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Economist



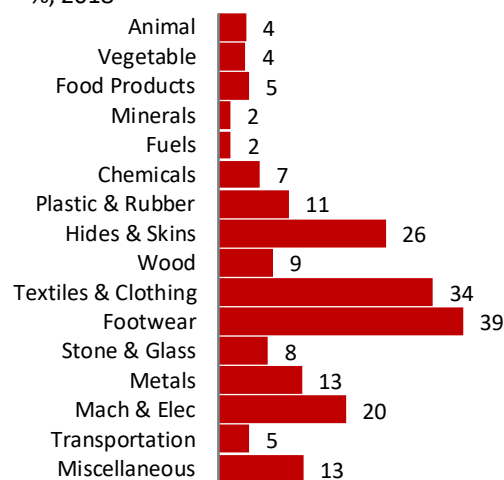
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- *The 2019-nCoV outbreak has caused the extension of the LNY holiday in China, suspension of some production/transport activities, and delay of some migrant workers returning to work.*
- *This brings the risk of supply chain disruption to the fore.*
- *Global textiles and electronics sectors are the most vulnerable to a disruption in the Chinese supply chain. Taiwan, South Korea and Vietnam would be hit the hardest.*
- **Implication for our forecasts:** *We have considered the risk of the pandemic in our latest Taiwan GDP growth forecast (2.3% for 2020). We see downside risks to South Korea's forecast (2.4%).*

### China's role in the global supply chain

China plays an important role in the global manufacturing supply chain. Mainland China alone accounts for 30-40% of the world's total exports of textiles and footwear products, and 20% of the world's exports of machinery and electrical equipment. This does not include the indirect shipments through Hong Kong.

#### Share of China in world exports, by product %, 2018



Sources: World Bank WITS database, DBS

China's role in the electronics supply chain is especially critical. Nearly half of Apple's 800 global production bases are located in China today. Meanwhile, about 30 mainland Chinese companies are now on Apple's top 200 supplier list, including those producing speakers, screens, batteries, flat panels, and engaging in integrated circuit packaging/testing.

Hubei province, the centre of the coronavirus outbreak, is one of China's major manufacturing hubs in the steel, automobile and electronics sectors (e.g., semiconductors, flat panels and other electronics components).

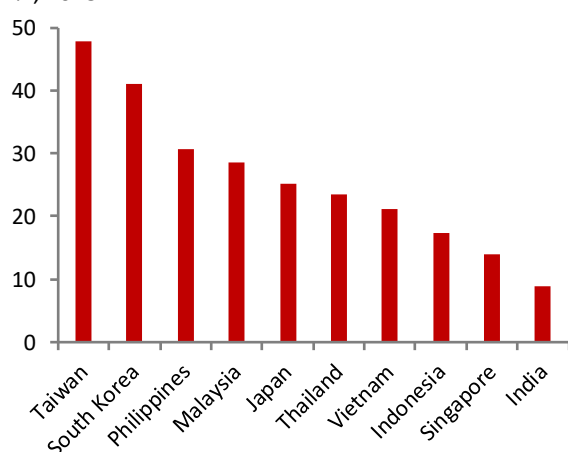
The adjacent Henan province is a primary production base for the Taiwanese tech company Foxconn, Apple's largest contract manufacturer and assembler of iPhones.

### Linkages with the region

A closer look at the regional supply chain shows that China mainly imports intermediate goods from South Korea, Japan and Taiwan. On the other hand, the top destinations of the China-made intermediate products are South Korea and Japan, followed by India and Vietnam.

#### Share of China in intermediate goods exports

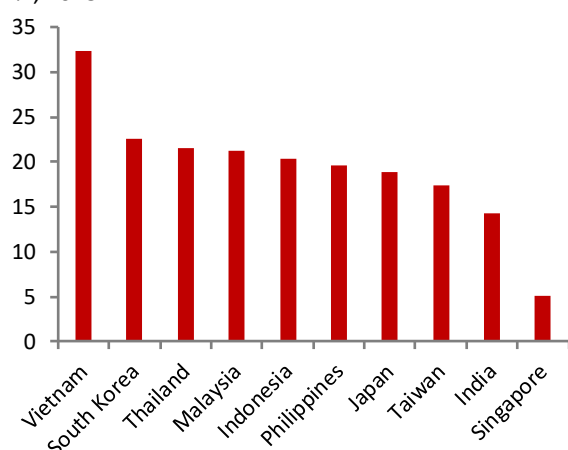
%, 2015



Sources: OECD TiVA database, DBS

#### Share of China in intermediate goods imports

%, 2015



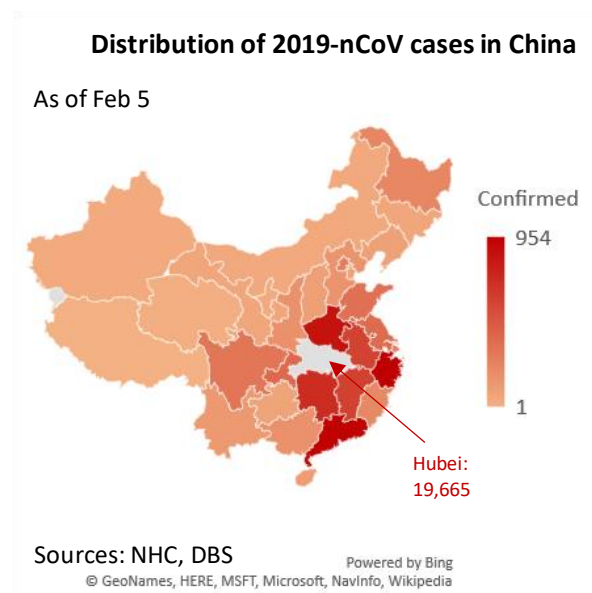
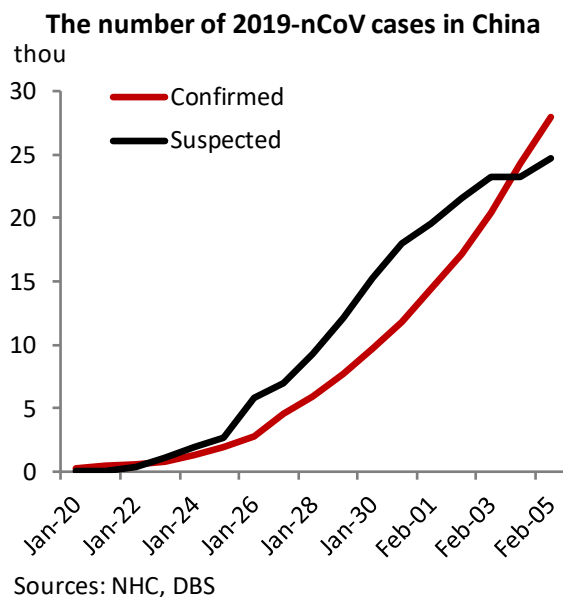
Sources: OECD TiVA database, DBS

Taiwan and South Korea rely the most on China for their exports of intermediate products – more than 40% of the related exports are destined for the Chinese market. Vietnam stands out in terms of the dependence on China for the supply of intermediate goods – more than 30% are sourced from China.

### Short- and long-term impact

Disruption to activity from the pandemic carries the risks of negative spillover effects on the region. Global textiles and electronics sectors should be most vulnerable to a disruption in the Chinese supply chain. Taiwan, South Korea and Vietnam would be hit the hardest, either in the form of a delay of downstream production or a shortage of upstream raw materials supply.

The coronavirus outbreak also tests the crisis management capabilities of the Chinese government, drawing global attention to China's public governance, healthcare infrastructures, mass communication, environmental protection, and other related issues. From a longer-term perspective, a question is whether foreign investors' confidence about China's growth sustainability would be weakened, resulting in supply chain reshuffling by the China-based MNCs. Some MNCs have started to shift production from China to the neighbouring economies like Vietnam and Taiwan in the past couple of years, in response to the China-US trade war. This trend of diversification may be reinforced.



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**Sources:** Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

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