

# De-risking Strategy: From Direct to Indirect Dependency?

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# Motivation

*“(verb) the act of diversifying supply chains to avoid relying too heavily on one geography”*  
-- (Financial Times, 2024)

- US: to try to ameliorate vulnerabilities (IT, energy, biotech), correct for overdependence, but not to decouple from China

Finance and economics | Rising tigers, hidden dragon

## How America is failing to break up with China

The countries' economic ties are more profound than they appear

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## The West's de-risking strategy towards China will fail, says Chris Miller

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## 'We are not decoupling': G-7 leaders agree on approach to 'de-risk' from China

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## West's de-risking starts to bite China's prospects

By Joe Cash, Ellen Zhang and Kane Wu

China / Diplomacy

## De-risk? Decouple? A Chinese official says it's just the West disrupting supply chains

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## US-China trade war will hit ASEAN economy harder

FORBES

## U.S.-China Trade War Boosts Fast-Growing Southeast Asia

# Approach

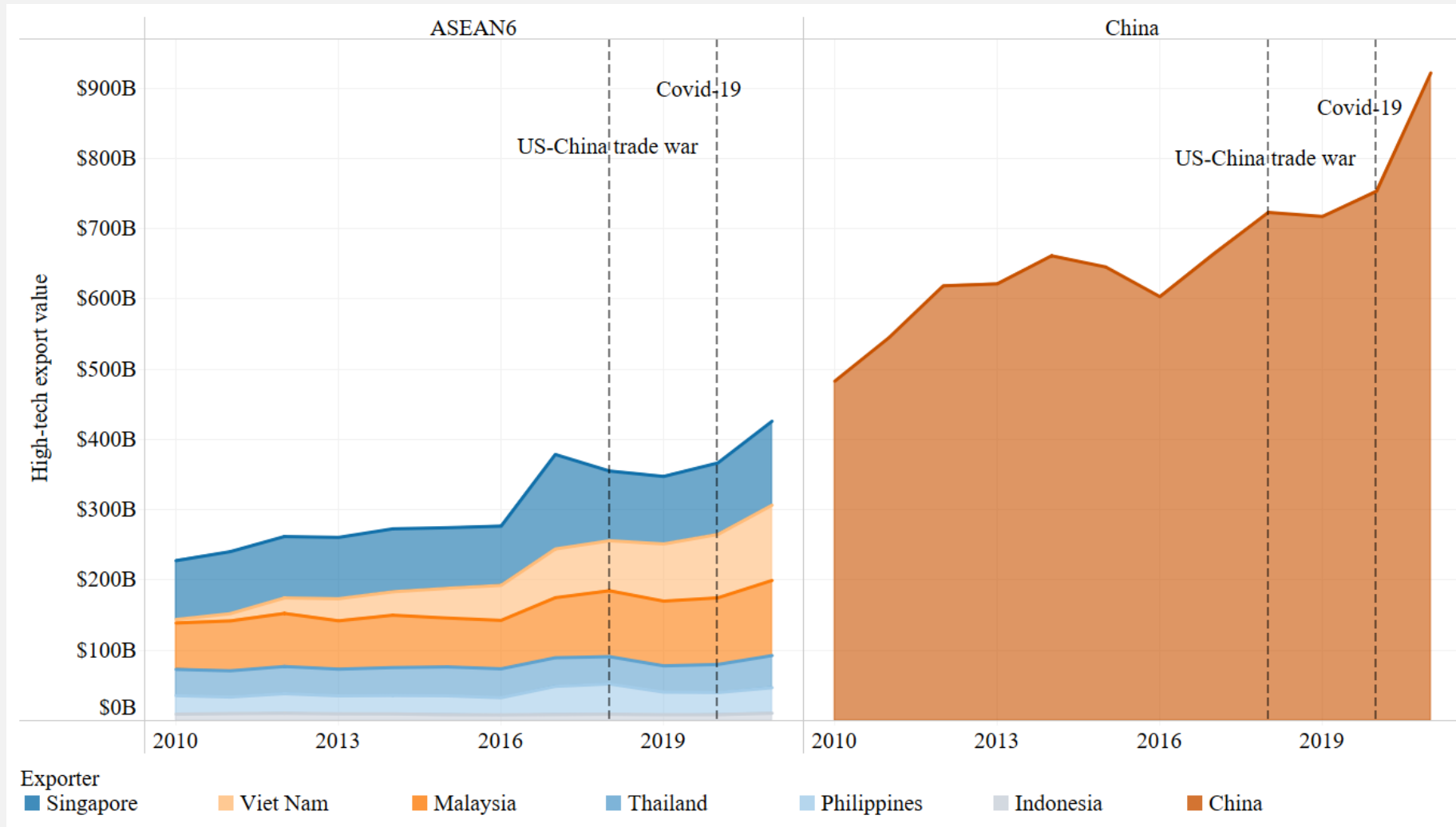
- Existing analysis focuses on trade/FDI in a broad sense
- There was scarce discussion about trade/FDI in high-tech industries
- Question: Is the US's de-risking strategy effective, or is it merely shifting the dependency from direct to indirect channels?
- This research focuses on:
  - Trade and FDI in high-tech industries
  - The supply chain involving China and ASEAN-6, namely Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam

# Data

- Export data: BACI data
- FDI: Orbis Crossborder Investment Database
- High-tech products: products belonging to SITC Rev.3 high-tech industries under OECD's R&D intensity industrial classification
  - Examples: computers – office machines, electronics – telecommunications, pharmacy
- Product Category: Broad Economic Categories (BEC) Rev.5,
  - HS2012 products can be classified into 3 end-use categories:
    - 1) intermediate consumption
    - 2) gross fixed capital formation
    - 3) final consumption

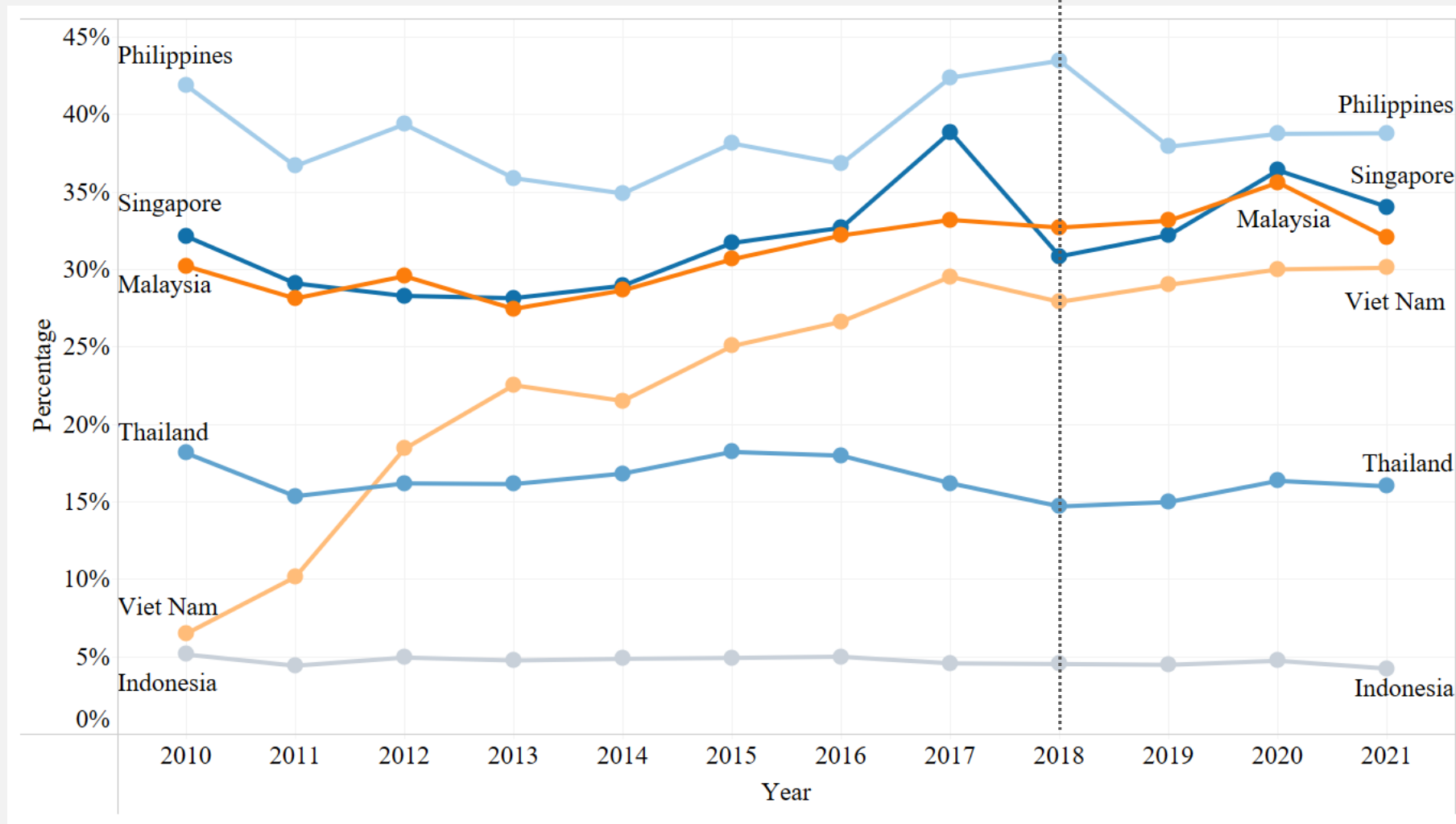
# High-tech exports and FDI in ASEAN-6 and China

# High-tech exports in ASEAN-6 and China



- China is the largest high-tech exporter among these countries
- Vietnam is the fastest climber, jumped from 5 to 107 billion USD in the last decade

# High-tech exports in ASEAN-6 (% of total exports)

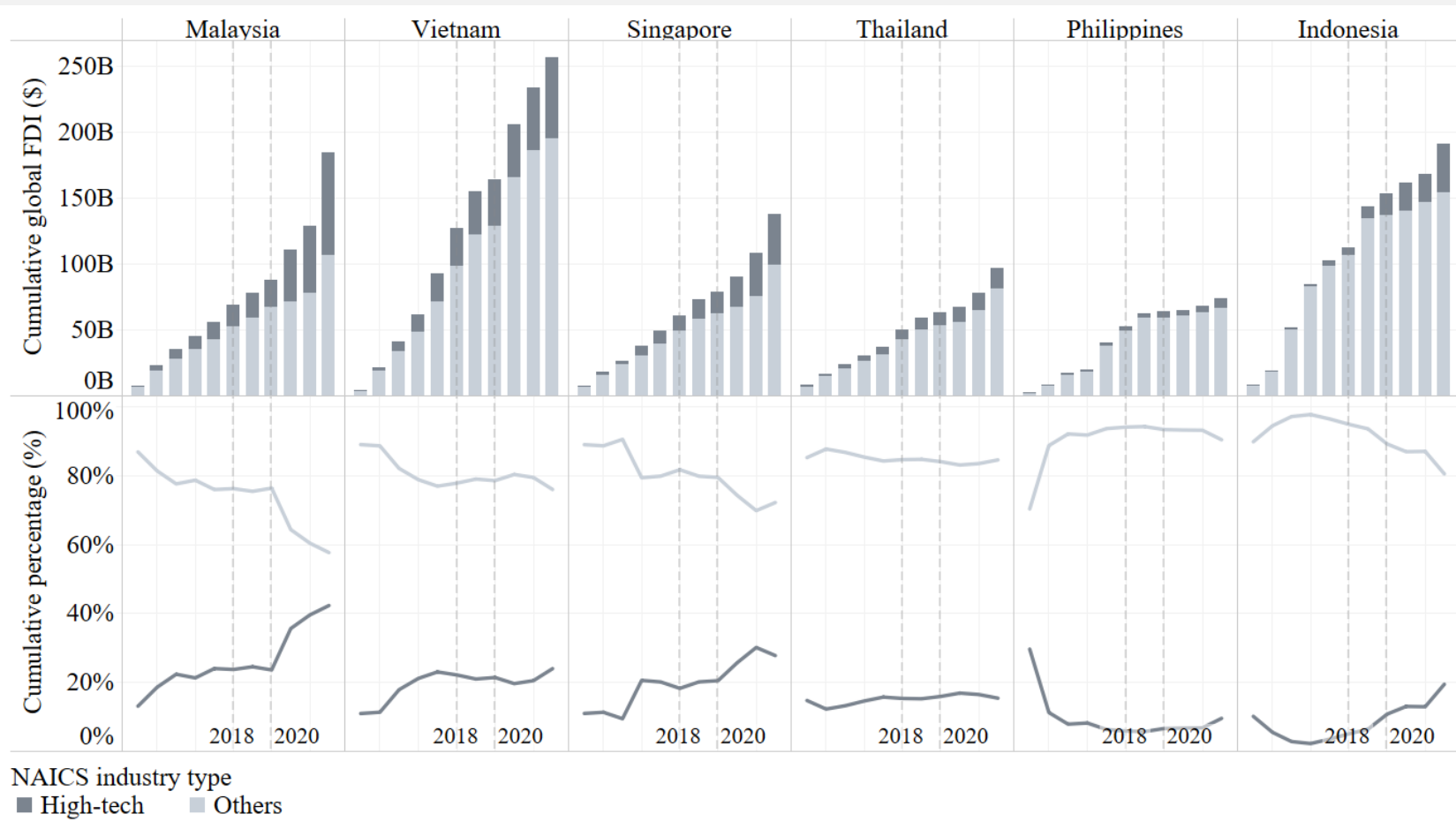


Source: ACI analysis using BACI data

- Vietnam's export sophistication level upgraded the fastest.

# Global high-tech FDI stocks in ASEAN-6

- In 2013-2023, Vietnam received the most FDI in total, followed by Indonesia and Malaysia.
- Malaysia attracted the highest percentage of high-tech FDI among all ASEAN-6 countries.
- Up to 80% of the investments in Indonesia went into non-high-tech industries before 2018.



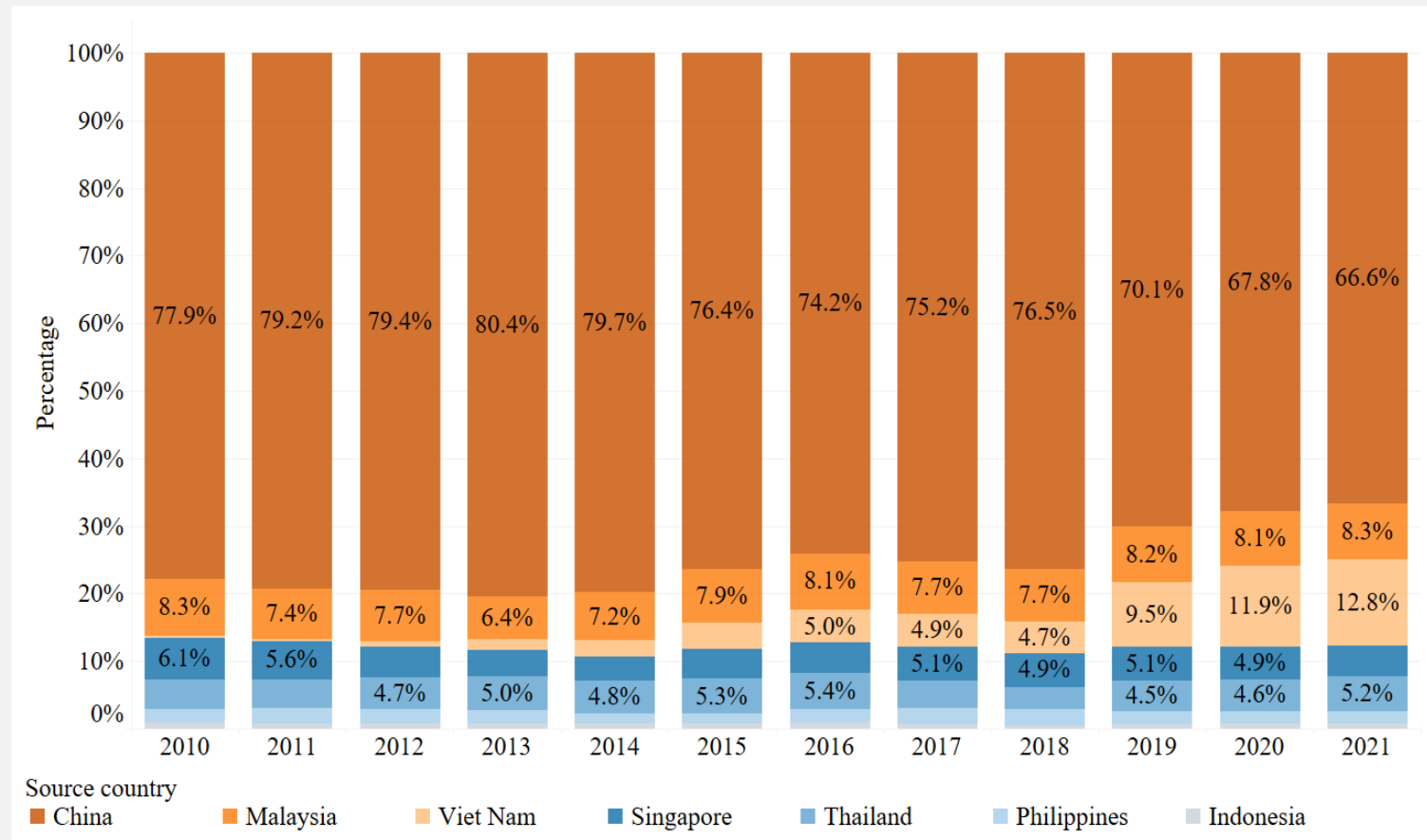


Effectively diversify the  
supply chains?

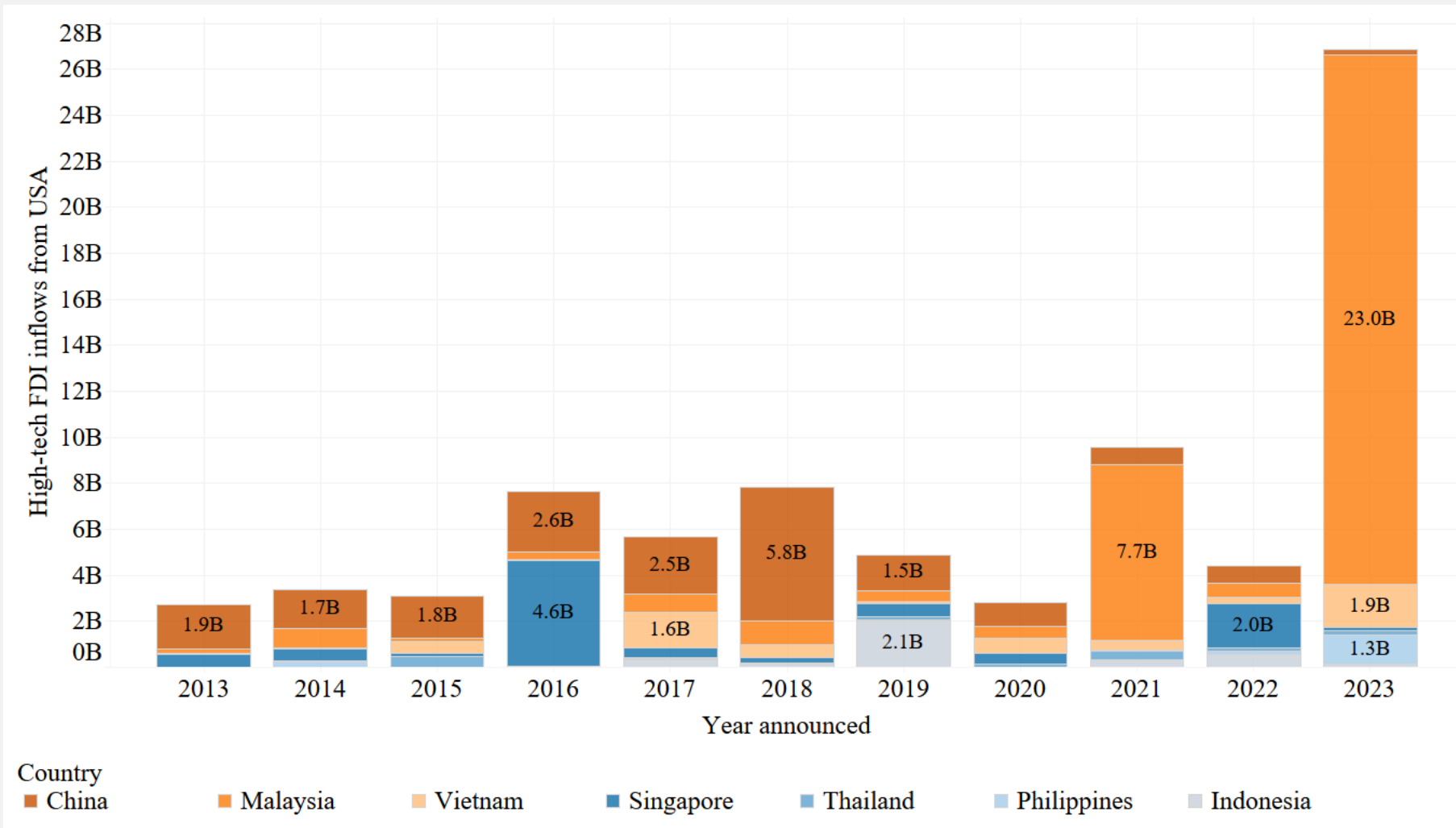
# Increase in import from ASEAN-6

## US's high-tech import sources

- The US has been reducing its dependency on China
- China's share of US imports has fallen by almost 10 percentage points in 5 years
- Vietnam has emerged as an increasingly important import source of the US

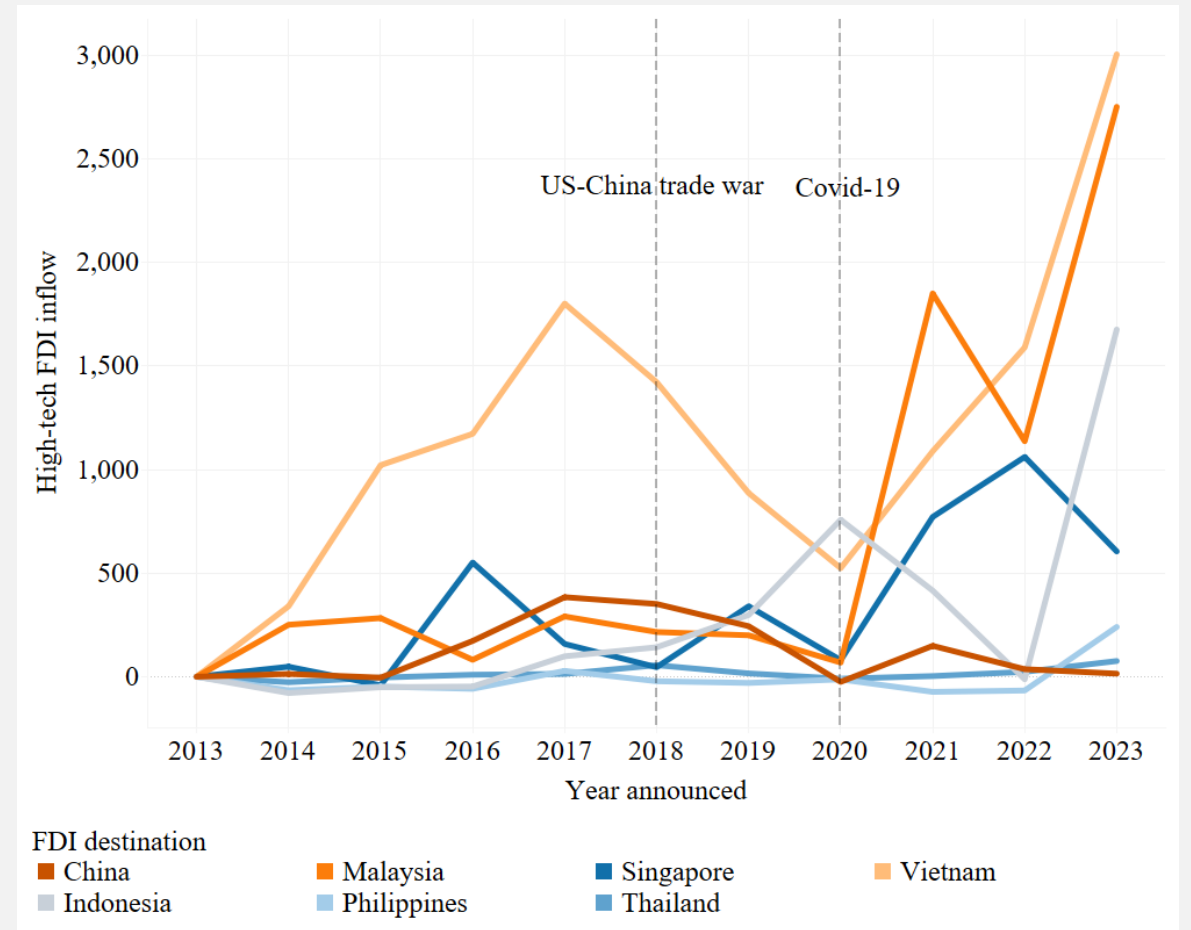
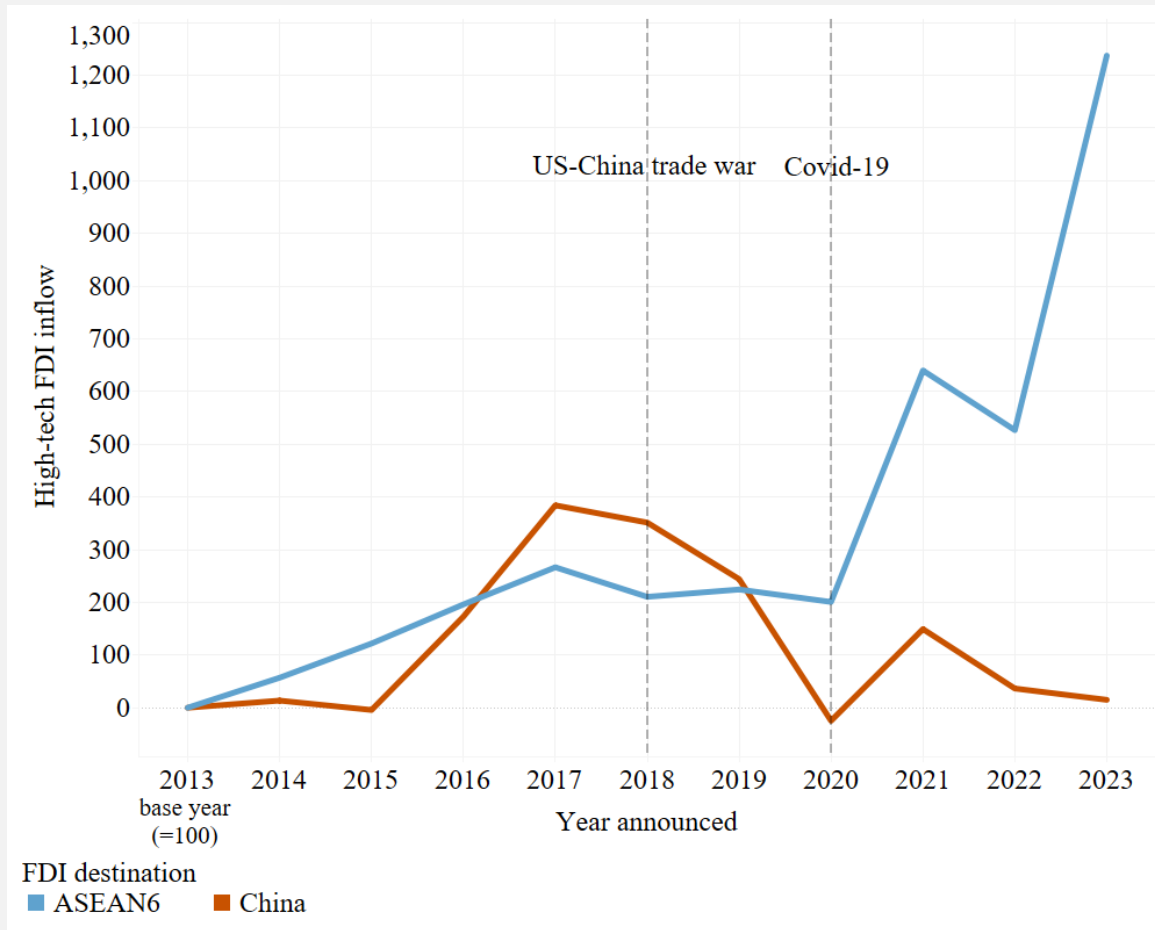


# Outward US high-tech FDI goes to ASEAN-6



- China is no longer a prominent destination for outward US high-tech FDI, being replaced by Malaysia, Singapore, Indonesia, Vietnam

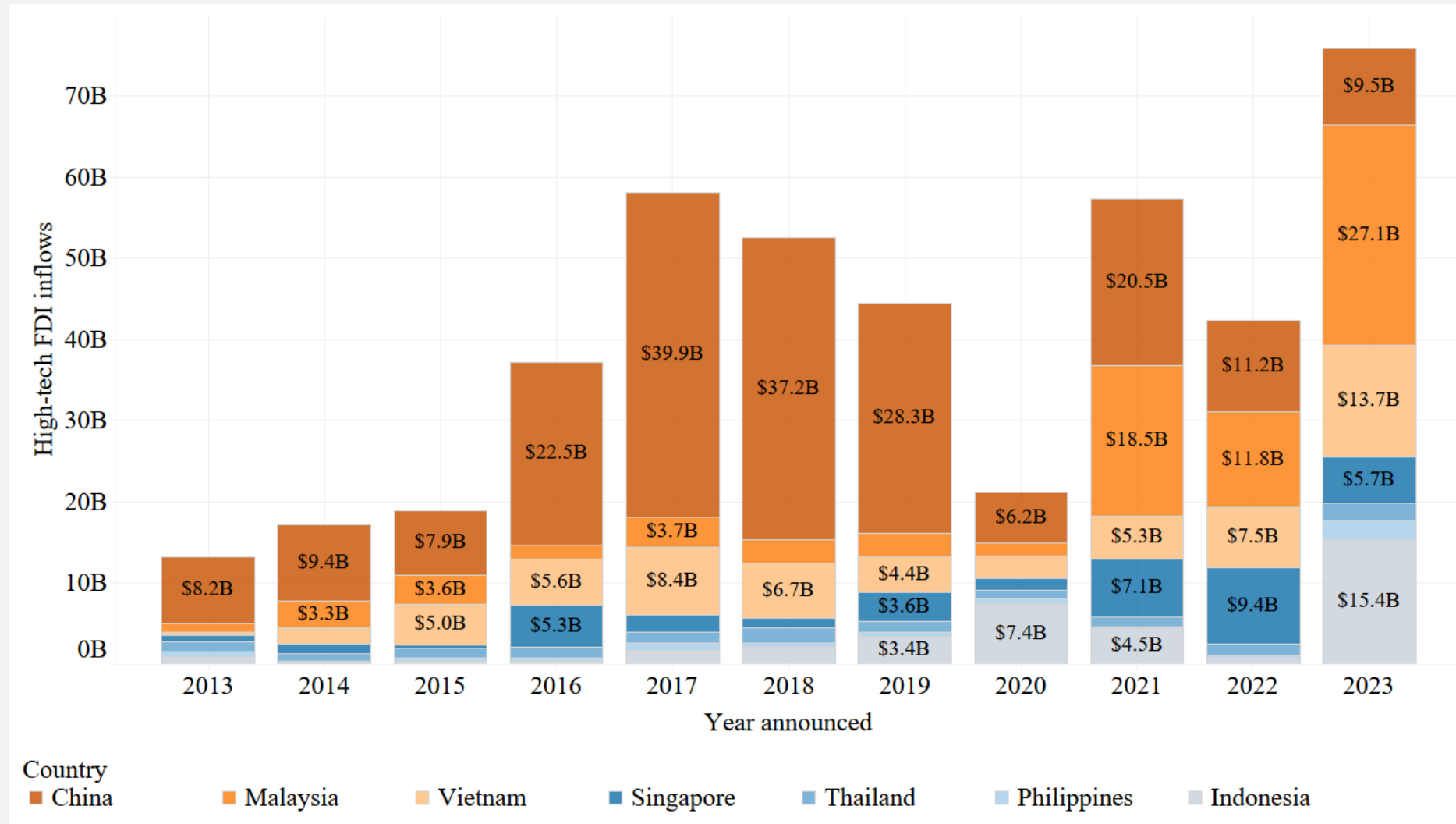
# Increase in global high-tech FDI inflows to ASEAN-6



Source: ACI analysis using Orbis FDI data

- Remarkable surge of investment into ASEAN-6
- This upsurge is predominantly concentrated in Vietnam, Malaysia, and Singapore

# Global high-tech FDI inflows into ASEAN-6 & China



- In 2017: FDI inflows into China peaked, reaching nearly US\$ 40 billion
- The subsequent years show the distribution across ASEAN-6 has increased

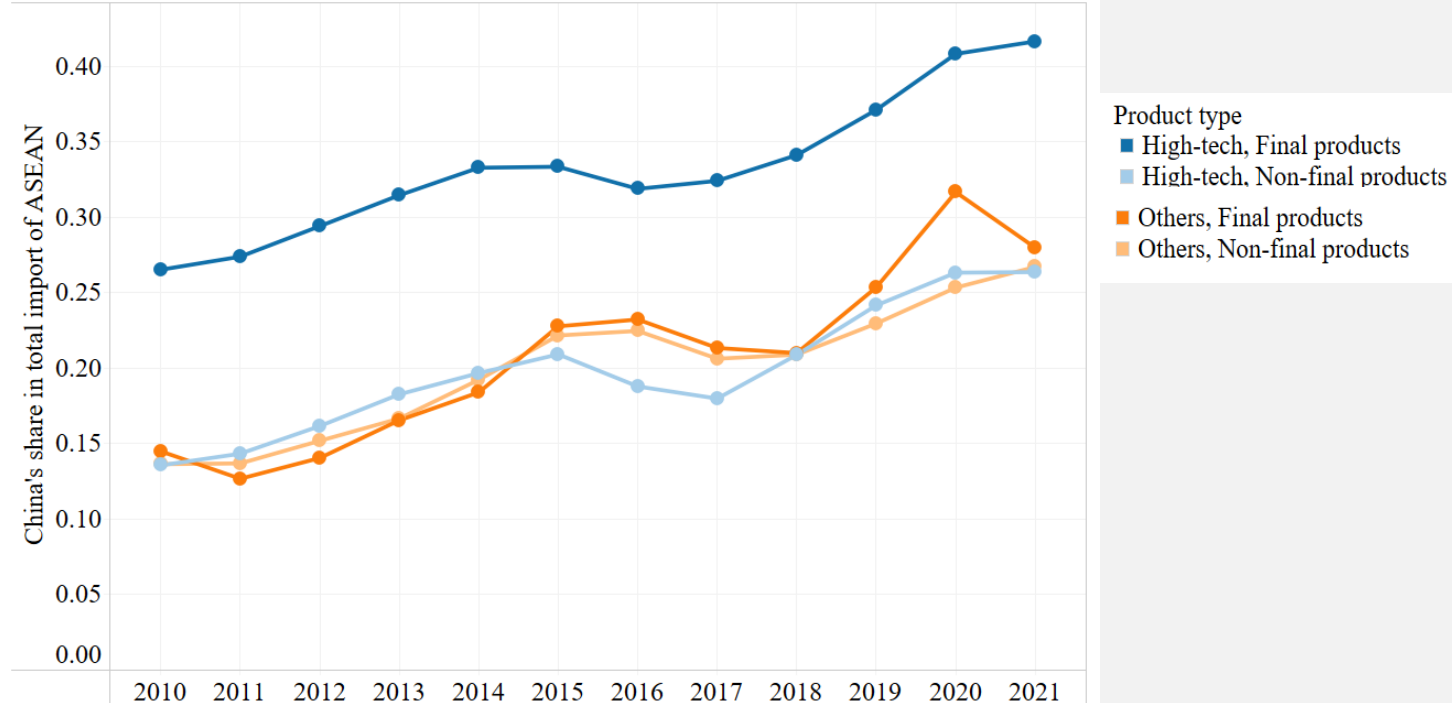
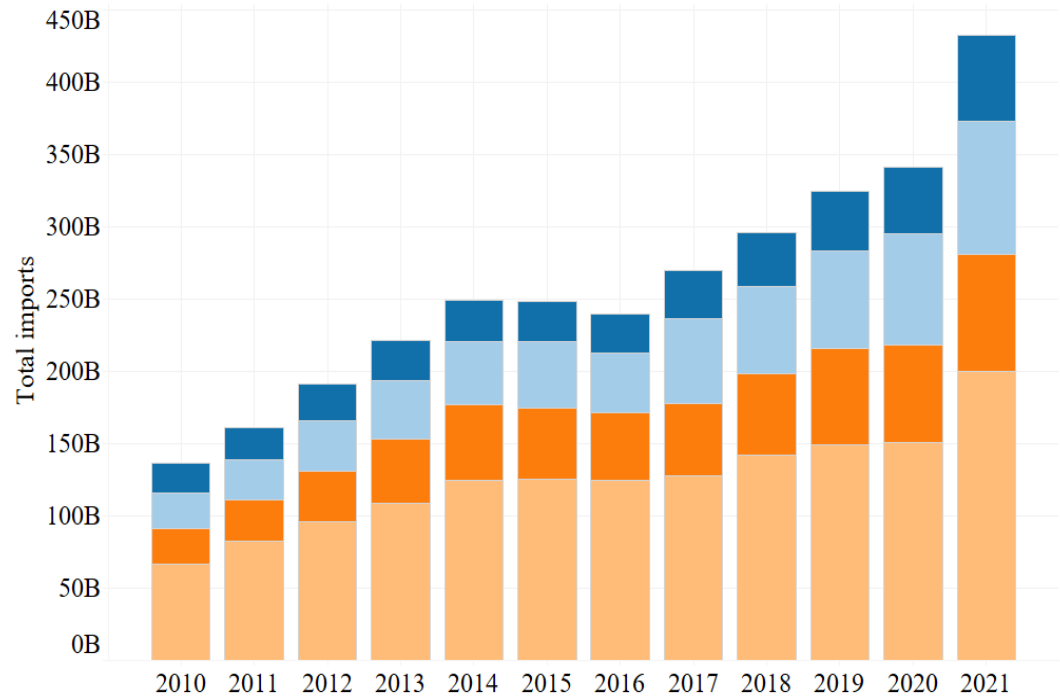
# Growth in export sophistication of ASEAN-6

- Shift towards more advanced manufactured goods with high technology intensity
- Machinery/Electrical
- Chemicals & Allied Industries



Or is it merely shifting the dependency from direct to indirect channels?

# Increase in ASEAN-6's imports from China

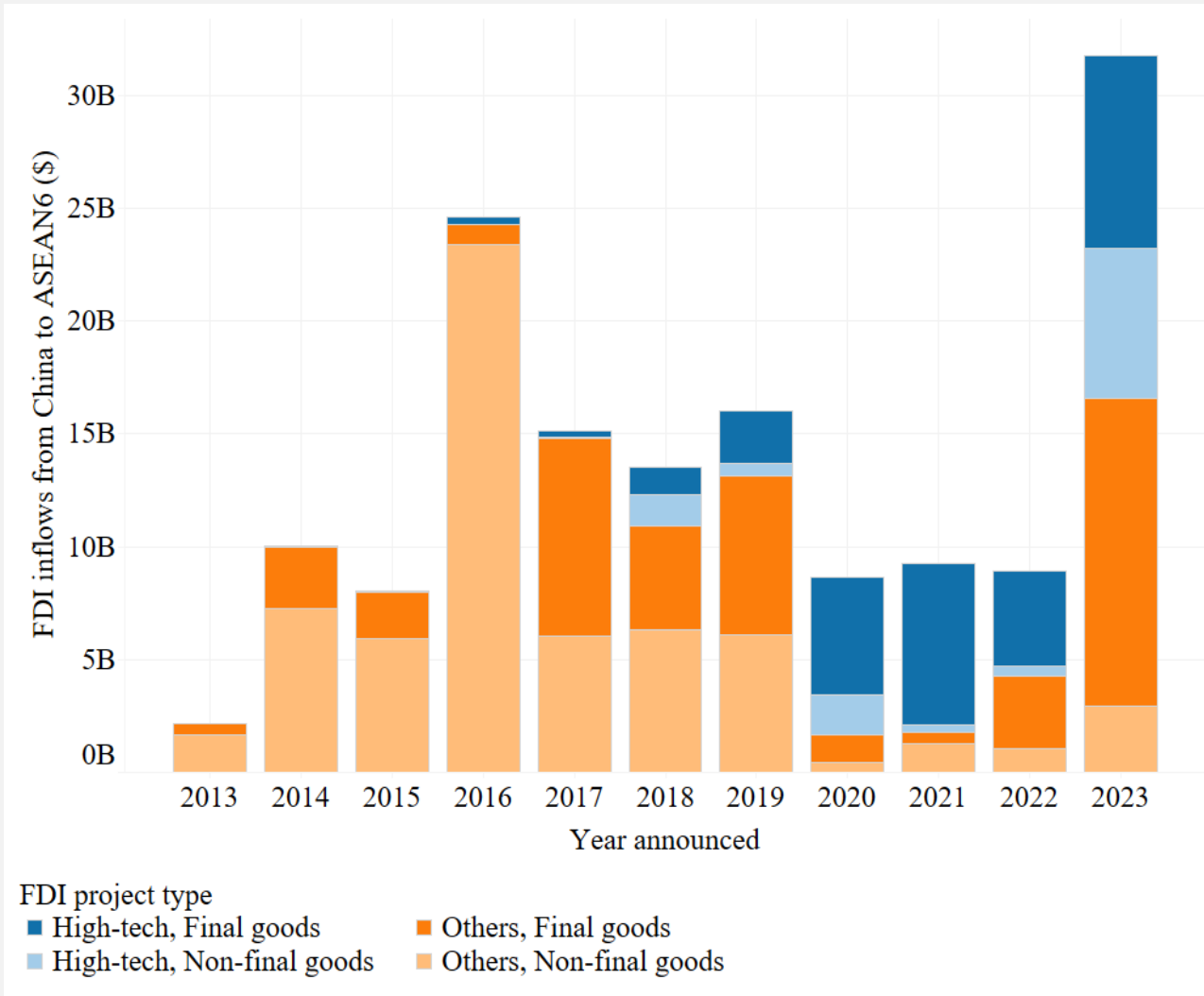


Source: ACI analysis using BACI data

- ASEAN-6's imports from China increasingly lean towards high-tech products.
- Rising shares of imports from China in ASEAN-6's total imports
  - Growing reliance on inputs and capital from China
  - Potentially import and subsequent re-export → low or even no value added



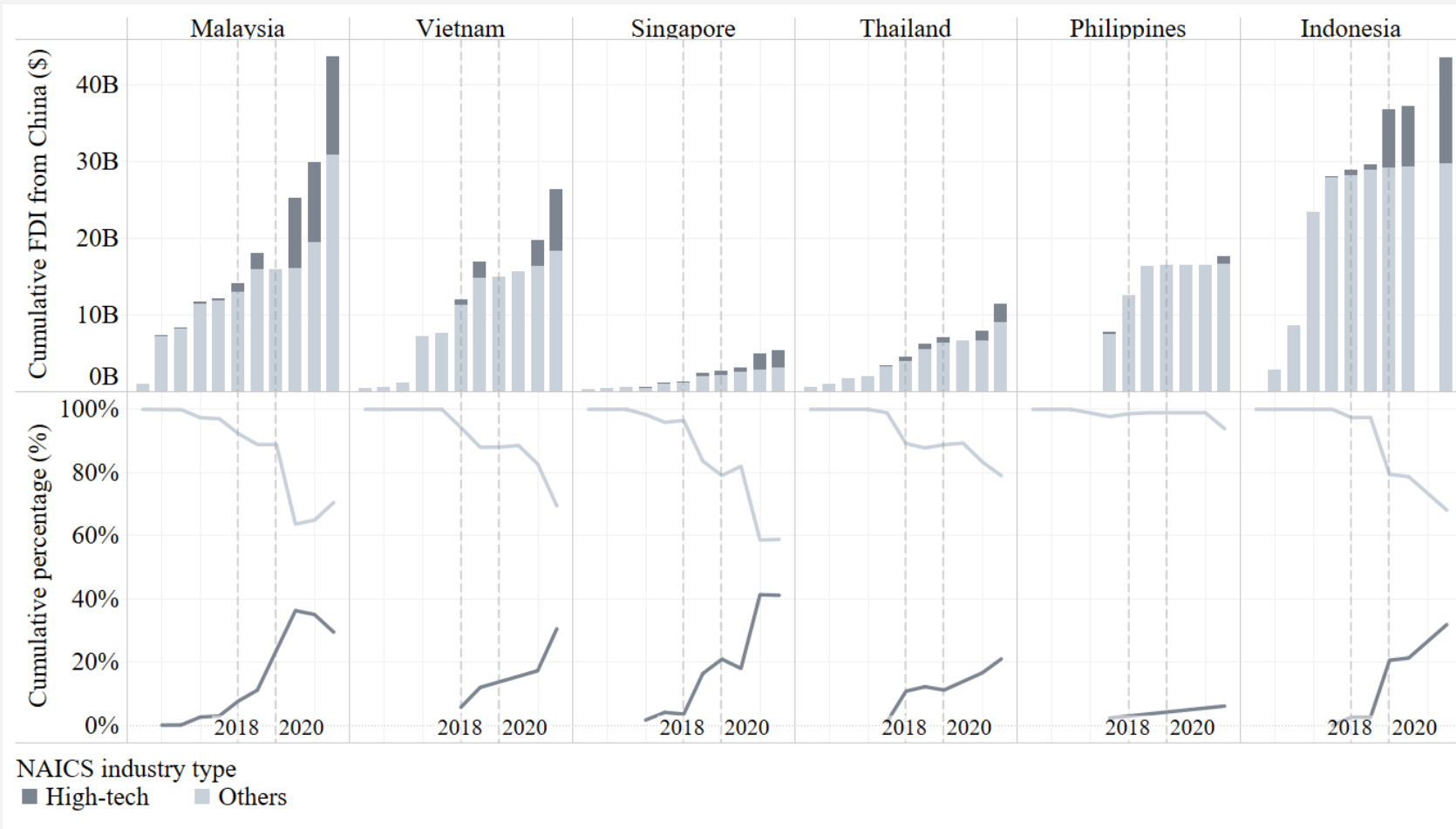
# China's FDI inflows to ASEAN-6 shift towards high-tech sector



Source: ACI analysis using Orbis FDI data

- Since 2018, the investment focus has shifted towards high-tech projects, but primarily targeting the manufacturing of final goods rather than intermediate inputs.
  - China's FDI in ASEAN-6 peaked in 2023.
- Signal China's evolving role and influence

# FDI stocks from China



- Malaysia, Vietnam, and Indonesia are leading with the highest stocks of FDI from China, indicating their pivotal role in China's investment strategy
- There's been a consistent growth in high-tech investments over time, especially after 2018.

# What will happen 5 years from now?

- The US with its recent CHIPS and Science Act:
  - Reduce its direct dependence on China but increase its indirect dependence?
  - Strengthen domestic manufacturing at the cost of increased costs for consumers and businesses
- China:
  - Slowed economic growth or technological self-reliance push?
  - Strategic partnerships and trade diversification: Russia, Africa and Latin America, Asia, but these markets might not fully compensate for the potential loss of access to US and EU markets and technology
- ASEAN-6:
  - Export sophistication, job creation, technology transfer
  - A burgeoning dependency on China

**Thank You!**