



South-East Asia on a par with the United States in terms of global exports

The countries that comprise the Association of Southeast Asian Nations (ASEAN) now account for almost 8% of global exports (4% in 1990), which is on a par with the United States. This region has benefited from Chinese growth and the extension of value chains. It is therefore increasingly integrated with China, which has been its leading supplier since 2007 and its leading client since 2009. Its role as an export platform has been further enhanced in the context of the tensions between the United States and China. The restructuring of companies' production chains, driven by the strategic rivalry between China and the United States and by the need to secure supplies, is a major challenge for this region, whose development is dependent on its successful integration into international trade.

Xavier Denis

The Banque de France's Singapore office

JEL codes
F13, F14, F15,
F18, O53

8%

ASEAN's share of global goods exports

X 2

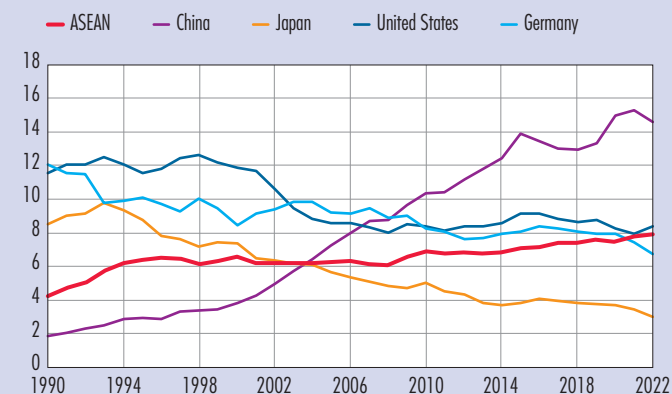
Changes in ASEAN's share of global exports over the last 30 years

8%

ASEAN's average contribution to global growth between 2010 and 2021

ASEAN's share of global goods exports

(%)



Sources: IMF, authors' calculations.

Note: ASEAN, Association of Southeast Asian Nations (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam).



1 ASEAN countries increase extra-regional trade

South-East Asia's share of global exports has doubled in the last 30 years

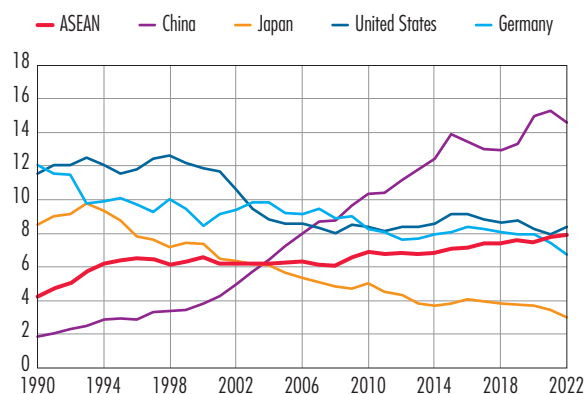
The economic ascent of the ASEAN¹ countries took place in several stages. Initially driven by the industrialisation of Asian countries in the 1980s and 1990s (Japan and the Asian dragons: South Korea, Hong Kong, Singapore and Taiwan), their ascent slowed sharply following the Asian crisis of 1997-98. This crisis led to a major restructuring of the economy and the banking sector, particularly in Indonesia, Malaysia and Thailand.

The acceleration in Chinese growth since its admission to the World Trade Organisation (WTO) in December 2001 has had a powerful knock-on effect since the mid-2000s, particularly in South-East Asia, where it has stimulated exports and growth.

The growing market share of ASEAN countries in global exports stems largely from the trade integration process between China and the countries of South-East Asia. Indeed, it is the only region in the world, along with China, to increase its market share in global goods exports.

CI ASEAN's share of global goods exports

(%)



Sources: IMF, authors' calculations.

The region's trade integration will benefit from the new Asia-Pacific Free Trade Agreement

The regional trade integration process dates back to 1992 and took shape in 2003 with the launch of the ASEAN Free Trade Area (AFTA).

This helped to strengthen regional economic and trade links. Intra-regional trade grew until 2010, accounting for 25% of the foreign trade of ASEAN countries, compared with 20% in the early 1990s. However, since 2010, the trend has reversed and has even accelerated since 2018, reflecting the growing integration of ASEAN into regional trade flows with partner countries in the Asia-Pacific region that make up ASEAN+6,² and even beyond the Asia region (see below). This growing openness to the outside world reflects the growth in value chains within the Asian region, particularly in relation to China, as well as ASEAN's growing role as an export platform for the rest of the world.

The production of ASEAN countries is integrated into a vast economic area that extends to East Asia, including mainly China, Japan and South Korea. In 2016, half of ASEAN's trade in parts and components took place within ASEAN+6 itself (Chen et al., 2019). There are two strands to this: firstly, the sharing of production in ASEAN takes place in an open system, at both the global and regional levels; secondly, ASEAN countries trade relatively more parts and components within the region (ASEAN+6) than with countries outside.

Furthermore, there is a more recent phenomenon associated with the trade war between the United States and China. A growing share of Chinese products affected by the imposition of punitive customs tariffs in the United States are now being exported from ASEAN countries, and in particular from Vietnam, which appears to be the main beneficiary of these US-China trade tensions. Producers based in China have relocated part of their production to third countries in order to circumvent the customs tariffs imposed on their products when they enter the United States.

¹ Association of Southeast Asian Nations (ASEAN): an organisation created by Indonesia, Malaysia, the Philippines, Singapore and Thailand in 1967, and which has since expanded to include Brunei (1984), Vietnam (1995), Laos and Myanmar (1997), and lastly Cambodia (1999).

² ASEAN+6 = ASEAN + Australia, China, India, Japan, New Zealand, South Korea.



This may explain the faster relative decline in intra-ASEAN trade since 2018, when Chinese production was relocated to ASEAN countries, strengthening the region's role as

an export platform to the rest of the world, and in particular to the United States.

BOX

The Regional Comprehensive Economic Partnership (RCEP) and the US response

The countries comprising ASEAN+6¹ – with the notable exception of India – signed a free trade agreement that came into force on 1 January 2022: the Regional Comprehensive Economic Partnership (RCEP), which should further deepen regional economic integration in Asia. The RCEP is now the largest free trade agreement in the world, bringing together 15 countries producing 30.5% of the world's GDP, compared with 28% for the United States-Mexico-Canada Agreement (USMCA) and 18% for the European Union.

The expected benefits of this agreement are threefold:

- Additional regional GDP growth estimated at 0.5% per year thanks to lower tariffs on 90% of goods over the next 20 years. This reduction should boost intra-regional exports by up to USD 42 billion;
- Greater efficiency thanks to the relaxation of rules of origin and the harmonisation of customs rules, which should stimulate the integration of regional value chains;
- A surge in trade in services thanks to the forthcoming liberalisation of telecommunications, financial services, logistics and e-commerce, with specific provisions for the latter.

However, i) many participating countries will reduce their tariffs at a later stage, as they have already reduced them significantly, and ii) the liberalisation of services leaves a considerable margin of discretion to member countries to decide on its scope and timing.

Given the growing importance of Asia, both in terms of trade and global growth, the United States cannot afford to remain outside preferential trade agreements, despite its withdrawal from the Trans-Pacific Partnership (TPP, bringing together 12 countries) in 2017.

Faced with China's ascension, the United States, along with Japan and 11 other countries, launched a new economic alliance at the end of May 2022: the Indo-Pacific Economic Framework (IPEF).² Indeed, China plays a key role in the RCEP and in 2021 applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the 11-member version of the TPP, thereby making the Asia-Pacific regional trade organisation more China-centric.

Nevertheless, unlike the RCEP or CPTPP, the IPEF is not a trade agreement, as it does not provide the different stakeholders with preferential access to their respective markets, particularly in the form of lower tariffs. The agreement seeks solely to establish standards for the digital economy, supply chain resilience, decarbonisation, infrastructure and working conditions, among other things. But, in the absence of American concessions favouring access to its market, this agreement has little chance of changing the state of play in terms of the economy or trade in the region.

¹ ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam) + Australia, China, South Korea, India, Japan, New Zealand.

² This new partnership brings together 12 countries: Australia, Brunei, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand and Vietnam.



2 ASEAN's trade relations with China are increasingly integrated

Trade relations between ASEAN and China are developing rapidly

Over the past three decades, ASEAN's trade links with the United States, Japan and the European Union (EU) have weakened, at least in relative terms, while they have strengthened significantly with China.

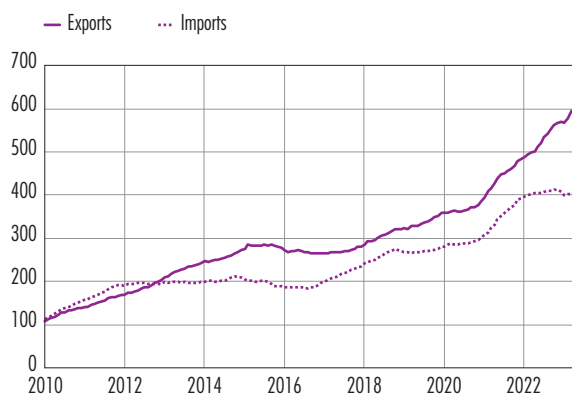
In value terms, China's exports to ASEAN have increased by almost five times since 2010, while ASEAN's exports to China have increased by only four times. The trade balance, which had displayed a small surplus in favour of ASEAN until 2012, now shows an annual deficit of around USD 100 billion, and appears to be stabilising at this level.

Trade between ASEAN and the EU has also deepened, but to a much lesser extent. Over the period 2010-22, while EU exports have doubled, those of ASEAN have expanded by a factor of around 2.5, leading to a sharp increase in the EU-27 trade deficit, from EUR 13 billion at the start of 2010 to more than EUR 60 billion in early 2022 in annual terms.

The growing integration of the ASEAN and Chinese economies can be seen in the details of the structure of bilateral foreign trade, according to the type of goods

C2 China's foreign trade with ASEAN

(USD billions, 12-month cumulative total)

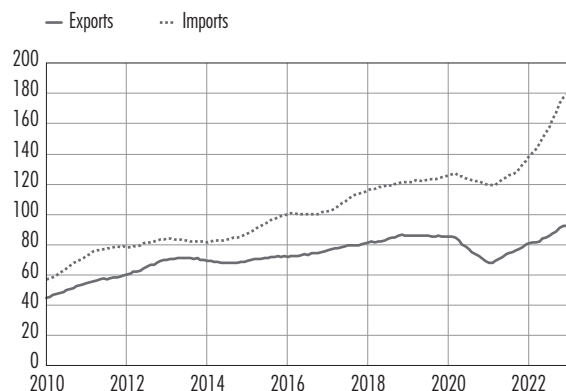


Sources: Chinese customs, author's calculations.

Note: Most recent data point as at 15 April 2023.

C3 European Union's foreign trade with ASEAN

(USD billions, 12-month cumulative total)



Sources: Eurostat, author's calculations.

Note: Most recent data point as at 15 March 2023.

traded and by the stage of production, with joint growth observed in trade for the different types of goods. Capital goods represent almost 50% of the value of China's exports to ASEAN countries, a level in line with China's share of global trade in this area. ASEAN exports include a larger share of intermediate goods and raw materials, whereas it is marginal in Chinese exports. This distribution also reflects the diversified nature of trade, illustrating the boom in intra-sector trade and the integration of production chains between China and ASEAN.

ASEAN countries are now highly integrated with China through value chains

According to the Organisation for Economic Co-operation and Development (OECD) database, China's role in the growing integration of value chains with ASEAN countries has developed considerably over the past decade. China's share in the foreign value added in ASEAN exports rose by almost 10 percentage points in the 2010-18 period.

This growing integration is also reflected in the domestic demand of ASEAN countries, with China's share of the foreign value added in this demand rising by more than 7 percentage points. In contrast, the share of value added from the United States and the EU, in both ASEAN exports and domestic demand, remained virtually stable.

Using a more granular approach that focuses solely on the manufacturing sector, China's share of ASEAN exports

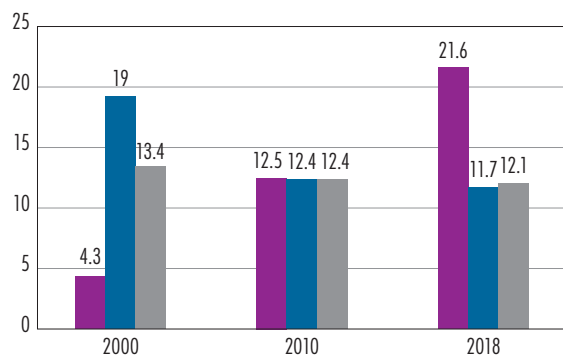


C4 Share of China, the United States and the EU-27 in the foreign value added contained in...

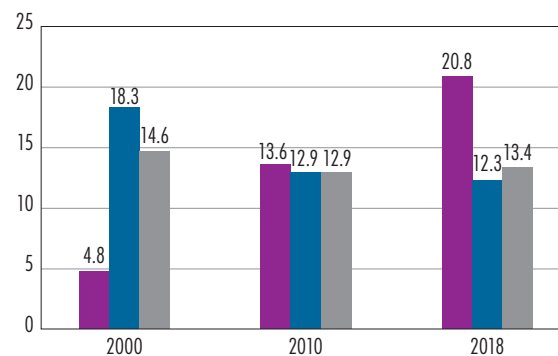
(%)

■ China ■ United States ■ EU-27

a) ... ASEAN exports



b) ... ASEAN domestic demand



Sources: OECD (TiVA indicators), author's calculations.

has grown even faster, rising from 13.5% of foreign value added in ASEAN exports in 2010 to 24.5% in 2018, an increase of 11 percentage points over eight years.

The United States' weight as an export market has also increased significantly

While US exports to ASEAN have not grown significantly in value terms, the United States' share as a recipient of ASEAN exports is increasing.

The United States' share of ASEAN exports has risen since its trough of 8.5% in 2011, ending a downward trend. By 2020, this share had risen to 15.2% of total goods exports, with a marked acceleration as of 2018. For the ASEAN countries, the US market has once again become almost as important as the Chinese market, despite its significant growth (and the fact that it has been the main export market since 2009).

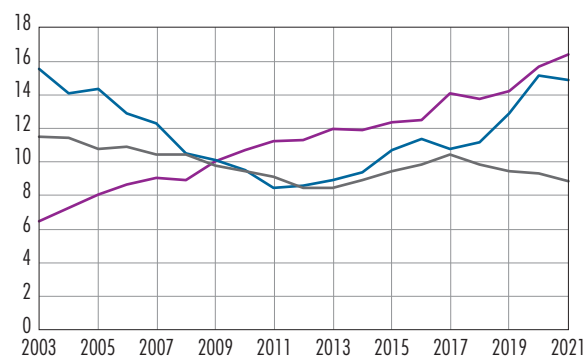
The US trade deficit with the ASEAN countries is growing, and has notably widened since 2017-18: it reached USD 200 billion at the start of 2022, compared with just USD 35 billion in 2010.

In terms of the breakdown of trade by type of goods, the majority of exports from ASEAN countries are consumer goods. However, capital goods exports have also grown significantly since the early 2010s, reflecting the increasing

C5 Share of total ASEAN goods exports

(%)

— China — United States — EU-27



Sources: ASEANstats, author's calculations.

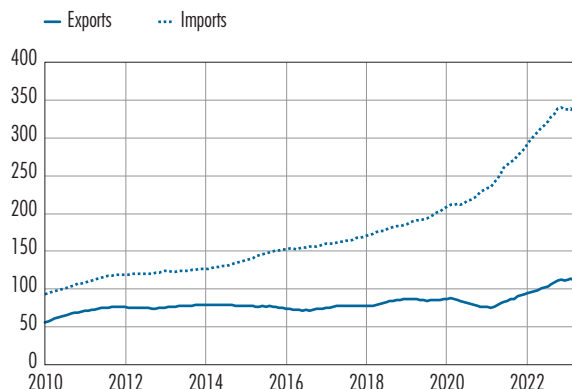
quality of South-East Asian production; since 2017, there has even been a notable trade surplus with the United States. At the same time, while the United States continues to export mainly capital goods to ASEAN, the share of commodities (mainly oil, liquefied gas and agricultural products) is also growing.

Nevertheless, China has clearly become a more important trading partner than the United States for the countries in the region, both in terms of inputs and exports, and in terms of its role in the value-added creation process. This trend (driven by Chinese growth, trade integration, regionalisation of value chains, etc.) is set to accelerate in the coming years.



C6 US foreign trade with ASEAN

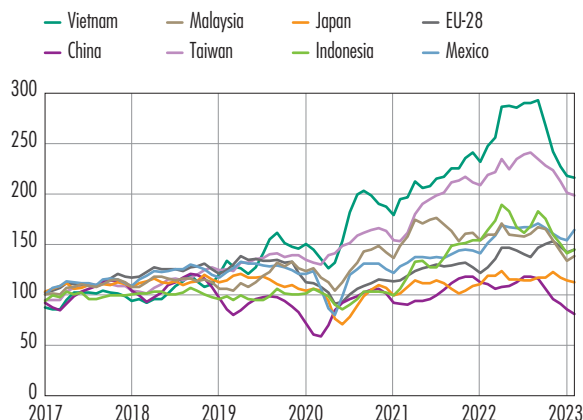
(USD billions, 12-month cumulative total)



Sources: U.S. Census bureau, author's calculations.
Note: Most recent data point as at 15 March 2023.

C7 US imports in value terms by country of origin

(100 = Q1 2017; series smoothed quarterly, USD billions)



Sources: US Census bureau, author's calculations.
Note: Most recent data point as at 15 March 2023.

3 Trade tensions between China and the United States have led to a shift in trade flows

The trade war initiated by the Trump administration and continued by the Biden administration has resulted in a sharp rise in bilateral tariffs between the United States and China. This has prompted a shift in trade flows towards other Asian countries, particularly those in ASEAN.

Customs tariffs between the two countries have risen sharply

The US-China trade war has led to a sharp rise in reciprocal tariffs, which the signing of the agreement has not changed. Two-thirds of Chinese exports are subject to US tariffs, while this proportion falls to 60% for US exports to China. In fact, reciprocal tariffs are on average 15 to 16 percentage points higher than those applied by China and the United States to other countries.

Some Asian countries are benefiting from the trade war

One way of getting around tariff constraints is to relocate the production of goods subject to such tariffs due to their origin. ASEAN countries are well placed to benefit from this because of their trade integration with China and the application of the most-favoured-nation clause, which gives them access to the US market on the same terms as other partners (and therefore at an advantage over China).

Outside ASEAN, Taiwan has also benefited from this situation, with the second biggest rise in exports to the United States since the start of 2017.

We should nevertheless bear in mind that demand for electronic and IT products and components such as semi-conductors has risen sharply with the Covid crisis and the increased digitalisation of economies, thus favouring economies that are already highly specialised in these fields, such as Vietnam and Taiwan, and to a lesser extent Malaysia.

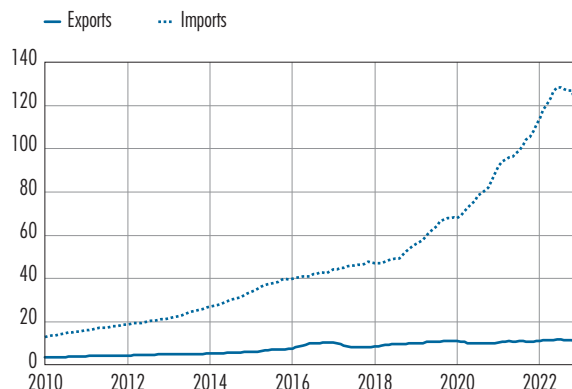
Vietnam is the country that has so far benefited most from the US-China trade war. Since 2018, its exports to the United States have accelerated sharply, after already rising steadily for many years: from virtually zero in the early 2000s, they reached, on an annual basis, USD 110 billion at the start of 2022, representing a trade deficit of USD 100 billion for the United States.

A granular sectoral analysis by type of product traded further illustrates the growing importance of Vietnam, whose exports are partially replacing those of China. China's market share in exports of electrical and electronic products (HS84 and HS85 in the Harmonized Commodity Description and Coding System – HS) to the United States, which includes capital goods and consumer goods, rose sharply, from 5.3% in 2018 to 18.9% in 2021, while China's market share only increased from 28.2% in 2017 to 29.7% in 2021.



C8 US foreign trade in goods with Vietnam

(USD billions, 12-month cumulative total)

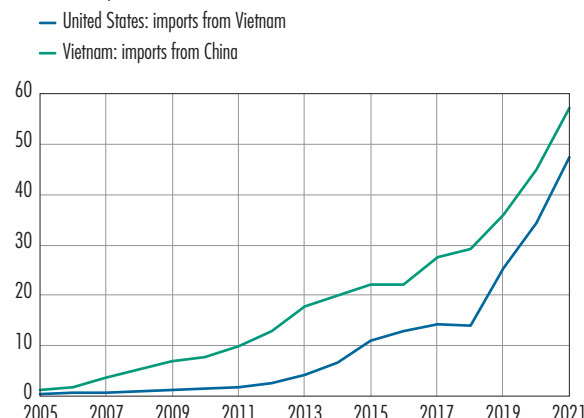


Sources: U.S. Census bureau, author's calculations.

Note: Most recent data point as at 15 March 2023.

C10 Imports of electrical and electronic goods

(USD billions)



Source: United Nations (UN Comtrade database).

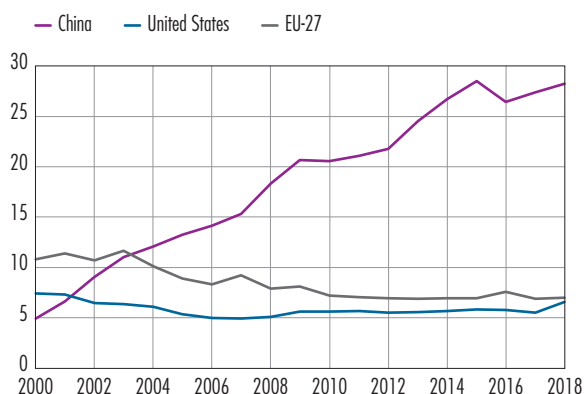
Scope: References HS84 and HS85 in the Harmonized Commodity Description and Coding System.

The growing share of Chinese value added in Vietnamese exports (now close to 30%) suggests that there are two phenomena at work:

- On the one hand, production chains are increasingly integrated between China and Vietnam, which has become a trend. This is reflected in the sharp growth in bilateral trade;
- On the other hand, this deeper integration has fostered a partial substitution effect. Manufacturers based in China, both Chinese and foreign, have relocated part of their production, or at least the final assembly stage, to Vietnam in order to circumvent the new tariffs on Chinese products entering the United States.

C9 Share of China, the United States and the EU-27 in the foreign value added of Vietnam's exports

(%)



Sources: OECD (TiVA indicators), author's calculations.

Nevertheless, China remains by far the United States' largest trading partner; in 2021, the value of its electrical and electronic goods exports alone was five times higher than that of Vietnam. This shows that there is no real substitute for China's production capacity, in terms of size and diversity.

Taiwan is the other country in Asia that has benefited most from the US-China trade war, having gained export flows to the United States that no longer originate in China.

When considering all products as a whole, Taiwan's exports to the United States have grown significantly (doubling in value since 2017), but less spectacularly than in the case of Vietnam. Taiwanese imports from the United States have also risen, but to a much lesser extent.

Electrical and electronic goods (HS84 and HS85 classification codes) traditionally account for around 50% of exports to the United States, and have recently exceeded 60% for the first time since 2001.

Given the production costs of countries, Taiwan, unlike Vietnam, cannot be a substitute for many Chinese goods exported to the United States. For instance, Foxconn, a major Taiwanese assembler of technology products and subcontractor to Apple, has factories in mainland China. In addition, Taiwanese semiconductor manufacturers all have production sites in China, with the notable exception



C11 Exports from Taiwan to the United States

(amount in USD billions, share as a %)



Sources: Observatory of Economic Complexity (OEC), author's calculations.

Scope: References HS84 and HS85 in the Harmonized Commodity Description and Coding System.

of the market leader, TSMC³, which makes them dependent on Chinese production capacity and also exposes them to political tensions.

**

Asian countries, particularly those in ASEAN, have so far benefited from China's strong growth, which has made it

their main export market for over ten years, while at the same time receiving an increasing flow of Chinese direct investment.

China is playing an increasingly important role in trade flows across the Asian region, due to its economic weight, its outward-looking growth model based on a buoyant export sector, as well as the trend towards the regional relocation of production following the rise in Chinese production costs and, more recently, the impact of the trade war with the United States.

Given the United States' strong domestic demand and Asian countries' specialisation in goods (electrical and electronic) for which global demand is growing rapidly, the United States has become an increasingly important export market in recent years. The United States' share of ASEAN exports is therefore now close to that of China.

As a result, the countries of the region are increasingly exposed to the global supply and demand dynamics and to the structure of production chains.

A bifurcation of these value chains, caused by the strategic rivalry between China and the United States, as well as relocation trends driven by supply security concerns, **will inevitably have adverse effects on the organisation of production in ASEAN**, forcing companies and governments to make strategic choices.

³ TSMC is currently building a plant in Texas to produce the latest generation of processors.



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