

Box A: Recent Developments in Asian Trade

One of the major adjustments that the countries in non-Japan Asia have undergone in the past two years has been a significant shift in their current account balances. In the first half of this decade, many countries in the region ran sizeable current account deficits. Shortly after the onset of the Asian financial crisis in mid to late 1997, these current account deficits shifted to large surpluses (Table A1). In some countries, the size of the adjustment in the external position was as much as 10–15 per cent of GDP.

Table A1: Asian Current Account Balances
Per cent of GDP

	1990–96	1997	1998	1999 ^(a)
Thailand	-7.0	-2.0	12.8	8.8
Malaysia	-5.5	-5.1	12.9	11.7
Philippines	-4.0	-5.3	2.0	2.2
Indonesia	-2.6	-1.8	4.0	2.4
South Korea	-1.7	-1.7	12.5	5.9
China	1.2	3.8	3.4	1.3
Hong Kong ^(b)	3.3	-3.2	0.7	1.5
Taiwan	4.3	2.7	1.3	2.6
Singapore	12.8	15.7	20.9	21.1

(a) Estimates from IMF *World Economic Outlook*, October 1999.

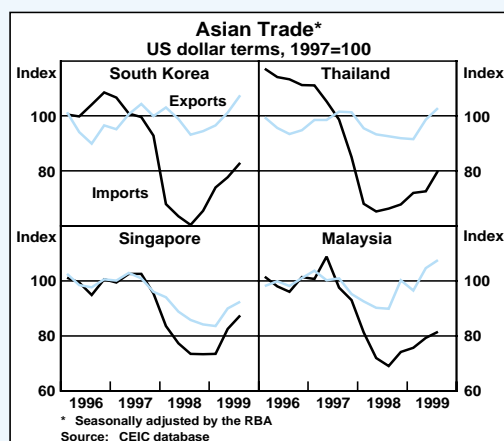
(b) Data include only goods and non-factor services.

Sources: IMF and CEIC databases

Much of the initial adjustment in these current accounts took place through a sharp decline in imports (Graph A1), primarily reflecting the contraction in domestic demand in most of these economies. While import prices fell in US dollar terms, there was also a significant reduction in import volumes. Exports initially showed a small decline in US dollar terms, and little change in volumes. Some of this initial weakness in

exports was caused by the substantial fall in regional demand (as discussed below), while some was attributable to supply-side factors, in particular the difficulty in obtaining trade finance.

Graph A1



Since mid 1998, the current account surpluses have narrowed in a number of these countries as spending on imports has rebounded, in line with the improvement in domestic demand conditions. In most of these countries, import prices have been relatively stable in US dollar terms since early 1998. More recently, export volume growth has increased, reflecting the pick-up in demand within the region and also stronger global demand for electronics (see main text).

Trends in the direction of trade

The weakness in exports in 1997 and 1998 resulted mainly from the contraction in demand across non-Japan Asia and the depressed state of demand in Japan (Table A2).

Intra-regional trade accounts for one-third of non-Japan Asian trade. The fall in this trade between mid 1997 and end 1998

Table A2: Non-Japan Asia – Trade by Region^(a)
US dollar terms, per cent

	Share of 1996 total	Annualised growth		
		Average 1994–96	Sep 97– Dec 98	1 st half of 1999
Exports		14.6	-7.6	14.8
Intra-regional	35	18.8	-18.6	20.4
Rest of world	65	12.6	-1.4	12.3
<i>of which:</i>				
– United States	19	9.7	3.7	16.8
– Europe	15	16.7	7.5	-3.5
– Japan	13	13.8	-12.3	21.9
– Other	18	11.4	-5.9	16.4
Imports		14.9	-16.7	15.1
Intra-regional	28	18.8	-18.6	20.4
Rest of world	72	13.6	-16.0	13.0
<i>of which:</i>				
– Japan	19	9.8	-22.5	29.0
– United States	15	15.9	-17.1	9.0
– Europe	14	17.2	-21.3	0.8
– Other	24	13.9	-6.5	11.1

(a) Seasonally adjusted by the RBA
Source: CEIC database

accounted for nearly all of the decline in exports in US dollar terms. Since then, stronger demand conditions within the region have seen intra-regional trade rebound, increasing in US dollar terms at an annual rate of 20 per cent over the first half of this year; only Indonesia and Hong Kong have not recorded an increase in exports to other countries in the region.

In the 18 months after the onset of the crisis, exports to countries outside the region declined only slightly in US dollar terms, and continued growing in volume terms. However, there have been significant shifts in the composition of external trade. A sharp fall in exports to Japan was largely offset by

continued growth in exports to the US and Europe. Subsequently, as exports to the rest of the world have rebounded, the compositional change during the crisis period has partly been reversed; export growth to Japan has been particularly strong, reflecting the increase in private demand there, while exports to Europe have fallen.

While the decline in imports during the crisis period was evident in all markets, the subsequent recovery has been more uneven. Imports from other countries in the region have rebounded sharply, and, in particular, imports from Japan have grown strongly so far this year. Imports from Europe have lagged well behind the average. ✎