

# China's own derisking?

## Contextualizing the US tariffs and Chinese investment in Southeast Asia

Yingyao Wang

The US tariffs on China have been perceived as a black swan event – an external shock that rocked the economic status quo in Asia. The extent to which these tariffs were endogenously related to the ongoing transformation of investment and trade patterns within Asia, however, is less explored. True, US tariffs are known to have provoked direct reactions from heavily affected countries like China: Chinese plants and companies scrambled to relocate to Southeast Asian countries to dodge them. To date, Vietnam and Indonesia have been the most frequent destinations, followed by Thailand, Malaysia, and

Cambodia. All the Southeast Asian countries favored by China offer relatively low labor costs and favorable relations with the US, allowing them to avert the worst outcomes from the recent round of tariff threats.

What is less discussed is how tariff-jumping relocation accelerates an existing trend whereby China is shedding low value-added manufacturing – and that Chinese investment in Southeast Asia began in earnest long before 2018. As early as 2000, Chinese factories on the coast were already feeling the pressure of rising labor costs and looked to inland China and abroad for better opportunities. This need dovetailed with Vietnam's open-door policy at the time, inaugurated by the signing of the US–Vietnam Bilateral Trade Agreement in 2000. Beyond the pull of economic incentives, China also pursued a conscious strategy to phase out so-called low-end industries. Policies to “vacate the cage to change the birds” sent clear signals to factory owners that low-tech, labor-intensive, and polluting production – once engines of China's growth – was no longer embraced or even welcome.<sup>1</sup> A range of policy tools related to land, credit, taxation, and the environment were mobilized to weed out inefficient and undesirable operations.<sup>2</sup> This policy orientation is evident in the nationwide surge of high-tech industrial parks, which have been replacing old-line manufacturing and export-processing zones. For those firms that could not upgrade under pressure, the obvious choice was to relocate abroad.

Through a pivot to high-tech industries, China has attempted to avoid the low road to industrialization. Exports defined by low labor costs and cheap price tags have been a growing source of dumping accusations, trade disputes, and, most notably tensions with the US. When a country that comprises one-fifth

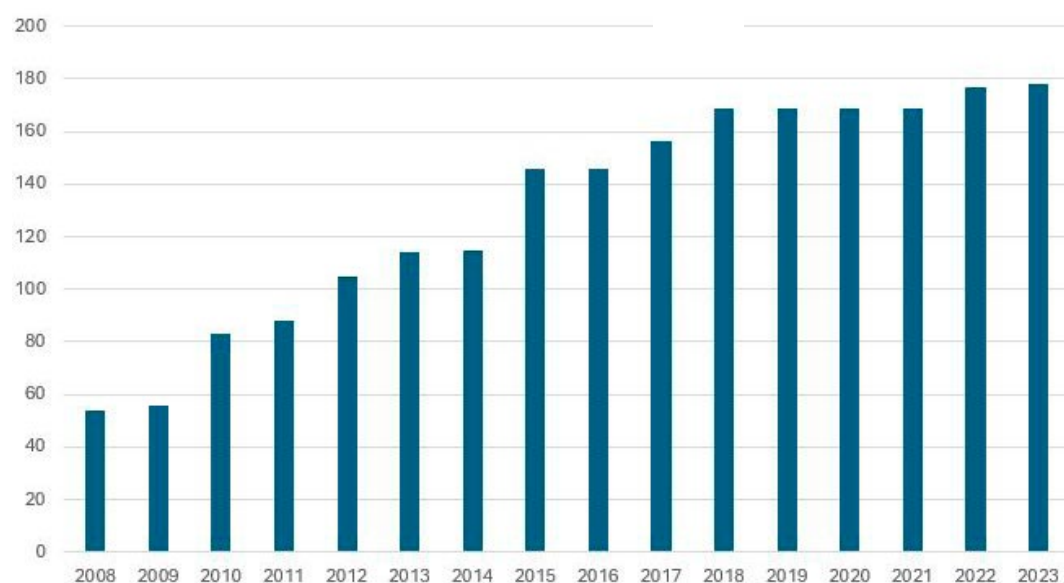


Figure 1. Number of national-level high-tech parks

Sources: Qianji Investment Bank and Qianzhan Industrial Research Institute<sup>3</sup>

of the world's population – with an educated and highly disciplined labor force, a robust industrial base and infrastructure, and strong organizational capacity – is eager to produce for the world, it also places high expectations on the extent to which the rest of the world is ready to absorb its output. The US has taken in the bulk of these goods thanks to its dollar hegemony and strong consumption. Yet, the

2008 financial crisis altered the equation: Sluggish consumer demand from the West propelled China to look elsewhere for markets. Many Chinese investments in Southeast Asia have for the first time been aimed at exploiting the domestic markets of host countries. In sum, Chinese investment in Southeast Asia is one stone that kills three birds: Achieving better proximity to developing-country markets, facilitating domestic industrial deepening and technological upgrading, and alleviating trade concerns from the West. It reflects a long-standing trend of addressing structural tensions in the global political economy, of which China's immediate and massive reaction to tariffs is a mere expression.

Viewed in a longer perspective, the relocation of Chinese manufacturing in Southeast Asia builds on waves of industrial transfer and relocation within Asia. It inherits a pattern of diffusion across an increasingly integrated region. The general consensus identifies four waves of relocation. In the first (1960s to 1980s), Japan sent outward investment to the “first-tier” newly industrializing economies: South Korea, Taiwan, Hong Kong, and Singapore. The second wave (1980s to 1990s) featured the rise of the Asian Tigers: As South Korea, Taiwan, Hong Kong, and Singapore industrialized and wages rose, they began offshoring their labor-intensive production to Malaysia, Thailand, Indonesia, Vietnam, and Mainland China. From the 1990s to 2000s, the rise of China constitutes a wave in its own right, as it consolidated regional supply chains, attracted capital from Korea, Japan, and Taiwan, and exported final goods globally. The fourth wave (2010s to present) has seen Chinese investment further spread across Southeast and South Asia – including Vietnam, Cambodia, Myanmar, Bangladesh, and Indonesia – for the reasons mentioned above. These waves are not strictly successive; they often overlap and co-occur. For instance, while production moved on a massive scale to China in the 1990s and 2000s, Japanese, Korean, and Taiwanese investors simultaneously offshored significant portions of their production to Southeast Asia. However, the overall trend is clear: Production cascades like a waterfall to increasingly lower-cost locations where labor is abundant and entry barriers are low.

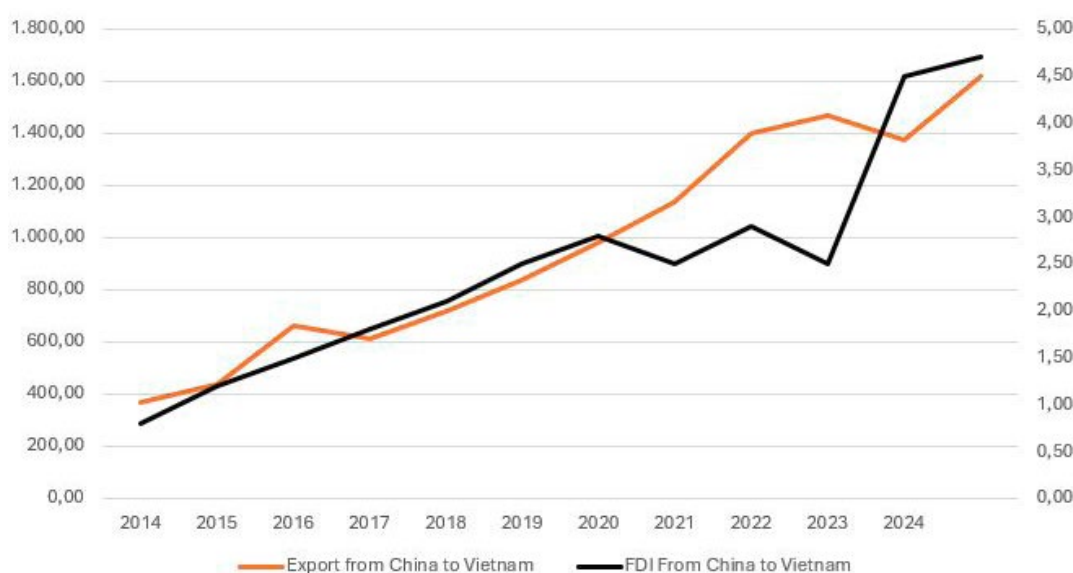
It is worth emphasizing, at the same time, that successful upgrading in home countries is the other side of the same coin. Japan, Korea, Taiwan, and China all have “developmental states” that have devised in-

dustrial policies to promote strategic upgrading and high-tech manufacturing. Overseas relocation became a logical outcome and a complementary project to domestic upgrading. Precisely because of this success in domestic upgrading, a “flying geese” paradigm has

**Yingyao Wang** is an Associate Professor of Sociology at the University of Virginia. Her research lies at the intersection of economic sociology, political sociology, and development studies. Her book, *Markets with Bureaucratic Characteristics: How Economic Bureaucrats Make Policies and Remake the Chinese State* (Columbia University Press, 2024), received the Sociology of Development Book Award from the American Sociological Association in 2025. She has published articles on corruption, taxation, and China's industrial policy and financial market development. Her current projects examine China's outward foreign direct investment, how China learns about the world, and the relationship between corruption, finance, and the making of market frontiers. In addition to her empirical research, she also writes on social and organizational theory. [yw8c@virginia.edu](mailto:yw8c@virginia.edu)

been able to form across the landscape of Asian industrialization: Catching up is as necessary for the following geese as being able to reinvent themselves is for those that lead. Embedded in these patterns of relocation are also tales of learning, emulation, cultural similarity, and migration. As a result, as the region emerges from being the Cold War frontier, a heightened site of globalization, and now faces the re-emergence of geopolitical tensions, it paradoxically remains an unstoppable locus of high interconnectivity and density – a leading hub of manufacturing, consumption, and technological and cultural innovation.

That being said, it does not mean that Chinese investment in Southeast Asia should not be analyzed in its own right, or that tariff-based contingencies do not interact with regional development. Here again, context matters. Relocation patterns are entangled with globalization. Furthermore, the kind of globalization that spurred previous waves of relocation is not exactly the same force as is driving the latest wave. Put differently, we live in a different era of globalization than one or two decades ago. As Southeast Asia now enters relatively “mature” Global Value Chains (GVCs), relocation is less about simply finding cheap labor, as it was before, and more about “fine-slicing” production tasks across multiple locations, often orchestrated by lead firms that already control standards, technology, and market access. In other words, today's low-end plants tend to be embedded in much better coordinated supply chains, which allows for finer global coordination but limits the bargaining power of host countries: They slot into established lead-firm systems rather than build autonomous capabilities. Additionally, lead firms have greater incentives – now partly driven by national security considerations – to keep high-value R&D, design, and branding onshore amid rising global geopolitical tensions. Consequently, while the industrial policy space of ASEAN coun-



**Figure 2.** Comparing FDI and Export from China to Vietnam

Sources: Author compiled from General Administration of Customs and the Ministry of Commerce of PRC

Units: 100 million USD

tries is already restricted by trade and investment agreements, these new developments mean that structural opportunities for upgrading today are even narrower.

In addition to the constraints, tariff-jumping relocations may not help either. Tariff-dodging investments, undertaken for short-term and expedient purposes, often involve shallow production platforms and, not uncommonly, just enough capacity to satisfy rules of origin. These may not generate much upgrading potential or capture local value. Therefore, as much as tariffs against China ostensibly present a windfall for Southeast Asian countries, they may not broaden the window of opportunity for upgrading. The effect of fragmented GVCs and “shallow” relocation is al-

sarily displace China: Chinese suppliers may have followed their clients into Vietnam or use ASEAN as an export platform, but they have also retained higher-value inputs within China. This trend is consistent with China's long-standing promotion of its “new bird in the old cage” policy.

The above discussion puts into perspective China's seemingly well-prepared response to the US threat of imposing tariffs on Chinese goods during the second Trump administration. It also invites research into the conditions under which ASEAN countries could emerge as Asia's next “developmental states” and develop value-capturing manufacturing with genuine upgrading potential.

## Endnotes

- 1 The expression *vacate the cage to change the birds* first appeared around 2008 in Guangdong Province under Party Secretary Wang Yang, as a metaphor for phasing out low-value or polluting industries and attracting more innovative, high-value sectors. It was later popularized nationally when Xi Jinping used it in discussions at the National People's Congress in 2014 to describe China's broader strategy of industrial restructuring and upgrading. In 2015, China rolled out the strategic initiative *Made in China 2025*, aiming to transform the country's manufacturing sector by shifting from low-tech and labor-intensive production to high-end, innovation-driven industries.
- 2 Since 2008, coastal provinces and major urban centers such as Guangdong, Jiangsu, Zhejiang, Beijing, and Shanghai have pioneered policies to accelerate these changes. High-profile

measures include raising entry barriers based on added value per unit of land and levying high taxes on so-called two high, one low enterprises (high energy consumption, high pollution, low efficiency). The bird-changing strategy has also faced criticism for prematurely deindustrializing the Chinese economy and contributing to unemployment.

- 3 <https://www.21jingji.com/article/20240208/herald/5f8f7f76b0321df92000e6075eab5319.html>

- 4 Equipment makes up 19.85 percent of Chinese exports to Vietnam, followed by parts (17.24 percent) and raw materials (14.61 percent, e. g., minerals and synthetic fiber). Source: Author's calculation from Tendata Customs Data. <https://www.tendata.cn/news/5994.html>