

## Exports in Asia maintain increasing trend, aftermath of escalating US-China trade friction to be watched

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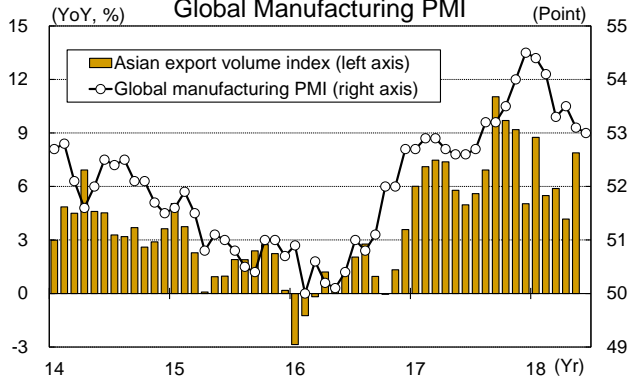
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Exports in Asia remain resilient for now as global manufacturing sector is showing firm growth albeit at slower rate (see chart 1). Exports to China from South Korea and Taiwan continue to expand particularly in electronic components such as semiconductors and electrical equipment, and the flow of goods in Asia including China seems to remain unchanged (take note, however, of a potential rush demand in China's export to the US). Going forward, the following will support continuous export expansion in Asia: the economies of advanced countries that are expected to continue moderate expansion although at slower pace in the process of decelerating to the pace of growth that matches the potential growth rate, growing demand for semiconductors associated with higher performance and increasing data traffic of smartphones, and expanding demand for semiconductors to new areas such as IoT equipment and automotive semiconductors.

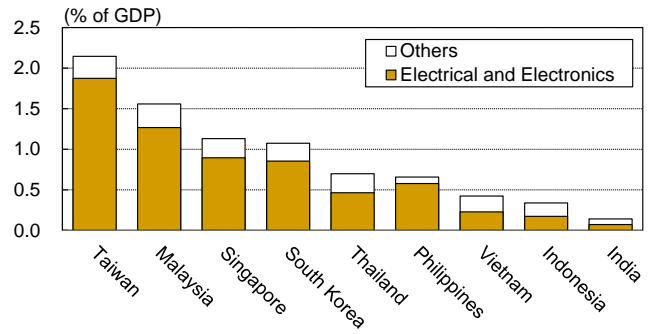
The risk factor is the escalation of trade friction between the US and China which is alarming. As for the impact of import duties, set by the US on Chinese products, on Asian economies except for China, it is possible for the US to switch the source of import from China to other Asian economies as a result of cost increases of Chinese products. In addition, there could be positive effects such as investment and production shift from China to other Asian economies in the medium-to-long-term. Looking at the case of anti-dumping duties on Chinese tyres imposed by the US (implemented in 2009 and 2016), China's share in the US' import dropped from over 30% to around 10% while shares of Thailand and Indonesia rose. Nevertheless, in the short-term, a potential decline in export to China of product parts and materials, which are incorporated into export products from China to the US, is to be anticipated. Looking at value-added from Asia in China's export to the US, ones from Taiwan, Malaysia, Singapore and South Korea are equivalent to 1-2 % of Nominal GDP which are relatively high in Asia, and the adverse effect could be substantial (see chart 2). Other possible adverse effects to Asian economies, in case final demand of both the US and China decline substantially as a result of further escalation of trade friction between the two countries or in case mass-market Chinese products flood into Asian markets, cannot be ignored either. Attention needs to be paid to short-term/medium-to-long-term and direct/indirect effects to Asian economies caused by the escalation of trade friction between the US and China.

Chart 1: Asian Export Volume and Global Manufacturing PMI



Note: "Export volume" is a weighted average of YoY growth rate of export volume in S. Korea, Taiwan, Malaysia and Thailand weighted by total export value of each respective country. Three-month moving average.  
Source: Individual country statistics, Bloomberg, MUFG Bank Economic Research Office

Chart 2: Estimation of value-added by country in China's export to the US (2017)



Note: Value-added by country in China's export to the US in 2017 was estimated on the assumption that value-added by country in China's export to the US remains constant from 2011, and its ratio to GDP was calculated accordingly.

Source: OECD, The US Commerce Department, MUFG Bank Economic Research Office

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