(SCS) dispute, China-South/Southeast Asian relations, BRI in South/Southeast Asia, terrorism/anti-terrorism in Afghanistan, and so on. RCAS researchers have won various awards from the Chinese Ministry of Commerce and the Hainan government.

RCAS has published nearly 10 books in Chinese and English, and more than 20 papers on SSCI/SCOPUS/CSSCI-indexed journals. Recent English publications include *Populism, Nationalism and South China Sea Dispute: Chinese and Southeast Asian Perspectives*(Singapore: Springer Nature, 2022); *Crossing the Himalayas: Buddhist Ties, Regional Integration and Great-Power Rivalry*(Singapore: Springer Nature, 2021); *The Reshaping of China-Southeast Asia Relations in Light of the COVID-19 Pandemic*(Singapore: Springer Nature, 2021); *International Pressures, Strategic Preference and Myanmar's China Policy since 1988*(Singapore: Springer Nature, 2020); *Managing the South China Sea Dispute: Multilateral and Bilateral Approaches*(2022); *Hedging Against the Dragon: Myanmar's Tangled Relations with China since 1988*(2021); *The Budding Indo-Myanmar Relations: Rising But Limited Challenges for China*(2019).

RCAS has also published hundreds of articles and been interviewed in various local and international media outlets such as Asia Centre in France, *The Diplomat* in the United States, *East Asian Forum(EAF)* in Australia, *Bangkok Post* in Thailand, *Lian He Zao Bao* and *Think China* in Singapore, *South China Morning Post(SCMP)* and *China-US Focus* in Hong Kong, *CGTN* and *Global Times* in China. RCAS researchers have actively participated in international conferences or study visits in the US, India, Pakistan, Sri Lanka, Nepal, Myanmar, Cambodia, and other places. Welcome to visit our website: <http://www.rcas.top>.

# **ASEAN Wins with China Initiative**

Nian Peng

The latest round of COVID-19 in China has brought the suspension of some foreign factories in Shanghai, the biggest commercial center and the most infected area since early this year. At the same time, the economies of Vietnam and India have continued to recover, with their foreign exports have increased significantly. Some analysts, therefore, conclude that the pandemic has seriously affected China's position in the global supply chain, and Vietnam and India will catch up or even replace it.

This reminds me of the beginning of the COVID-19 pandemic two years ago, when the Western media claimed that the Chinese economy would decline, with a sharp decrease in Chinese foreign exports resulting in the loss of the center of global supply. But China's economy recovered quickly and returned to a relatively rapid growth rate. Moreover, the country's advantages in the global supply chain have solidified in the new context of a reconstructed industrial chain, which is moving eastward.

According to the General Administration of Customs of China, China's exports of goods increased by 13.5 percent in the first quarter of this year and by 21.2 percent in 2021. Among these goods, the export of mechanical and electrical products, which are at the core of the supply chain, maintained good growth. This sector increased by 9.8 percent in the first quarter of this year and by 20.4 percent in 2021. China's foreign export growth trend is obvious, and mechanical and electrical products remain competitive in the global market.

In Vietnam during the same period, exports increased by 12.9 percent in the first quarter of 2022 and 19 percent in 2021, according to its Ministry of Industry and Trade. India's trade ministry reported an export increase of 43.2 percent in the 2021-22 fiscal year (April 2021 to March 2022)

— the highest export growth rate, followed by China and Vietnam. This reflects a good economic recovery in Vietnam and India. With the global industrial shift, their position in the supply chain has gradually risen.

Still, it is not easy for Vietnam and India to replace China. First of all, the two are not on the same order of magnitude as China. In fact, whether speaking of total export volume or the export value of mechanical and electrical products, there is little comparison. For example, China's total exports of goods in the first quarter of this year and the whole of 2021 were \$791.3 billion and \$3.28 trillion, respectively. Vietnam was only \$89.1 billion and \$336.3 billion respectively. India was only \$418 billion between April 2021 and March 2022. In 2021, China's mechanical and electrical products exports were \$1.9 trillion, Vietnam's were \$57.54 billion India's were only \$16.1 billion.

Of course, considering the rapid growth of exports in Vietnam and India at present and for some time to come — especially in the fast-growing field of electrical products — they will compete with Chinese exports.

Second, the supply chains of Vietnam and India have their problems. According to the Chinese Ministry of Industry and Information Technology, in October 2020 China was the only country in the world with all 41 industrial categories. Of the more than 500 major industrial products worldwide, China has more than 220. This has greatly improved the ability of China's supply chain to withstand more pressure and absorb economic blows.

Compared with China, Vietnam and India have not yet established a complete industrial system. Further, the upstream and downstream industries of their supply chains are uneven. This has led to a heavy external dependence on supply chains in both countries and wobbly supply chains. For example, Samsung's Vietnam factory was unable to organize production when the external supply chain was broken during the pandemic because most of the raw materials, semi-finished

products and excipients had to be imported from the outside.

In addition, although Vietnam and India's exports have grown rapidly in recent years, the two countries include a large share of resources and agricultural products among their export commodities, and the proportion of manufactured goods is low. Therefore, Vietnam and India need to undergo industrial upgrading to significantly improve their position in the global supply chain. This is not an easy task.

Finally, while the United States, Japan and other Western countries currently support Vietnam and India vigorously to replace China as the new "world factory," those countries have many problems with infrastructure construction and institutional management that hinder the large-scale entry of foreign companies. This limits the ability of Vietnam and India to quickly and efficiently establish large-scale industrial clusters by attracting foreign investment.

The restructuring of global supply chains is still in progress, and industrial transfers between countries is normal. But there is still a big gap between industry transfers and supply chain building. Rational policies, abundant funding, advanced technology and the emergence of significant opportunities are all necessary conditions to create robust supply chains. In this regard, Vietnam and India still have a long way to go. China has also fully recognized the negative impact of the COVID-19 pandemic on the stability of its supply chains. Controlling the pandemic, selectively resuming production and work and continuing to strengthen its supply chains around the world are China's top priorities.

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## About Author



Nian Peng is the Director of Research Centre for Asian Studies, Haikou, China, as well as the Executive Director&Associate Professor of Research Centre for SAARC States, Hainan Normal University, China. He holds a Ph.D. in Government and International Studies at Hong Kong Baptist University. His main research interests are in the areas of China-Southeast/South Asia relations, Belt and Road Initiative (BRI) and maritime security of the Indo-Pacific. He authored five books-*Populism, Nationalism and South China Sea Dispute: Chinese and Southeast Asian Perspectives*(Springer Nature, 2022), *Crossing the Himalayas: Buddhist Ties, Regional Integration and Great-Power Rivalry*(Springer Nature, 2021), *The Reshaping of China-Southeast Asia Relations in Light of the Covid-19 Pandemic*(Springer Nature, 2021), *International Pressures, Strategic Preference, and Myanmar's China Policy since 1988* (Springer Nature, 2020) and *Leng Zhan Hou Yin Mian Guan Xi Yan Jiu [A Study on Indo-Myanmar Relations after the Cold-War]*(Shi Shi Chu Ban She [Current Affairs Press], 2017). His refereed articles have been notably published in *Ocean Development and International Law*, *Pacific Focus*, *Asian Affairs*, *Dong Nan Ya Yan Jiu [Southeast Asian Studies]*, *Nan Ya Yan Jiu [South Asian Studies]* and *Nan Ya Yan Jiu Ji Kan [South Asian Studies Quarterly]*. He also contributes his perspectives to many think tanks and various local and international media outlets such as Asia Centre in France, *East Asian Forum* in Australia, *The Diplomat* in the USA, *Bangkok Post* in Thailand, *Lian He Zao Bao* in Singapore, *South China Morning Post* and *China-US Focus* in Hong Kong, *Global Times* and *CGTN* in China.