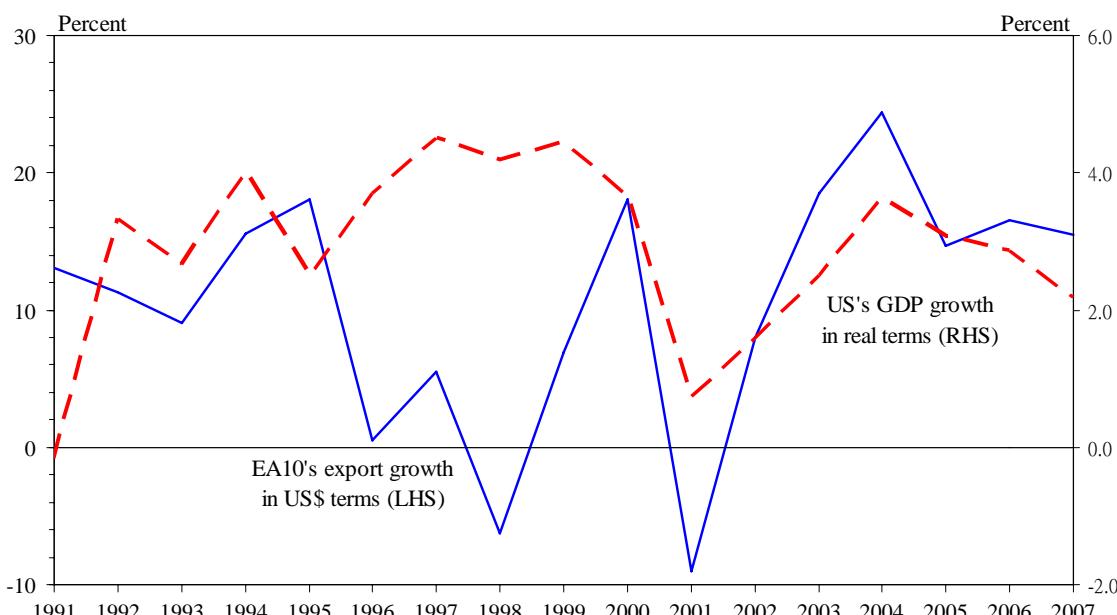


Box 1.1

**The relative importance of the United States
as a market for exports of East Asian economies**

Economic activity in the US remained subdued on entering 2008, due to the housing market downturn, slackened labour market conditions and tightening credit standards arising from the financial turmoil. The risks of the US economy experiencing a mild contraction are increasing. The US has long been an important market for East Asia's exports. In the past, when the US experienced a marked economic slowdown, exports of East Asian economies were often affected in a significant way. For instance, when the US economy slowed markedly in 2001, exports of East Asian economies recorded a negative growth in US dollar terms. This note attempts to show that the relative importance of the US in East Asia's exports has been declining steadily over the recent past. This leads one to wonder if the trade performance of East Asia may, unlike in the past episodes, would become more resilient to the current US economic slowdown.

**US economic growth and EA10's export growth
(year-on-year rate of change)**



During 1995 to 1997, the share of the US in the exports of ten selected East Asian economies (EA10)^(*) was stable at about 22% and then rose to 25% in 1999. But its share then declined gradually to 20% in 2003 and notably further to 16% in 2007. Over the past ten years, EA10's exports to the world rose by an average of 10% in US dollar terms, considerably faster than the corresponding 7% trend increase registered for the US market. By comparison, intra-regional trade among EA10 also grew at an average annual rate of 10%, in line with their overall export growth.

(*) The ten selected East Asian economies (EA10) in this article include the Mainland, Hong Kong, Japan, Singapore, South Korea, Taiwan, Indonesia, Malaysia, the Philippines and Thailand.

Box 1.1 (Cont'd)

The share of intra-regional trade in EA10's total exports amounted to 48% in 2007, similar to that in 1997. Yet there was a notable change in the importance of the Mainland in such intra-regional trade. The share of the Mainland in the exports of the other nine East Asian economies rose from 8% in 1997 to 13% in 2007. On the one hand, this reflected the distinct development of the regional supply chain, which has increasingly engaged the Mainland as a base for the final stage of production. On the other, the change was also indicative of the growing importance of the Mainland as a final market for the exports of other Asian economies, due to the Mainland's growing consumption demand and industrial needs.

Some analysts have opined that, with the relocation of production facilities from other East Asian economies to the Mainland, the decline in the market share of the US in the exports of East Asian economies has been more apparent than real, because exports to the US from the region have increasingly routed through the Mainland. But on closer examination, it is noted that while the share of the US in the Mainland's exports went up from 18% in 1997 to 19% in 2007, EU's share showed a much larger increase, from 13% in 1997 to 20% in 2007. The most astonishing change was the rapid increase in the Mainland's exports to the other regions in the world, including notably many developing economies in Asia, the Middle East, Latin America, Eastern Europe and Africa. Their share in the Mainland's exports rose markedly from 15% in 1997 to 24% in 2007. It appears that the output coming out of the regional supply chain formed among EA10 has been competitive in the US market, but even more so in the EU and other parts of the world, suggesting that the relative importance of the US in EA10's exports has been declining⁽⁺⁾.

**Total exports of the ten selected East Asian economies by market in 1997 and 2007
(% share in total)**

From/To	The Main- land	1997			2007					
		EA9#	US	EU	ROW	EA9#	US	EU	ROW	
Hong Kong	34.9	16.2	21.7	15.1	12.1	48.7	13.6	13.7	13.5	10.5
The Mainland	--	54.2	17.9	13.0	14.9	--	36.6	19.1	20.1	24.2
Japan	5.2	35.4	27.8	15.6	16.0	15.3	30.7	20.1	14.8	19.1
South Korea	10.0	36.5	15.9	12.4	25.3	22.1	24.3	12.3	14.8	26.5
Singapore	3.3	48.6	18.4	14.0	15.8	9.7	50.8	8.8	10.7	20.1
Taiwan	0.5	46.4	23.8	14.3	15.0	25.3	36.7	14.4	11.1	12.7
EA10	8.0	39.6	22.0	12.9	17.5	13.4	34.2	16.1	15.1	21.2

Notes: (#) EA9 includes all economies in EA10 except the Mainland.
ROW Refers to the rest of the world.

(+) Some of Hong Kong's exports are actually re-exports of the Mainland origin to various overseas markets. Even adjusted for these trade flows, the argument that the Mainland's exports have been diversifying into the EU and other emerging markets is still valid.

Box 1.1. (Cont'd)

Economic growth in the world has become more balanced over the recent past than before. This has contributed to the decline in the relative importance of the US in East Asia's exports. As a consequence, East Asia is now better positioned than before, at least on the trade front, to weather the headwinds from the current US economic downturn.

Having said this, it should be noted that although the EU and the emerging markets have played an increasing role in the exports of East Asia, including those of the Mainland and Hong Kong, it is rather unlikely that the performance of East Asia's exports could be completely insulated from the current US economic slowdown. Given the sheer size of the US economy, which is the largest economy in the world and also the largest importer of goods (taking up about 15% of the world's total imports by value), if the US downturn turns out to be more severe and protracted, the rest of the world would inevitably be hit in a significant way. Thus there is a need to watch out for the developments in the external trading environment, which will remain uncertain and challenging going forward.