

**THE UNITED STATES, THE EUROPEAN UNION-15 AND JAPAN AS
MERCHANDISE EXPORT MARKETS FOR ASEAN, CHINA AND INDIA¹**

Highlights

- The principal forces in world trade: the EU-15, the US and Japan with a one-half share of both global exports and global imports in 2005.
 - Trilateral trade patterns: lower share of world exports, higher import demand and, in the US case, substantial trade deficits.
 - ASEAN's and India's exports: modest expansion and declining shares in the US, EU and Japan between 1995 and 2005.
 - China: fast rising share of exports in, and multi-fold expansion of export earnings from, the trilateral markets.
 - The US and the EU: more dominant as markets for China's exports and the two top (but declining) markets for ASEAN's and India's.
 - Japan: lower demand growth for ACI exports with China gaining a larger market share in the last decade.
 - China's competitive performance crowding out ASEAN and Indian producers of considerable space in the trilateral markets.
 - ASEAN's share in total ACI exports to the US and EU contracting from 63 to 34 per cent, and India's from 9 to less than 8 per cent.
 - China's corresponding share expanding from 28 per cent in 1995 to 37 per cent five years later and to 59 per cent in 2005.
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The trends and patterns of overall merchandise exports, imports and trade balances of ACI economies during 1990-2005 were reviewed in two earlier briefs.² The following discussion focuses on ACI exports to the US, the EU-15 and Japan, commonly known as the "trilateral" trade partners.³

A. Overview of trilateral shares in world trade

Global merchandise trade doubled between 1995 (US\$ 10.20 trillion) and 2005 (US\$ 21.09 trillion). Meanwhile, world exports were 104 per cent higher (to US\$

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 7 November 2006.

² Studies Unit Paper No. 10-2006 and Studies Unit Paper No. 11-2006, both of December 2006.

³ China's and India's geographical trade flows were extracted from UNCOMTRADE data to ensure comparability when product-specific trade transactions are discussed in future briefs. ASEAN's geographical trade flows were based on the trade database at the ASEAN Secretariat as UNCOMTRADE does not have a complete coverage of ASEAN countries' trade.

10.35 trillion in 2005) and world imports increased by 109 per cent (to US\$ 10.73 trillion).

The EU-15, the US and Japan (until overtaken by China in 2004)⁴ were the largest global traders with collectively 56.57 per cent of world exports in 1995 and 49.07 per cent in 2005 (Figure 1 at the end of text).

- As suppliers, however, their combined market share was maintained at respectively 55.90 and 54.53 per cent of world imports.

The enlarging deficits in trilateral trade originated mostly from the US whose deficit of US\$ 0.83 trillion was equivalent to 48 per cent of US import value in 2005. However, the US deficits were as much as US\$ 3.55 trillion (or 43 per cent of US import value) for the period 2000-2005.

- Notably, intra-industry trade or trade under supply-chain subcontracts with US corporations accounted for a large proportion of US imports.

Japan and, to a lesser extent, the EU have generally recorded a trade surplus which, in the case of Japan, totaled US\$ 511 billion (or 17 per cent of export earnings) during 2000-2005.

- The corresponding figures for the EU were US\$ 182 billion and 1.1 per cent.

B. Trilateral markets for ASEAN exports

The US, the EU and Japan are the three largest trade partners of ASEAN (Figure 2 and Table 1).⁵ However, their markets for ASEAN exports were shrinking by around one-fifth in each case in the last decade.

- That reflected the intensified competition faced by the region's suppliers in world trade and Japan's less favorable economic conditions in the last decade.

In 1995, for example, the trilateral partners took in 48 per cent (or US\$ 142 billion) of ASEAN's exports but this share decreased to 38 per cent (or US\$ 243.9 billion) in 2005.

- In absolute value, those proportions represented an increase of some 70 per cent in export earnings. This was, however, much slower than the expansion in world exports (105 per cent) or in China's and India's during the same decade.

⁴ Long being more important than ASEAN as a trader, Japan experienced considerable setbacks to external trade in the early 2000s. As a result, ASEAN's trade became larger than Japan's in 2002 and in 2004-2005. However, China overtook both Japan and ASEAN in terms of trade value in 2004.

⁵ If ASEAN itself is counted as a single trade partner, then ASEAN is the largest export market and, from the 2000s, the largest import supplier of the region's own exports and imports respectively. The EU-15 is regarded as a single trader because its members belong to a single market and monetary union.

C. Trilateral markets for Indian exports

The trilateral share of India's exports also decreased by about one-fifth, from 52 per cent in 1995 to 41 per cent in 2005 (Figure 3) but Indian export earnings, respectively at US\$ 16.4 and US\$ 42.5 billion, were 1.6 times higher.

- Such growth was considerably faster than that of world exports and of ASEAN exports to the trilateral trade partners.

Comparatively, however, Japan's share of Indian exports went down more steeply, from 7 to 2 per cent between 1995 and 2005. This decline was offset, however, by a slower fall of 14 per cent in India's much larger export share in the US plus the EU, from 45 and 39 per cent respectively.

- Consequently, Indian earnings from those two markets were up by 1.8 times (from US\$ 14.2 billion in 1995 to US\$ 40 billion in 2005).

D. Trilateral markets for China's exports

The US, the EU and Japan became a larger market with 48.6 per cent (equivalent US\$ 72.3 billion) of China's exports in 1995 and one-half (US\$ 382.1 billion) in 2005 (Figure 4). This is a sharp contrast to the case of ASEAN's and India's.

- China's export surge yielded a fourfold increase in earnings, several times faster than the growth in global exports, or in both ASEAN and Indian exports to the same three markets.

Even more significant, however, is China's gain of one third in export market shares in the US plus the EU: 29.5 per cent (or US\$ 43.9 billion) in 1995 and 39.1 per cent (or US\$ 298.1 billion) in 2005.

- As a result, China's exports to those two markets were higher by 5.8 times. This more than offset a steep fall in Japan's share of China's exports, from 19 to just 11 per cent between 1995 and 2005 (Figure 4).

E. Japan as an ACI export market

In absolute terms, Japanese demand for ACI exports went up by about 117 per cent between 1995 (US\$ 73.4 billion) and 2005 (US\$ 159.2 billion). This rate was one-half as fast as that of the US or the EU, each being 2.2 times higher.

- That modest expansion accounted for Japan's declining share: from 32 to 24 per cent of ACI exports to the trilateral markets between 1995 and 2005.

Notably, China still gained more space than ASEAN and India in the slower-growing Japanese market. The country's exports to Japan had in fact been one-third less than ASEAN's in 1995 but China's share of ACI exports to Japan almost doubled from 39 per cent in 1995 to 53 per cent in 2005.

- Those proportions represented a twofold increase in earnings, from US\$ 28.5 to US\$ 84 billion respectively.

Meanwhile, ASEAN's share in ACI exports to Japan fell from 58 to 46 per cent, a gain of only 70 per cent in export value, and India's from 3 to 2 per cent, a one-tenth increase.

F. Non-trilateral markets for ACI exports

Non-trilateral markets accounted for 52 per cent of ASEAN exports in 1995, and 62 per cent a decade later. The corresponding ratios for India were 48 and 59 per cent respectively.

- In contrast, those markets are slightly less important with a respective share of 51.4 and 49.9 per cent per cent of China's exports.

China was the most dynamic market for ASEAN exports while India, a fast expanding market but from a low starting base. ASEAN's demand for the region's own exports was slower growing, however.

- Australia and the Republic of Korea are larger than India as a market for ASEAN goods but with a more moderate expansion (than India) as a demand source in the last decade.
- The non-trilateral export markets for the ACI economies will be examined in a separate brief.

G. Issues and implications

Crowding out. Exports from China had accelerated in the early 1990s although from a low initial base. Another structural shift took place in the early 2000s when exports displayed an even higher growth trend. China had joined the WTO in December 2001.

Much less dynamic in their export performance, ASEAN and India were "crowded" out by China of considerable market space in the US, the EU and Japan in the decade past (Table 1 and Figures 2, 3 and 4).

- In other words, ASEAN's and Indian export earnings from the trilateral markets would have been more substantial and their export shares in these markets, sustained or fallen less steeply with a more moderate export surge from China in the same markets.

*Scale and the magnitudes: lost market shares.*⁶ From a trilateral market angle, China gained some 10 percentage points in export earnings from the US and the EU between 1995 (29 per cent of China's total exports) and 2005 (39 per cent).

- Meanwhile, ASEAN lost 7 percentage points (to 26 per cent of the region's total exports in 2005) and India, 6 points (to 39 per cent of Indian exports in 2005).

⁶ A lower market share, denoted by Lall and Albaladejo as complete competitive threat (CT), does not necessarily mean a decline in the absolute amount of export earnings. A slower gain in market share (relative to the competitor's) is termed as partial competitive threat (PT). PT does not necessarily mean an absolute loss of market share, especially when the markets concerned are growing fast enough. But if continued, a rising CT will eventually lead to absolute falls in export earnings as the export markets concerned are not unlimited. Likewise, a higher PT will eventually become a CT if continued over time.

- China's share in the total ACI exports to Japan was, likewise, moving positively and in an opposite direction to ASEAN's and India's, as noted earlier.

From an ACI angle, ASEAN's share in total ACI exports to the US and EU contracted from 63 to 34 per cent between 1995 and 2005, and India's from 9 to 8 per cent.

- That of China, meanwhile, was expanding from 28 per cent in 1995 to 37 per cent five years later and to 59 per cent in 2005.

Scale and the magnitudes: slower export expansion. ACI exports to the US, the EU and Japan were higher by US\$ 111.6 billion (or almost one-half) between 1995 and 2000, and by US\$ 326.2 billion (or doubling) between 2000 and 2005.

Percentage-wise, China's exports to the trilateral markets grew by almost 4.3 times between 1995 and 2005, compared to 72 per cent for ASEAN and 1.6 times for India (from a low starting base).

- In addition, the increase in export earnings from the same three markets achieved by China was also substantially much faster than that of ASEAN or India for periods 1995-2000 and especially 2000-2005.

In terms of relative contributions, China's and ASEAN's exports accounted for 92-96 per cent of the expansion in ACI exports to the US and EU, and for virtually 100 per cent in the case of Japan, between 1995 and 2000 (Figure 5).

Between 2000 and 2005, however, ASEAN's share in the additional ACI exports to the US and the EU fell steeply while that of China reached fourth-fifths (and two-thirds in Japan's case).

- India had a higher share of 10 per cent of the expanding ACI exports to the EU while ASEAN registered proportionately the most serious setback in this market (Figure 5).

Substantial opportunity costs. India is a smaller exporter so China's gains have taken place largely at the expense of ASEAN.

- Other things being equal and as an approximation, each percentage point of (lost or gained) relative contribution was equivalent to US\$ 0.4-0.5 billion in (lost or gained) earnings from the US and the EU, and to US\$ 0.2 billion in the case of Japan, as of 2000.
- The corresponding figures for 2005 were US\$ 1.2-1.4 billion in (lost or gained) earnings from the US and the EU, and US\$ 0.7 billion in Japan's case. The higher values of 2005 reflected stronger trilateral demand for and higher growth of ACI exports in the 2000s.

China's proven competitiveness. There is now considerable evidence in the literature of China's multi-sided competitive strength. That applies to resources-

based manufacturing exports, and to the export of low-tech, medium-tech and, increasingly, high-tech manufactures.⁷

- Studies Unit Paper 06-2005 (March 2005) overviews China's competitiveness and market shares in many specific industries and sectors of direct and major export interest to ASEAN producers.
- Those export activities include textiles and clothing, footwear, furniture, engineering products, motor vehicles and automotive products, and ICT goods.

The next brief will look into the other side of the coin, namely the trilateral trade partners as suppliers of ACI imports and the associated bilateral trade deficits which have become a contentious issue.

- Other briefs to follow will focus on the gained or lost competitiveness of the top ten products traded internationally by ACI economies and the prospects for greater complementation and higher local value-added in their production among these economies.

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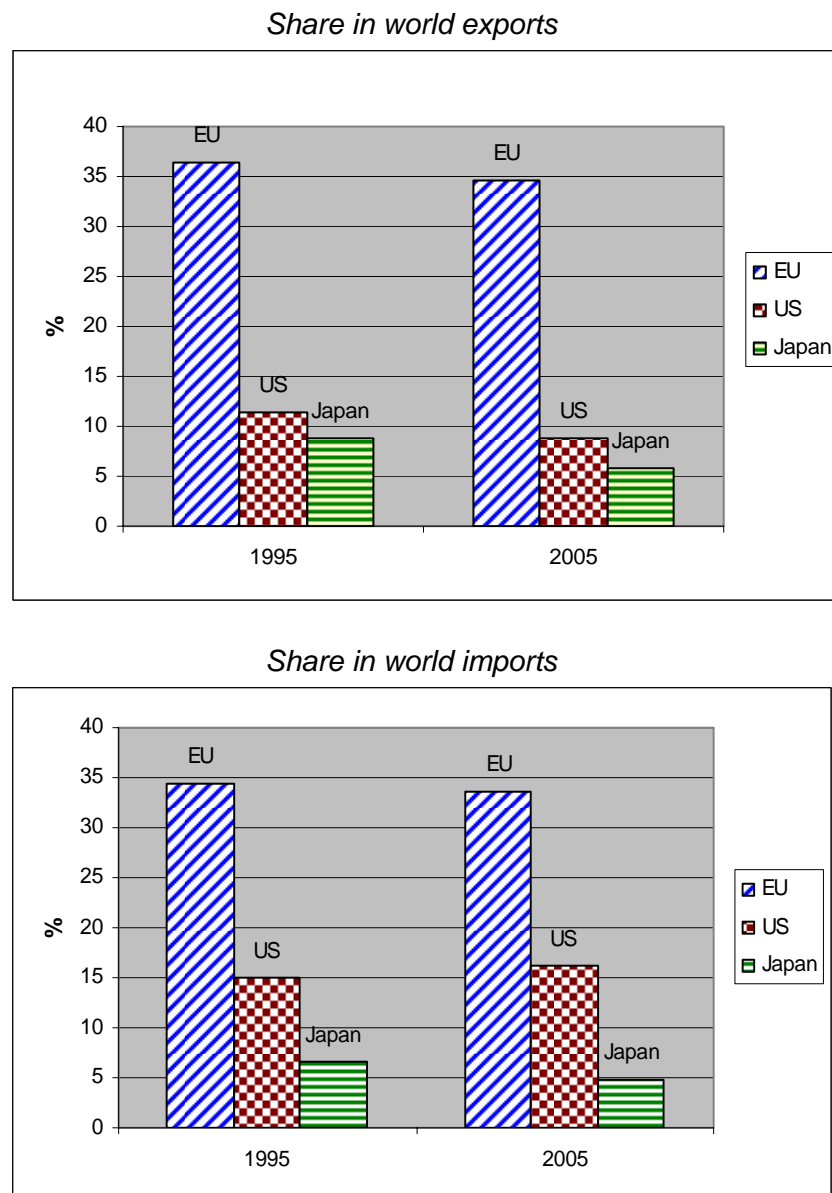
⁷ For details, see Sanjaya Lall and Manuel Albaladejo, 2004, "China's Competitive Performance: A Threat to East Asian Manufactured Exports?", *World Development*, vol. 32, no. 9, September, pp. 1441-1466.

Table 1. Percentage shares of the US, the EU-15 and Japan in ACI merchandise exports during 1995-2005

| | ASEAN | | | China | | | India | | |
|--------------|-------|------|------|-------|------|------|-------|------|------|
| | 1995 | 2000 | 2005 | 1995 | 2000 | 2005 | 1995 | 2000 | 2005 |
| US | 18.5 | 18.0 | 14.3 | 16.6 | 20.9 | 21.4 | 17.3 | 20.9 | 16.9 |
| EU | 14.9 | 15.3 | 12.1 | 12.9 | 15.8 | 17.7 | 27.5 | 23.4 | 21.8 |
| Japan | 14.4 | 12.3 | 11.2 | 19.1 | 16.7 | 11.0 | 7.0 | 4.0 | 2.4 |
| Total | 47.8 | 45.6 | 37.6 | 48.6 | 53.4 | 50.1 | 51.8 | 48.3 | 41.1 |

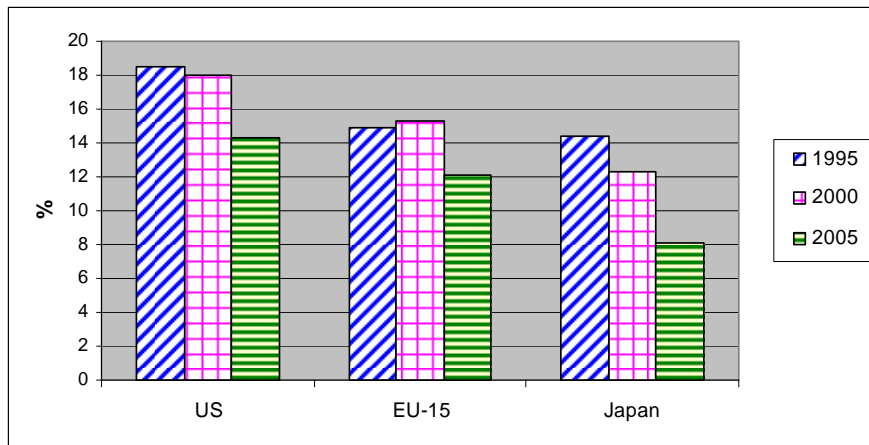
Sources: ASEAN Secretariat trade database, UNCOMTRADE, and IMF, *Direction of Trade*.

Figure 1. Percentage shares of the EU-15, the US and Japan in world trade in 1995 and 2005



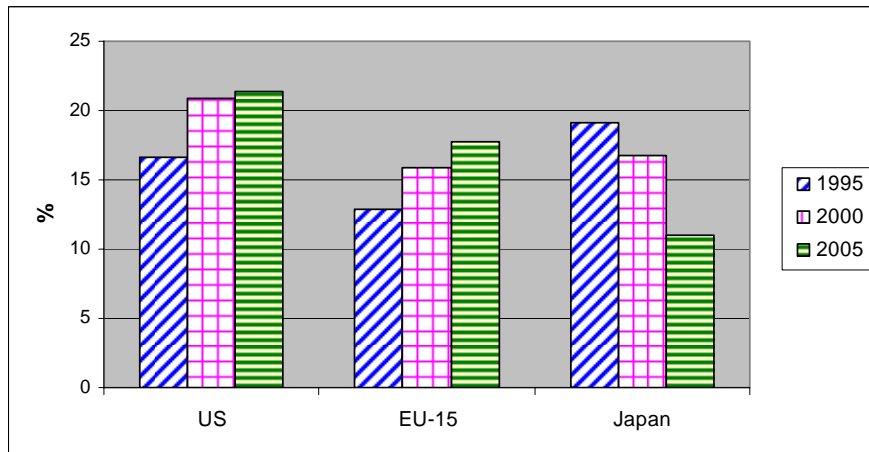
Source: Same as in Table 1

Figure 2. Percentage shares of the US, the EU-15, and Japan in ASEAN exports during 1995-2005



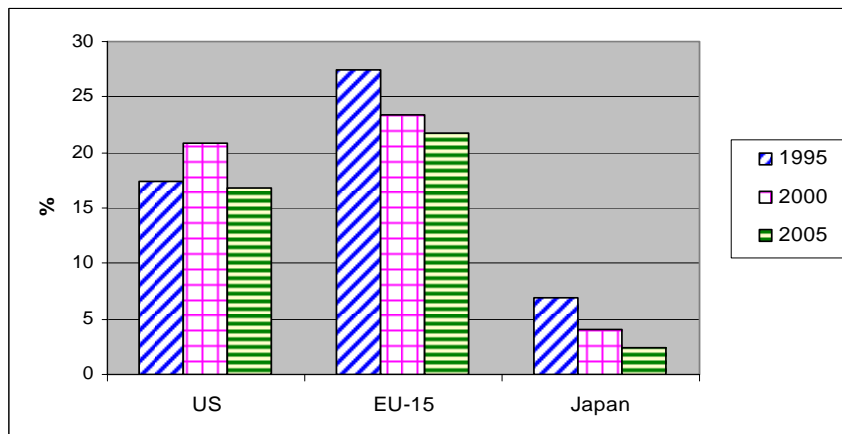
Source: Same as in Table 1

Figure 3. Percentage shares of the US, the EU-15, and Japan in China's exports during 1995-2005



Source: Same as in Table 1

Figure 4. Percentage shares of the US, the EU-15, and Japan in Indian exports during 1995-2005

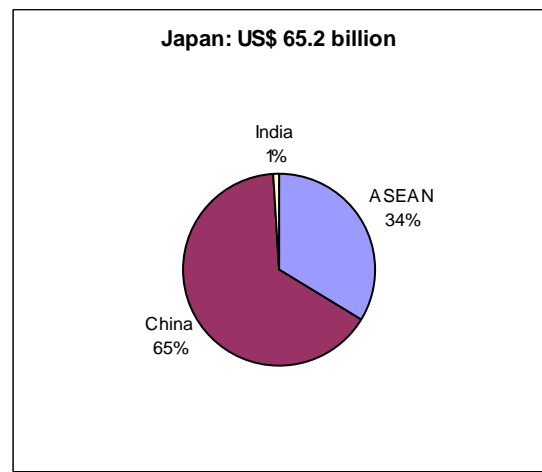
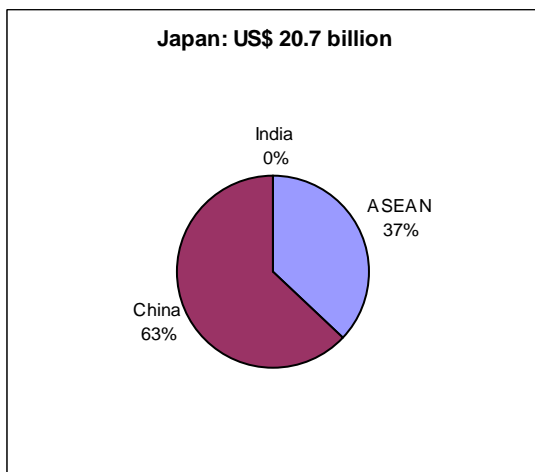
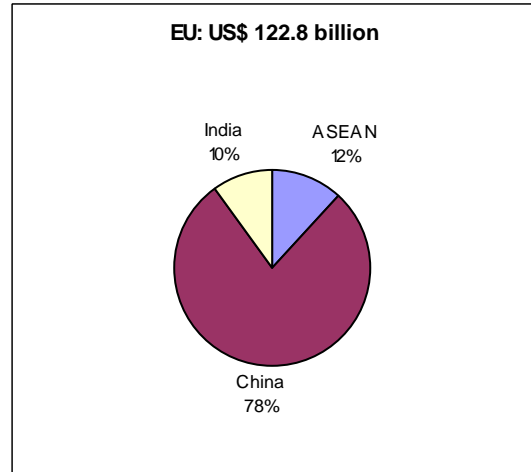
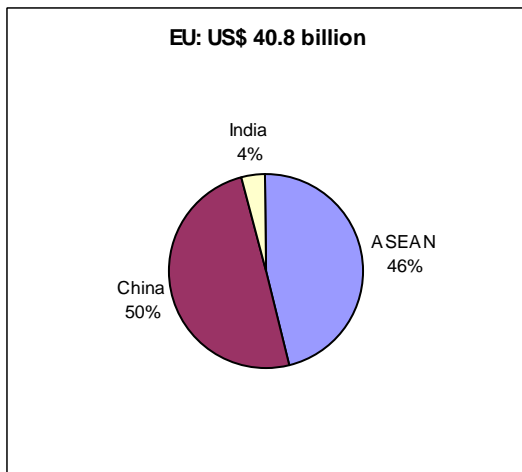
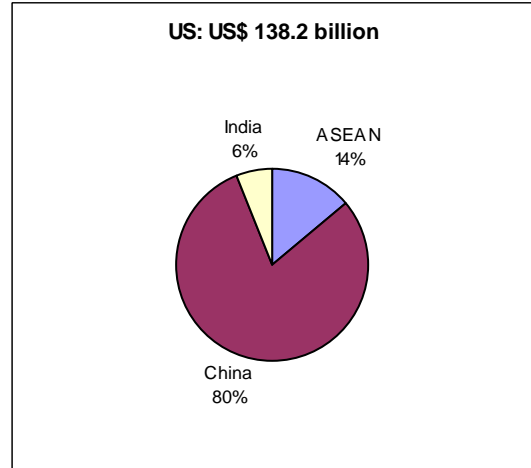
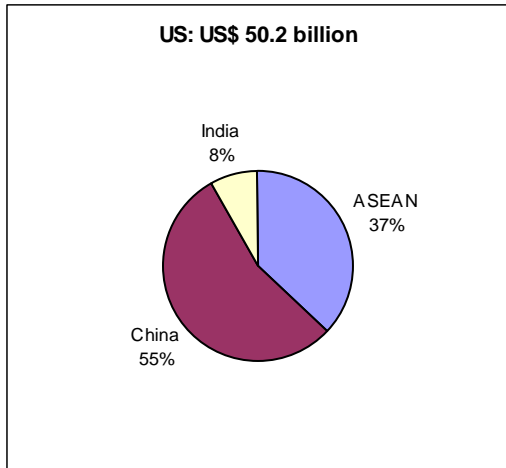


Source: Same as in Table 1

Figure 5. Percentage shares of individual ACI economies' contributions to total ACI export expansion in the US, the EU-15 and Japan during 1995-2005

Between 1995 and 2000

Between 2000 and 2005



Source: Same as in Table 1