

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.

<https://www.wsj.com/articles/china-increases-trade-in-asia-as-u-s-pushes-toward-decoupling-11672231684>

[WORLDASIACHINA](#)

China Increases Trade in Asia as U.S. Pushes Toward Decoupling

The deepening ties are a result of China's regional heft but also Washington's spat with Beijing

By *Jason Douglas* [Follow](#)

Dec. 28, 2022 8:00 am ET

SINGAPORE—While the U.S. has sought to persuade countries to reduce their dependence on China, trade ties between the world's second-largest economy and the rest of Asia are deepening as economies grow and companies refashion supply chains.

Behind the trend, economists say, are powerful economic forces that tend to bind smaller economies to bigger ones as well as China's dominant role as a supplier of the kind of affordable goods that fast-growing countries need, such as cars and machinery.

But China's growing trade with its Asian neighbors also reflects the ripples of the worsening spat between the world's two largest economies that began with a fight over trade and has since widened to encompass technology, national security and foreign policy.

The trade battle that took off in 2018, along with subsequent pandemic disruptions, inaugurated a reordering of global supply chains. Manufacturers based in China have sought to shift some elements of their production lines to the country's Asian neighbors, either to sidestep tariffs or insulate themselves from the risk of future upheavals as relations between the U.S. and China deteriorate.

That reshuffling, however, often served to enhance rather than reduce trade between China and other parts of Asia, data shows, reflecting the complex nature of manufacturing processes that commonly require dizzying numbers of components and several stages of assembly. Snapping together a smartphone in Vietnam or India, for instance, requires the manufacturer to move Chinese-made parts and basic materials within Asia before it is shipped off to its final customer.



U.S. Secretary of State Antony Blinken has spoken of giving countries a choice between the U.S. and China, rather than forcing them to choose.

PHOTO: TING SHEN/BLOOMBERG NEWS

The upshot is the U.S. will find it hard to nudge Asia away from China without more concrete steps to boost trade with its own huge domestic market. That means signing trade deals, joining regional trade pacts or taking other steps that would grant Asian economies much greater access to U.S. consumers, economists say.

“Within Asia the U.S. is facing a real uphill struggle,” said Rory Green, chief China economist and head of Asia research at consulting firm TS Lombard in London. “They are fighting economic gravity.”

China’s total trade—exports plus imports—with 10 of its neighbors in Southeast Asia, including Indonesia, Malaysia, Singapore and Vietnam, has grown 71% since July 2018, when the U.S. first placed tariffs on a range of Chinese goods, to \$979 billion in the 12 months through November, according to a Wall Street Journal analysis of Chinese customs data.

180

Chinese trade with India grew 49% over the same period. The second-largest economy’s trade with the U.S. rose by 23% and with Europe by 29%, the Chinese data shows, highlighting how China’s trade with Asian economies easily outpaced that with other big markets.

■ Asean

120

U.S. trade with China has been pinched by tariffs, and China’s share of U.S. imports has fallen since 2018, though trade between the two countries nonetheless returned to growth during the pandemic as consumers snarled on

■ EU
■ U.S.

business returned to growth during the pandemic as consumers splurged on electronics, homewares and other goods during long spells of working from home. A similar trend played out in Europe.

Part of the explanation for the outsize growth in China's trade with other parts of Asia is China's gravitational pull. Economists established decades ago that countries trade more with big economies and with economies nearby. China is easily Asia's largest economy, making it a natural trading partner for most of its fast-growing neighbors, just as the U.S. is the biggest trading partner of Canada and Mexico.

Another reason is that China's export basket is filled with inexpensive smartphones, basic vehicles and cheap factory equipment that sell well in the fast-growing but smaller economies that surround it, economists say. China also lowered many of its tariffs on imports from the rest of the world in response to the U.S.'s decision to levy hefty duties on its exports to the U.S., making Asian-made products cheaper for its own businesses and consumers. It was a signatory to the Regional Comprehensive Economic Partnership, or RCEP, a 2020 deal that lowered trade tariffs among 15 Asia-Pacific countries.

Yet Asian economies also have been big beneficiaries of the tensions between China and the U.S., often experiencing big gains in trade with both antagonists.

Many Asian economies have seen an increase in trade with the U.S. as importers searched for tariff-free alternatives to Chinese-made products, or China-based exporters set up shop in another country to get around the new U.S. trade restrictions.

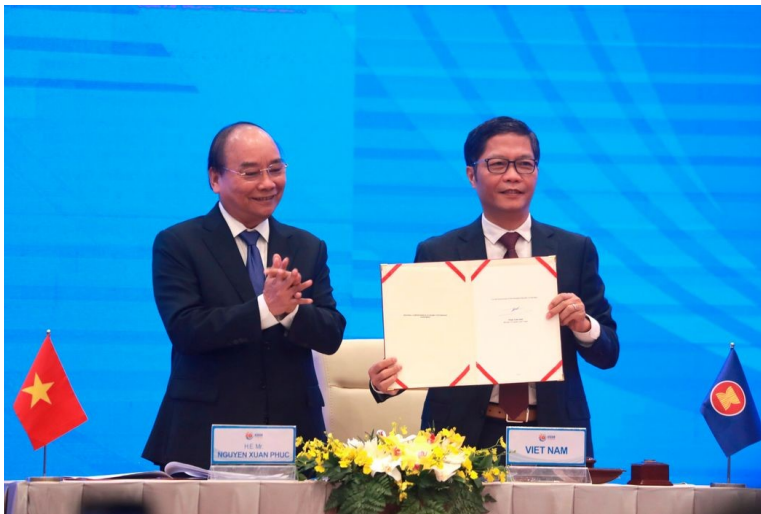
South Korea after 2018 saw an increase in U.S. imports of backhoes, textiles and television components, all of which were affected by Trump-era tariffs, according to a 2021 analysis by economists at the Peterson Institute for International Economics, a think tank in Washington.

U.S. imports from the same 10 Southeast Asian countries that saw a lift in trade with China since 2018 have also surged, rising 89% since July 2018, U.S. customs data shows. Including U.S. exports to the same 10 countries, total trade reached \$450 billion in the 12 months through October, compared with \$262 billion in mid-2018. U.S. trade with the whole world grew 29% during that period.

The reshuffling of global supply chains that accelerated with the trade war has been spurred on by growing tensions between Beijing and Washington over

been spurred on by growing tensions between Beijing and Washington over Taiwan and national security, and by the pandemic, which exposed companies that were overly reliant on China to the risk of severe disruption from China's now-abandoned zero-tolerance approach to Covid-19 outbreaks.

Dozens of companies have in recent years moved chunks of their production out of China and into other Asian countries. They include Japanese companies such as electronics giant Panasonic Holdings Corp. and antenna maker Yokowo Co., as well as Chinese companies such as GoerTek Inc., an Apple Inc. supplier.



In 2020, Vietnamese Prime Minister Nguyen Xuan Phuc, left, and Trade Minister Tran Tuan Anh at a ceremony for the Regional Comprehensive Economic Partnership, a deal that lowered trade tariffs among 15 Asia-Pacific countries.

PHOTO: HAU DINH/ASSOCIATED PRESS

An October survey of 525 Taiwanese companies by the Center for Strategic and International Studies, a Washington-based think tank focused on foreign policy, found that a third of companies with operations in China were considering moving out of the country and a quarter had already shifted some of their activities.

While other Asian countries have benefited from these new investments, their factories still require Chinese inputs to function. Economists say that is also contributing to China's deepening links with other Asian countries, though the precise scale of the effect is hard to measure.

Apple has accelerated plans to move more of its production out of China, The Wall Street Journal reported, telling suppliers to plan more actively for assembling Apple products elsewhere in Asia, particularly India and Vietnam. But it isn't ditching China altogether, and may even increase the amount of

business it does with some other Chinese companies, the Journal reported.

These crosscurrents reveal a wrinkle in U.S. policy toward trade with China, economists say. U.S. Secretary of State Antony Blinken and U.S. Trade Representative Katherine Tai have spoken of giving countries a choice between the U.S. and China, rather than forcing them to choose.

But “there are a whole lot of reasons why those countries are going to trade with China anyway,” said Chad Bown, a trade economist and senior fellow at the Peterson Institute. The U.S. approach has been to warn countries that economic dependence on China can be exploited by Beijing. China stopped virtually all imports from Lithuania in 2021, for instance, when the Baltic state angered Beijing by supporting Taiwan. The island has recently faced restrictions on exports to China of products including beer and seafood.

With the rewiring of the Asian economy making nearby economies more, not less, reliant on Chinese trade, economists say that to offer a real alternative the U.S. will need to do more to boost trade with Asia, perhaps by joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, a free-trade accord that 11 nations pursued after the U.S. withdrew from its forerunner, the Trans-Pacific Partnership. The Biden administration has said it doesn’t support joining the pact as it stands but would be willing to renegotiate it. The USTR didn’t respond to a request for comment.



The Lianyungang Port in the Chinese province of Jiangsu. China’s trade with Asian neighbors has risen sharply in recent years.

PHOTO: CFOTO/DDP/ZUMA PRESS

Write to Jason Douglas at jason.douglas@wsj.com

Appeared in the December 29, 2022, print edition as 'Beijing Bolsters Trade Ties With Neighbors'.