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MERCHANDISE IMPORTS AND TRADE BALANCES OF ASEAN, CHINA AND INDIA[1]

Highlights

- ACI import growth trends similar to those of exports; export earnings thus creating import demand.
- ASEAN: by far the largest ACI importer until overtaken by China in 2003.
- China's import expansion as phenomenal as the country's export surge and likely to remain on a high trend to fuel untapped potential.
- ASEAN's imports: high growth in the early 1990s and moderate increase in the post-crisis years.
- India's imports fast-expanding but still equivalent to 20 per cent of China's and 24 per cent of ASEAN's in 2005.
- Increased ACI share in world import demand with China being dominant in the rising ACI contribution to global import growth.
- China: durable trade surpluses; India: persisting trade deficits; and ASEAN: from pre-crisis deficits to post-crisis surpluses.
- China's trade surpluses: a well-known issue but unexceptional in amount and proportion compared to ASEAN's.
- Unprecedented opportunities for growth but also unprecedented adjustment problems because of the speed, scale and depth of change.
- Social development and environmental protection needed to underpin new and innovative policy tools for growth through trade and investment.

In 1990, ASEAN's import market was three times larger than China's which, in turn, was more than twice bigger than India's. By and large, exports generate imports and the features of ACI imports closely reflect those of exports.[2]

A. Patterns of merchandise imports

Firstly, both ASEAN and China showed dynamic import growth, respectively 122 per cent and 143 per cent between 1990 and 1995. Imports were thus expanding even faster than export growth (131 per cent) in China (Table 1 at the end of text).

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[1] The views expressed in this brief do not necessarily reflect those of the ASEAN Secretariat. The cut-off date for data collection for this brief is end-October 2006.

[2] ACI exports over 1990-2005 were discussed in Studies Unit Paper 10-2006 of December 2006.

- India's import demand, meanwhile, went up moderately by 44 per cent, (or about three-fifths of the export expansion). ASEAN's imports were consequently almost 10.5 times larger than India's in 1995.

Secondly, ASEAN's buoyant economy and exports were derailed by the financial and economic crisis of 1997/98 with import growth of just 2 per cent between 1995 and 2000.

- Meanwhile, import expenditure was much higher, by 70 per cent, in China (to reach US$ 225 billion in 2000) and by 46 per cent in India (to US$ 50.3 billion).
- For perspective, ASEAN's import market was just two-thirds larger than China's in 2000, compared to three times a decade earlier.

Thirdly, pent-up demand and economic recovery pushed ASEAN's import growth to 55 per cent between 2000 and 2005, or slightly faster than the increase in exports (Table 1).

- India's import spending accelerated by 1.7 times to US$ 134.7 billion in 2005. This amount was 24 per cent of ASEAN's, compared just 14 per cent five years earlier.
- China's imports, higher by a further 1.9 times between 2000 and 2005, reached US$ 660.2 billion in 2005. They were thus 16 per cent larger than ASEAN's imports of US$ 571.1 billion.

B. Long-term development trends

China's export surge was phenomenal and so was the import expansion, both around 11 times higher in 2005 compared to the 1990 level (Table 2). The fast-growing GDP and exports, spreading development inland, and a strong global economy will mean continuing, huge import demand from China.

Meanwhile, imports increased by 2.5 times in ASEAN, much below the export gain (3.4 times) between 1990 and 2005 (Table 2). This reflected crisis-induced import compression and moderate post-crisis import growth.

- ASEAN's import outlays, for example, were up by about three-fifths compared to the export growth of 94 per cent between 1995 and 2005 (Table 1).

In contrast, India's imports and exports were each 4.6 times higher between 1990 and 2005. Import growth, notably, had been lower than that of exports until its acceleration in the 2000s.

- Between 2000 and 2005, import spending was 1.7 times higher in India while exports were growing by 1.3 times. However, the country's import market is still small among the ACI economies.

C. ACI imports in a global perspective

Share in world imports. This share increased by four-fifths to 12.7 per cent between 1990 and 2005 (Figure 1). Such a rate of growth was largely the same as the expansion of the ACI share in global exports, highlighting again the mutual interaction between exports and imports.

ASEAN's share in world imports peaked in the mid-1990s. The post-crisis import recovery was moderate and the region's 5.3 per cent share in global imports in 2005 was marginally lower than the 2000 level.

India's small share in global imports almost doubled to 1.2 per cent between 1990 and 2005. It was much larger than the country's share of 0.95 per cent in world exports, however.

- The Indian import market was opening up rapidly from the 2000s. This owed much to the sustained, strong economic growth and a healthy reserve position (relative to the situation in the early and mid-1990s).

China's share in world imports, much smaller than ASEAN's until 2003, increased steadily to reach 6.2 per cent in 2005. This was 2.9 times larger than the 1990 level and four-fifths higher than the 2000 share.

Share in world import growth. ACI also contributed more to global import expansion than their relative share in world imports: 16.9 per cent of global import growth (totaling US$ 1,698 billion) between 1990 and 1995.

- The contribution dipped to 8.1 per cent in the following five years but recovered to 17.4 per cent of world import expansion (totaling US$4,139 billion) between 2000 and 2005.

More pertinent is that ASEAN's share in those contributions was down by three-fifths, from 11.7 per cent between 1990 and 1995 to just 4.9 per cent for 2000-2005 (Figure 2).

- In addition, ASEAN's imports contributed a very small stimulus to world import expansion during the crisis period of the late 1990s.

Between 1990-1995 and 2000-2005, India's share in global imports gained 2 percentage points (from 0.6 to 2.5 per cent). China's share shot up to a dominant level, however, respectively from 4.6 to 10.5 per cent (Figure 2).

- Indeed, China's sustained import growth accounted for almost four-fifths of the combined ACI contribution to world import expansion in the difficult period between 1995 and 2000.

D. Contrasting trade balances

Overview. The ACI export and import trends, although similar, yield a different picture on net trade flows. Firstly, China had a trade surplus during 1990-2005. Generally, the surplus was declining as a proportion of exports.

Secondly, India consistently showed a trade deficit which, however, was rising as a proportion of exports over the same period (Figure 3).

Thirdly, ASEAN had a deficit until the late 1990s but import demand and export expansion became more moderate, thus yielding a trade surplus which has continued since.

Fourthly, China's bilateral trade surpluses with the US and the EU are massive. The aggregate trade surpluses, however, are not that exceptional in absolute and relative terms (more below).

Trade balance of ASEAN. ASEAN's large trade deficits (over 10 per cent of export earnings) in the 1990s were converted into post-crisis surpluses totaling US$ 333 billion (or 11.7 per cent of exports) during 2000-2005.

Indeed, developing countries tend to stabilize their exchange rates at low levels (currency "undervaluing"). This is a lesson learnt from the contagious financial crises in East Asia and Latin America in the late 1990s.

- By running trade and/or current account surpluses, many of them have accumulated substantial (dollar) reserves.[3]
- But this strategy has also led to significant global imbalances and risks which, as yet, have not seriously affected the world financial markets and global growth.[4]

ASEAN's surpluses, however, were declining from around 13 per cent of exports in 2000-2001 to just below one-tenth over 2004-2005 (Figure 3).

- This reflected more subdued export expansion of 17 per cent, compared to pent-up import growth of 21 per cent in the latter period.

India's trade deficits. Although variable, these have been on an upward trend since the mid-1990s. The deficit, 35 per cent of exports in 1990, dipped to 13 per cent in 1995 but rose steadily again to 38 per cent in 2005 (Figure 3).

- In particular, imports went up by 32 per cent (relative to export growth of 25 per cent) a year in India during 2003-2005.

In absolute terms, the trade deficits totaled US$ 104 billion during 2000-2005 of which around three-quarters originated in the last three years.

- India can thus be expected to show high growth trends in import demand and relatively large trade deficits well into the medium term.

The case of China. China's trade surplus has generally been on a decline, from 15.6 per cent of exports in 1990 to 5.6 per cent a year in 2003-2004 (Figure 3). It spiked up to 13.4 per cent in 2005 largely because of a contraction of one-half in import growth (to 18 per cent from 36 per cent in 2004).[5]

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3 Reserve accumulation also depends on other trade and non-trade (net) transactions such as external services trade, FDI and other investments, lending and borrowing (and the associated interest receipts and debt repayments), workers' and migrants' remittances, and overseas development assistance.

4 Among other things, the US and other countries have so far managed to absorb the (corresponding) trade deficits but the risks and uncertainties of significant (currency) capital losses or sharper exchange and interest rates adjustments, and their adverse impact on global and regional growth, cannot be discounted.

5 In turn, this contraction reflected earlier efforts to cool down industrial production and investment in a red-hot economy. There were also draw-downs of inventories and delays in placing import orders in the first half of 2005 in anticipation of an appreciation of the local currency.

As a proportion of exports, however, ASEAN's annual trade surpluses (12 per cent on average during 2000-2005) were considerably higher than the 8.7 per cent level of China's (Figure 4).

- In absolute terms, likewise, ASEAN accumulated some US$ 333.4 billion in trade surpluses during 2000-2005 (Table 3). These were 30 per cent higher than those of China (US$ 236.8 billion).

As an export platform, China has had substantial trade deficits with input suppliers, including Japan and the Republic of Korea.

- The deficit with South Korea, China's second largest import source in 2005, totaled almost US$ 100 billion (or 54 per cent of China's imports from South Korea) during 2003-2005.
- Over the same period, China also recorded a trade deficit of US$ 50 billion (or 19 per cent of imports) with Japan, the largest import supplier to China in 2005.

Those deficits are balanced off against the larger trade surpluses in final markets (such as the US and EU) and intermediate destinations for re-export (Hong Kong SAR especially).

- China's surpluses with the US reached US$ 253 billion, or two-thirds of US-bound exports, during 2003-2005. Those with the EU, at US$ 114 billion, were equal to 37 per cent of China's exports to that grouping.
- Also notably, a significant part of export shipments to the US and, to a lesser extent, the EU represents intra-industry trade or trade under supply-chain subcontracts with US and European corporations.

E. Issues and implications

China's GDP stood at US$ 2,234 billion in 2005, or 4.8 times higher than the 1990 level. It was also 1.5 times larger than ASEAN's in 2005.[6] Through China's own development, the country has also spread the growth momentum globally via massive and fast-growing imports and domestic demand.

- The rich potential for further development is likely to transform China into the second largest single economy in the world in a few decades.

The Indian economy was about one-tenth smaller than ASEAN's in 2005. It is expected to approach or even exceed the region's GDP in the early 2010s, given current growth trends.

- Fueled by fast-rising domestic demand from a huge population, India may thus become the sixth largest global economy within a similar timescale as that of China.

All these will underpin a solid expansion of the world economy and the constant appearance of unprecedented opportunities for growth through trade and investment across the globe.

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[6] The patterns of income generation and GDP growth in ACI were examined in Studies Unit Paper 09-2006 in November 2006.

- The ASEAN Economic Community can position and synergize well with the global and pan-Asian economic space which is being enlarged fast and significantly by China, India and other economies.

But changes of this speed, magnitude and depth also create unprecedented problems for effective and timely adjustments and accommodation, including those to be made by ASEAN.

- Traditional industries, current business models and people livelihoods are facing daunting and disruptive challenges in the freer movement of ideas, skills and expertise, and value chains across border.
- Meanwhile, the intensified competition for markets and raw materials has put resources and ecosystems under even greater strains and stresses, thus generating higher costs in collective sustainability.

Unavoidably, parallel efforts at social development and environmental protection are required to synergize with existing as well as new and innovative tools in trade and investment policy.

- Those tools have to deal with cross-sectoral global challenges, to engage new partners and production networks, and to ensure the region is open to the world and global markets are open to ASEAN.
- But greater investment is also essential to foster creativity, innovation, on-going learning and skill formation, prerequisites in moving up the value chains and in diversifying into more productive activities.

The next briefs will look into geographical trade flows, with special emphasis on the gains or losses of market share in the US, the EU-15 and Japan as experienced by the ACI economies.

- Other briefs to follow will focus on the changing fortune of specific industries and products, and the prospects for enhanced complementarities in a dynamic pan-Asian and world economy.

Thitapha Wattanapruttipaisan and Sri Wardhani Bakri
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Table 1. Merchandise imports of ASEAN, China, India and the World during 1990-2005

	US$ billion		Percentage Change		
	1990	2005	1990-1995	1995-2000	2000-2005
ASEAN	162.1	571.1	122	2	55
China	54.4	660.2	143	70	193
India	23.9	134.7	44	46	168
ACI	240.4	1,366.0	119	22	112
World	3,436.0	10,734.0	49	28	63

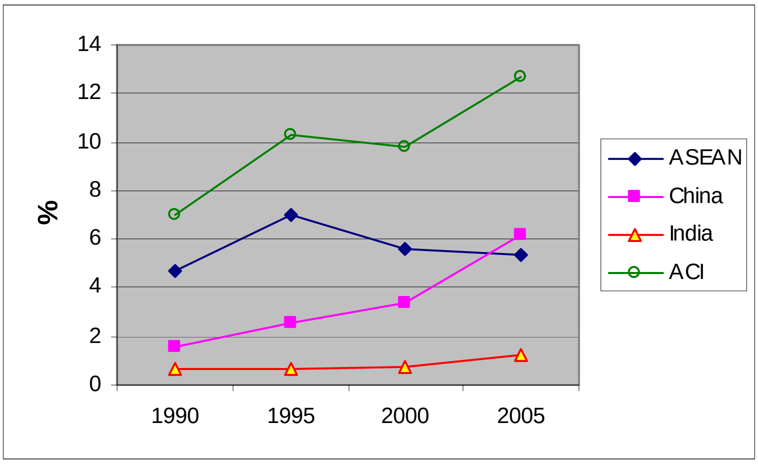
Source: IMF, *World Economic Outlook Database*, September 2006; and *Direction of Trade*.

Table 2. Percentage longer-term changes in merchandise imports of ASEAN, China, India and the World during 1990-2005

	1990-2005	1990-2000	1995-2005
ASEAN	252	128	59
China	1,112	314	400
India	463	110	291
ACI	468	168	159
World	212	92	109

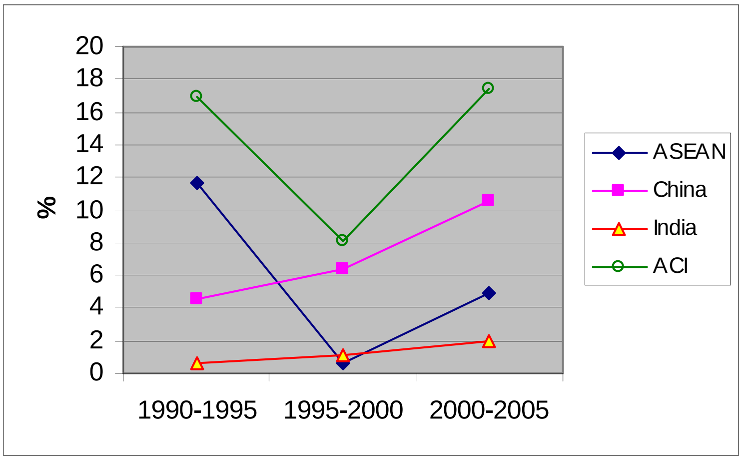
Source: Same as in Table 1.

Figure 1. Percentage share of merchandise imports of ASEAN, China and India in world imports during 1990-2005



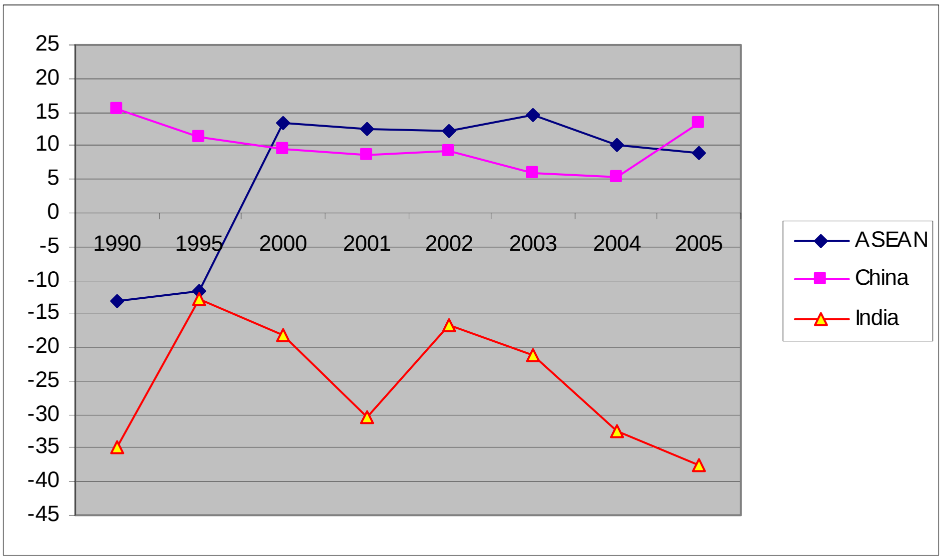
Source: Same as in Table 1.

Figure 2. Percentage contribution of ASEAN, China and India to global import growth during 1990-2005



Source: Same as in Table 1.

Figure 3. Merchandise trade balance as percentage of merchandise exports during 1990-2005



Source: Same as in Table 1.