Clearing the Runway for Intra-Asia Trade

Summary of Insights: China

China will continue to be the engine of intra-Asia trade, with the value of its trade with the top 11 Asian markets nearly doubling from USD2 trillion in 2020 to USD3.7 trillion in 2030

This market summary provides an overview of some of the main insights on intra-Asia trade for China as part of a larger study commissioned by UPS and developed by AlphaBeta entitled: "Clearing the Runway for Intra-Asia Trade: Key insights for unleashing the potential for intra-Asia trade by 2030." The 12 markets (i.e., "Asia-12") covered in this report are Australia, China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. The purpose of this research is to offer key critical insights on the rise of intra-Asia trade and prospects for future growth through 2030, in the context of Asia's continuing economic growth and against the backdrop of increasing volatility in global trade relationships today. The findings from this research showcase the potential for intra-Asia trade to continue its rapid growth over the coming decade, and support governments and businesses in identifying key enablers for this opportunity and steps to capture the potential. This summary is without prejudice to the status of or sovereignty over any territory or boundary. In cases where China is referred, it predominantly refers to mainland China. For the full set of insights, including data sources and methodology, please refer to the full report at: https://about.ups.com/sg/en/home.html

Top 3 insights on intra-Asia trade prospects for China

1. **China is the fulcrum of intra-Asia trade, and this position could strengthen over the coming decade.** China accounted for 30% of intra-Asia trade in the past decade, three times higher than any other Asian market. Supported by an increasingly wealthy and urban population, China's trade with the other 11 major Asian markets (together, the "Asia-12") could almost double from 2020 levels to USD 3.7 trillion by 2030.

2. **Trade in four key product segments is expected to drive China's trade growth with the rest of the Asia-12, particularly the high-tech segment.** Four key segments, which include retail, industrial manufacturing and automotive (IM&A), high-tech, and healthcare, account for 78% of China's trade with the rest of Asia. The high-tech segment, which constitutes 40% its intra-Asia trade, will drive future growth given the rise in digitalisation across the region. Other segments have further room for growth, including healthcare, which constitutes only 4% of China's trade with Asia-12.

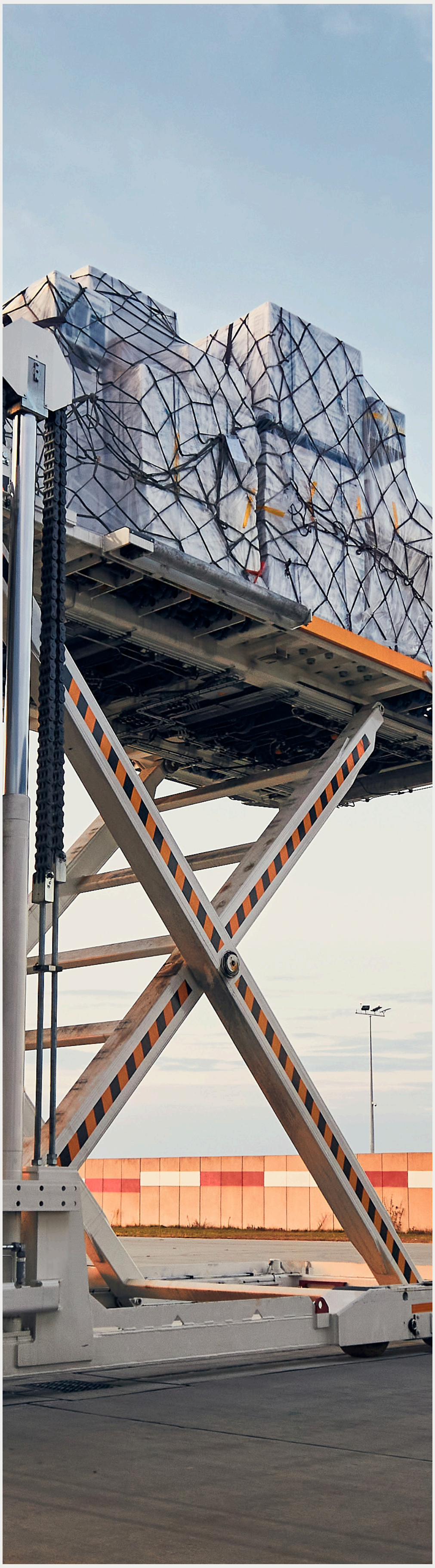
3. **Businesses in China can capture the intra-Asia trade opportunity through three areas of multistakeholder action that could address major barriers to regional trade.** (1) Negotiate comprehensive regional trade deals; (2) Collaborate on harmonising product standards across the region; (3) Improve logistics serving intra-Asia trade.

Top 3 takeaways for businesses in China

1. **Digitalise comprehensively, especially in advanced technology.** The rise of omnichannel platforms has made timely deliveries critical. Businesses should invest in digitalised, end-to-end supply chains to meet this demand for efficiency by their customers. Digitalising operations will also help businesses adapt to paperless trade regimes.

2. **Plan for both headwinds and opportunities by diversifying supply chains.** This includes exploring resilient trade routes, such as with South Korea, and targeting high-value and high-growth trade routes, such as with other East Asian and ASEAN markets. Diversifying supply chains is critical to building resilience in trade flows.

3. **Partner with and promote deep integration of micro-, small-, and medium-sized enterprises (MSMEs) into regional supply chains.** MSMEs face higher costs in navigating trade barriers and often lack scale. Partnerships between MSMEs and larger firms can be mutually beneficial in facilitating greater trade and deeper supply chain links.



China will remain the engine of trade in Asia over the coming decade

Asia is a critical component of global trade. Over the past half century, Asia has developed into the world's largest manufacturing hub. China, in particular, contributed to this through its investment in infrastructure and supply of affordable labour, positioning it as a leader in manufactured consumer goods. As China and other Asian markets become the global epicentre for new consumer demand, building off a sustained period of economic growth and improvements in standards of living, trade lanes within Asia are gaining importance. Already, intra-Asia trade accounts for two-thirds of the region's trade with the world.

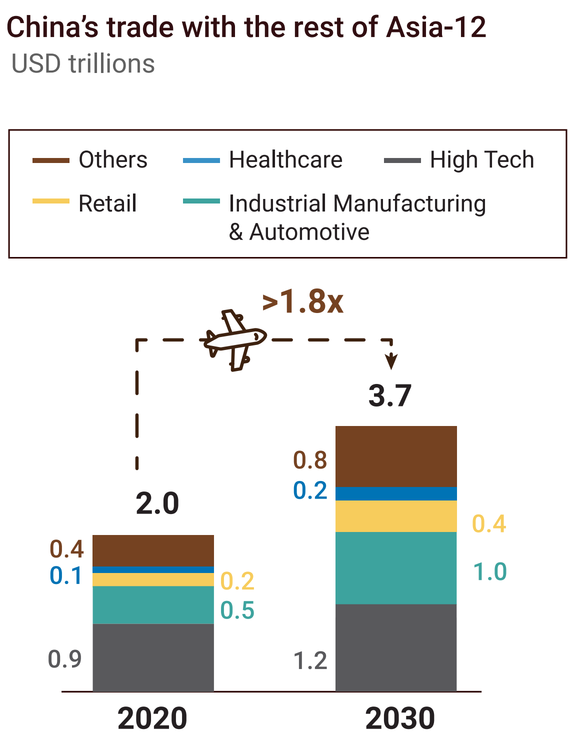
China is the main driver of intra-Asia trade, and this position will strengthen over the coming decade. China contributed to 30% of the region's trade in 2020, up from 24% in 2011. Building off this economic success and buoyed by favourable trends around the region, China's trade with 11 other major markets (together, the "Asia-12") could almost double from USD2 trillion in 2020 to USD3.7 trillion by 2030 (Exhibit 1).

China's increasingly wealthy and urbanised population is expected to drive this growth, fuelled by new trade deals. Nearly 350 million people will join China's consuming middle class between 2020 to 2030, strengthening demand for goods produced in other markets. 143 million people will be added to its cities, spurring density, interactions, networks, and innovation in trade with other regions. China has signalled strong intentions to expand its trade alliances in the region, being a signatory to the Regional Comprehensive Economic Partnership (RCEP).[1]

Trade in four product segments is expected to drive this growth: (1) retail; (2) industrial manufacturing and automotive (IM&A); (3) high-tech; (4) healthcare. Trade in the high-tech segment takes up the largest share, at 40% of trade with the Asia-12 in 2020. This segment is expected to drive future growth for trade in China given rapid digitalisation across the 12 markets. Key trade lanes will facilitate this growth, such as China and South Korea's interdependence for machinery and electronics. Growing trade between China and ASEAN will also be important – the high-tech segment drove 58% of all growth in trade between China and ASEAN between 2011 and 2020, expanding rapidly by 9.6% annually over this period (versus 4.9% overall growth for all segments). China's healthcare segment constitutes only 4% of trade with the Asia-12 today, but has significant room for export growth. Supportive policies such as the Made in China 2025 policy, which outlines plans to manufacture 70% of mid-to-high-end medical devices domestically, will support such growth.[2]

Exhibit 1

China could almost double its trade with the Asia-12 by 2030



Note: The methodology for these estimates can be found in the Appendix of the main report.
SOURCE: ITC; AlphaBeta analysis

Increased investment in supply chain innovation and high-quality infrastructure will also contribute to long-term resilience. Innovation in supply chains is at the forefront of China's digital development, with significant opportunity to deploy key technologies at scale including robotics and automation in logistics, supply chain development, and blockchain-based inventory management. For instance, China's 14th five-year plan lays out a roadmap to comprehensively improve its transportation and logistics through better connectivity and use of smart technology, as well as e-commerce pilot zones to encourage exports to new markets.[3] China is already a leading advanced manufacturing economy, registering 10 world-class Industry 4.0[i] advanced manufacturing bases with highly digitalised supply chains – the highest of any economy in the world.[4] Finally, major air cargo players both in China and from overseas are building larger fleets, expanded route networks, and stronger service infrastructure which will improve infrastructure quality and access for Chinese businesses.

i. Industry 4.0 technologies are emerging digital technologies that include Internet of Things (IoT), cloud computing analytics, artificial intelligence (AI), or machine learning. Such applications enable advanced machine-to-machine communication or data processing, which can create smart technologies, automation and information sharing across systems that will boost the efficiency and productivity of factories, equipment, and machinery.

However, supply chain shifts and geopolitical headwinds could limit this growth

Despite the significant potential that intra-Asia trade holds for China, there exists a range of barriers to greater regional trade today that may intensify over the coming decade. Chinese businesses surveyed for this study indicated tariffs and other punitive measures as the top barrier to trade, among five other barriers identified (Exhibit 2). These six barriers largely remain unaddressed by policy and business action due to trade tensions, supply chain shifts, and uneven investment and engagement of MSMEs in supply chains.

As a result of these barriers, China's trade with the Asia-12 may decline marginally by 2030. Trade could total USD1.7 trillion in this "Deglobalisation" scenario – a 12% decline from 2020 levels due to such impediments to trade (Exhibit 3).

Pressures caused by the COVID-19 pandemic, and rapid advances in robotics and automation constrain the flow of trade. These trends could expose a shortage of labour, skills, and shorten supply chains due to shifting cost competitiveness, preventing China from scaling up and achieving its trade potential. Two-thirds of Asian businesses surveyed by the Asian Development Bank (ADB) in 2021 stated that they planned to source more goods locally in the coming years – constraining the potential for China to trade more intensively with markets more distant from home.[5]

Uneven progress in developing logistics infrastructure across the Asia-12 could limit China's ability to serve centres of demand in rapidly developing economies. Lack of high-quality infrastructure in overseas markets could limit the potential for Chinese businesses to capitalise on trade opportunities, with dated technology and inefficient supply chains restricting logistics capacity. Despite best efforts, there remains an infrastructure financing gap worth USD138 billion annually across Asia Pacific for just private investors, with key gaps to fill in markets such as Indonesia and Vietnam. This figure would potentially be three times higher if it includes public investment, implying much needed investment by governments. Plans to integrate transport networks into regional initiatives have also faced roadblocks. For instance, China's plans to build rail links into Southeast Asia (increasingly referred to as the "Pan-Asia Railway Network") have suffered delays, most recently including the connection to Thailand which is affected by the deteriorating ties and diverging priorities of the two economies.[7]

Exhibit 2

Businesses in China face six barriers to regional trade

Top barriers to trade in China

Ranking based on respondents conducting trade in China

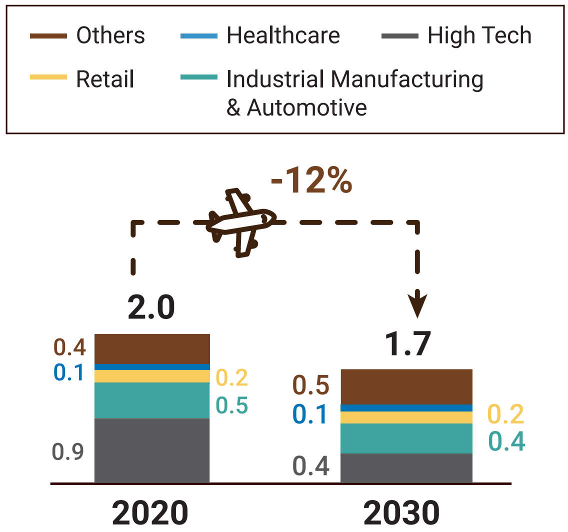
SOURCE: Industry survey of 198 businesses that conduct trade in the Asia-12 economies; AlphaBeta analysis

Exhibit 3

Headwinds could alternatively cause China's trade with the Asia-12 to stagnate

China's trade with the rest of Asia-12

USD trillions



Note: The methodology for these estimates can be found in the Appendix of the main report.
SOURCE: ITC; AlphaBeta analysis

Finally, intensifying geopolitical tensions also contribute significantly to these trade barriers. Geopolitical risks such as territorial, economic, and political disputes with other economies have proven detrimental to trade in the past, particularly in the high-tech and retail segments.

Governments and businesses must proactively mitigate these risks to capitalise on the intra-Asia trade opportunity

Multistakeholder action is required to reduce impediments to regional trade and harness the opportunities to steer intra-Asia trade towards take-off. Action by businesses or government alone is not enough to address the key barriers to trade – active involvement by all stakeholders within the region and across the supply chain is key. There are three main areas for multistakeholder action in China: (1) Negotiate comprehensive regional trade deals that remove remaining tariffs, harmonise standards, simplify customs, promote MSME competitiveness, and ensure cooperation and diplomacy in the event of geopolitical disputes; (2) Collaborate on harmonising product standards, by creating meaningful partnerships between business leaders, trade associations, certification bodies, and regulators; (3) Improve logistics serving intra-Asia trade by promoting the development of skills to match the economy's evolving demands.

Businesses with trade interests in China and those in the logistics sector must proactively account for opportunities from intra-Asia trade and build resilience against potential headwinds. Three key actions that can be taken by businesses include digitalising completely, diversifying supply chains, and promoting integration of MSMEs into regional supply chains.

01

Digitalise comprehensively

Digitalise comprehensively, especially in advanced technology. An increasing usage of omnichannel platforms, where consumers can order products and services across a wide range of platforms and devices, means that the management of large volumes of orders and deliveries becomes critical to success. Investing in a digitalised, end-to-end supply chain is crucial to meet this need for efficiency. For example, data analysis tools can enable firms to process millions of orders that flow into their systems at once while warehouse and storage automation allows them to manage and meet deliveries. Artificial intelligence (AI)-enabled tools that can analyse and identify tariff codes or automatically input customs data could also smoothen regulatory import-export procedures for businesses, making trade simpler and more efficient. Digitalising operations will also help significantly with adapting to paperless trade regimes that will be a key feature of trade in the coming decade. In China, UPS introduced EasyClear, an online pre-declaration tool to simplify customs procedures for businesses. A range of plug-and-play application programming interfaces (APIs) allow businesses to get estimated duties, taxes, and brokerage fees for cross-border shipments to prevent unforeseen delays in payments, processes, or additional costs to business.

02

Diversify supply chains

Plan for both headwinds and opportunities by diversifying supply chains into resilient trade routes and targeting high-growth, and high-value trade routes. The COVID-19 pandemic has made diversifying supply chains an important strategy in building resilience in trade flows. With China being part of RCEP, businesses can utilise consultancy tools like UPS's Trade Assist™ to understand how to optimise their supply chains while reaping the benefits such free trade agreements offer. Many trade routes offer opportunities for resilient growth when considering trade with China. These include trade in all four key segments with South Korea, with which China has deepening economic integration; in the healthcare segment with Japan, in the IM&A segment with Indonesia and Vietnam; and in the retail and high-tech segments with ASEAN markets (Exhibit 4). Additionally, trade routes in the healthcare segment could prove extremely resilient, with 89% of trade value today potentially growing even in a "deglobalisation" scenario. On the other hand, in a scenario where trade doubles, a range of high-value and high-growth trade routes are available to Chinese businesses (Exhibit 5). Trade routes with East Asian economies such as South Korea, Japan, Taiwan, and Hong Kong could remain among the top five trade lanes by value, as they are today, and trade lanes with ASEAN markets such as the Philippines, Vietnam, and Indonesia could experience the fastest growth as they increasingly invest in e-commerce platforms and logistics capabilities to facilitate trade. Chinese mobile companies, such as Oppo and Huawei, have seen success in exporting to these markets by creating targeted products (e.g., low-priced and mid-range smartphones) that can capture a large group of consumers.[8]

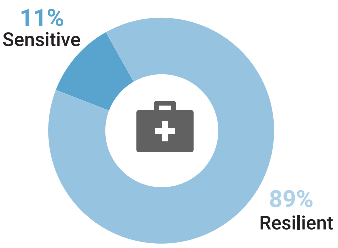
03

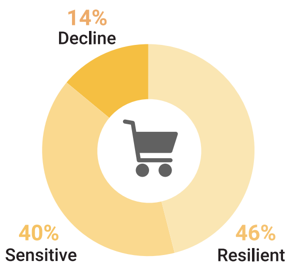
Partner with and integrate MSMEs

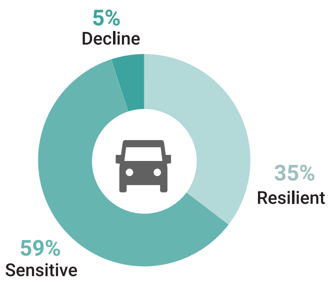
Partner with and promote deep integration of MSMEs into regional supply chains. MSMEs typically face higher costs in navigating trade barriers and often lack the scale of operations needed for trade profitability.[9] Therefore it is critical to support them financially to encourage greater trade participation. Resources from state-funded financial agencies such as SINOSURE are an example of such support, providing MSMEs with insurance products that protect them against risks of volatile cashflows from export revenues. Larger businesses also have an important role to play and can connect MSMEs with investors or provide grants that boost their ability to export their products across the globe.[11] MSMEs can also take a proactive approach by creating operating models that are interoperable with larger firms' ecosystems.[12] Adopting digital tools that are compatible with international logistics networks allows efficient tracking and improved visibility of their shipments – for example, leveraging UPS's My Choice® for Business allows MSMEs to centralise shipment data and reduces the need to manage multiple logistics flows across different systems.[13]

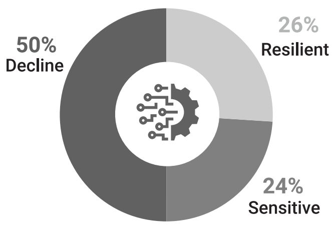
Exhibit 4

Firms can invest in resilent trade routes within each segment to hedge against supply chain shocks









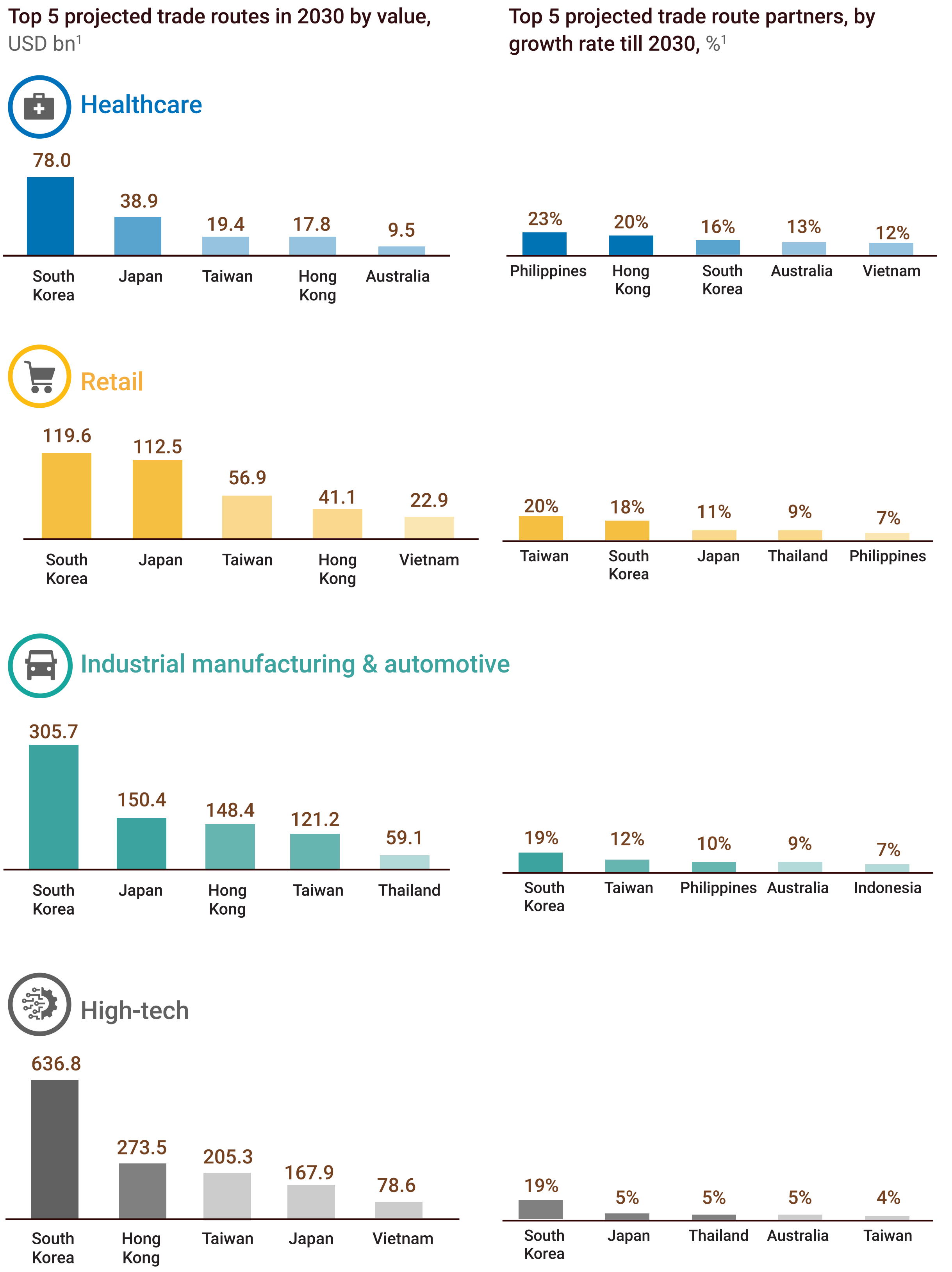
Top resilient trade partners by value today	
South Korea Japan Taiwan Thailand Hong Kong	Healthcare
Japan South Korea Taiwan Thailand Philippines	Retail
South Korea Taiwan Vietnam Indonesia Philippines	Industrial manufacturing & automotive
South Korea Japan	High-tech

1. Each figure represents a share of trade value in 2020 that is forecasted to be under either the resilient, sensitive, or decline category in 2030. Resilient trade refers to trade routes that may expect positive growth in either worst-case or optimistic scenarios, while sensitive trade refers to trade routes that may see positive growth only within the optimistic scenario. Declining trade refers to trade routes that may see slight contractions regardless of either.

SOURCE: ITC; AlphaBeta analysis

Exhibit 5

Other East Asian economies will remain key trade partners across all segments, while ASEAN markets offer growth opportunities



1. Projections are based on an optimistic scenario of Asia's trade environment, as outlined in Chapter 1 of the main report, where intra-Asia trade will take off and be driven by trends such as regional trade agreements, supply chain innovations, and a rise in digitalisation. These projections should be taken as an ideal outcome rather than guidance.

SOURCE: ITC; AlphaBeta analysis

Endnotes

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