

Trading with Asia's Giants

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Introduction

- Asia, with its two anchors: China and India is becoming a major center of global economy.
 - Large, sustained U.S. trade deficit with Asia raises concerns about U.S. competitiveness in the region.
 - Longstanding bilateral trade deficit with China
 - Emerging issue of services trade with India
 - Review pattern of U.S. trade relationship with China and India
 - Focus: China & India as U.S. export markets:
 - Low U.S. goods exports; service trade surpluses
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Bilateral Goods Trade with China & India, 2005

(billions USD)

	United States		Japan		EU-15	
	Trade	Percent of GDP	Trade	Percent of GDP	Trade	Percent of GDP
China						
Exports	58.2	0.47	116.0	2.56	87.8	0.69
Imports	269.1	2.17	110.0	2.43	205.0	1.61
Balance	-211	-1.70	6.0	0.13	-117	-0.92
India						
Exports	8.0	0.06	3.5	0.08	25.6	0.20
Imports	19.9	0.16	3.2	0.07	23.3	0.18
Balance	-11.9	-0.10	0.3	0.01	2.3	0.02

Bilateral Services Trade with China & India, 2005

(billions USD)

Partner	United States		Japan		EU-15	
Country	Trade	Percent of GDP	Trade	Percent of GDP	Trade	Percent of GDP
China						
Exports	13.4	0.11	10.5	0.23	23.7	0.19
Imports	12.1	0.10	14.2	0.31	17.7	0.14
Balance	1.4	0.01	-3.7	-0.08	6.0	0.05
India						
Exports	5.2	0.04	0.8	0.02	6.5	0.05
Imports	5.0	0.04	0.3	0.01	5.8	0.05
Balance	0.1	0.00	0.4	0.01	0.7	0.01

Services Trade Statistics

- India reports business service exports to the United States twenty times that in US data
 - Services trade is defined in terms of residence of buyer and seller.
 - The United States understates services trade:
 - Measurement problems normally thought to be greater for importing country
 - Excludes affiliate trade at disaggregate levels.
 - Largest differences are on Indian side. India includes:
 - nationals working in the United States for > a year
 - sales to U.S. affiliates in India as exports.
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Why have U.S. exports failed to grow? Three perspectives

Export composition?

- Is there are sharp difference between U.S exports to world and to China/India?
- Possible evidence of trade distortions.

Role of Multinational Corporations

- Is there a link between FDI and exports?

Is it distance?

- A form of trade barrier, but why not for imports?
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I. Export Composition

- ❑ Composition of U.S. Exports to China and India and to World are very similar
 - ❑ U.S., Japan and EU-15 are strong competitors in China, less so in India.
 - ❑ China appears to be as open to U.S. exports as is world more generally
 - ❑ U.S. appears to lose out to Japan in China
 - ❑ Slightly lower correlations between exports to India and to global market.
 - ❑ Special role of gem trade between India and EU distorts correlations
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Correlations of Bilateral Commodity Trade, 2005

	Rank Correlation of Commodity Trade		Correlation of Trade Shares	
	China	India	China	India
<u>World/Country</u>				
U.S.	0.84	0.77	0.78	0.69
Japan	0.92	0.88	0.67	0.51
EU-15	0.84	0.78	0.72	0.26
<u>Competitors</u>				
U.S./Japan	0.74	0.71	0.61	0.27
U.S./EU-15	0.78	0.82	0.72	0.52
Japan/EU-15	0.78	0.81	0.72	0.15

II. Multinational Corporations

- ❑ Multinational affiliates: beachhead for promoting a country's trade?
 - ❑ US FDI in China (Mainland and Hong Kong) averages only \$5 billion annually – 3 percent of US global FDI.
 - ❑ FDI in India averages \$0.75 billion annually.
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U.S. Affiliate Sales

- US affiliates in China produce mainly for the local market
 - Growing rapidly
 - 60% of sales are local
 - 30% to third countries
 - small (10%), shrinking proportion of US exports and imports.
 - In India – very different scale of operations vs. China
 - Less than 10% of China's sales
 - Even greater local market emphasis
 - Small sales to parent: minor player in offshoring of U.S. service jobs
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U.S. Affiliates' Sales to China

billions of U.S. dollars

	1994	1999	2004
<i>U.S. Multinational Affiliate Sales</i>			
Total Sales	32,954	67,635	123,531
Sales to the U.S.	4,638	10,405	14,297
Local Sales	19,289	42,565	73,602
Sales to other foreign countries	9,027	14,665	35,632
<i>Exports to Affiliates (Percent of Total US Exports to China)</i>	27.6	29.3	10.7
<i>Imports from Affiliates (Percent of Total US Imports from China)</i>	7.8	8.7	4.4

U.S. Affiliates' Sales to India

billions of U.S. dollars

	1994	1999	2004
<i>U.S. Multinational Affiliate Sales</i>			
Total Sales	983	4,554	13,100
Sales to the U.S.	28	138	1,582
Local Sales	934	4,327	9,914
Sales to other foreign countries	21	89	1,604
<i>Exports to Affiliates (Percent of Total US Exports to India)</i>	1.4	9.0	8.3
<i>Imports from Affiliates (Percent of Total US Imports from India)</i>	0.5	0.8	2.3

III. Role of Distance

- Simplest explanation for low exports: China and India are far from the U.S.
 - Persistent importance of distance in explaining trade despite communication & transportation revolutions
 - How can distance explain asymmetric results for exports and imports?
 - Estimate 'gravity' equations for bilateral trade of U.S., Japan, and EU-15 for 26 years (1980-2006) and 162 trading partners, fixed time effects.
 - Importance of distance, population & income per cap.
 - Elasticities near unity for exports.
 - Distance elasticities low U.S. & EU-15 imports
 - All three trade more than expected with East Asia
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Gravity Equations for Global Exports: United States, Japan, EU-15 (with fixed effects by year)

	United States	Japan	EU-15
	Log Exports/GDP (2)	Log Exports/GDP (2)	Log Exports/GDP (2)
Weighted Distance	-1.16 (-31.9)	-0.61 (-10.7)	-1.15 (-43.9)
Log Population	0.90 (108.2)	0.86 (90.8)	0.79 (125.1)
Log GDP per Capita	1.05 (98.7)	1.01 (85.9)	0.87 (97.2)
East Asia Region	0.56 (12.0)	0.89 (13.6)	0.25 (6.1)

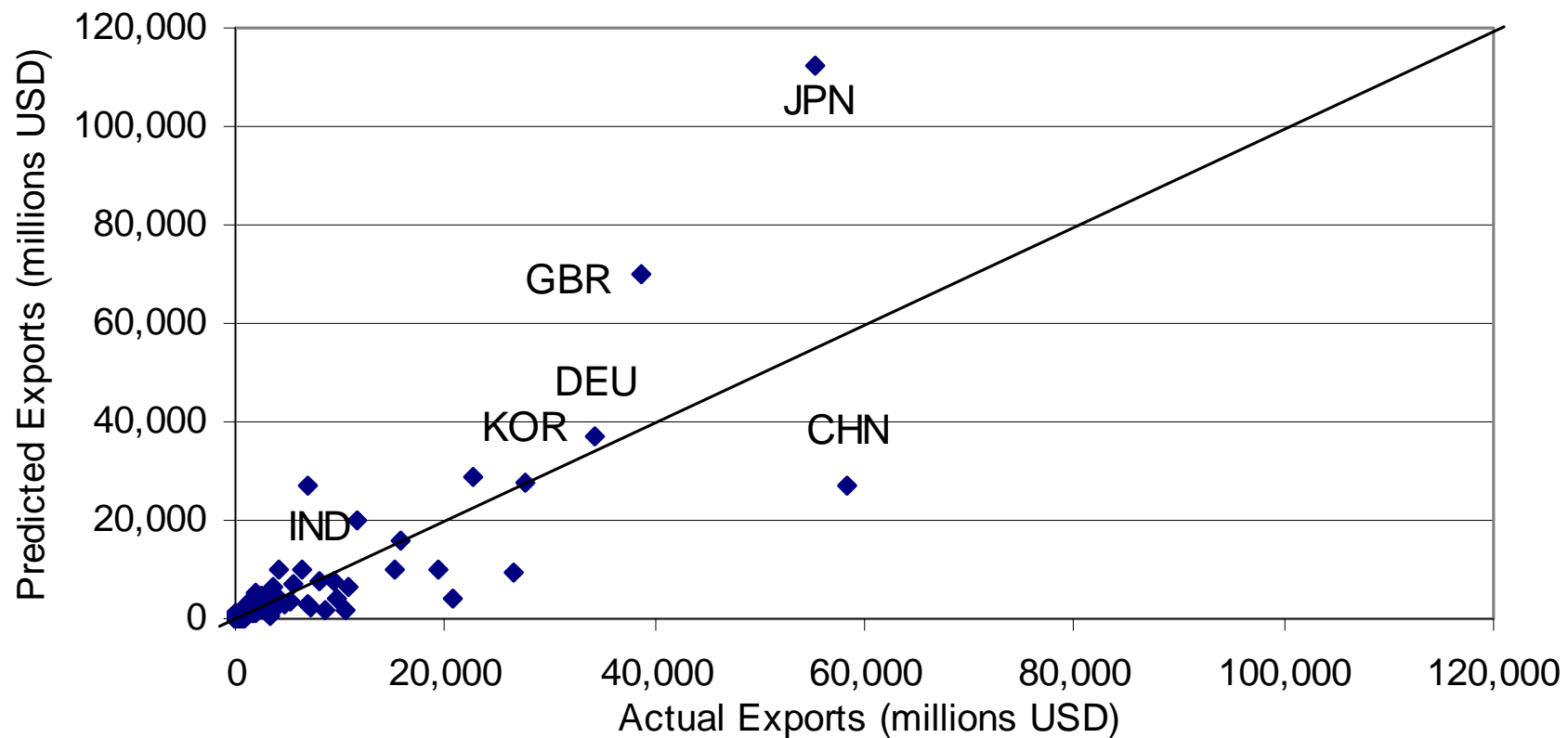
Other variables: Common Language and Colony Dummies.

Gravity Equations for Global Imports: United States, Japan, EU-15 (with fixed effects by year)

	United States	Japan	EU-15
	Log Imports/GDP (2)	Log Imports/GDP (2)	Log Imports/GDP (2)
Weighted Distance	-0.71 (-13.0)	-0.65 (-7.7)	-0.79 (-23.3)
Log Population	1.05 (82.5)	1.00 (68.0)	0.90 (110.7)
Log GDP per Capita	1.14 (70.2)	1.18 (67.2)	0.90 (77.8)
East Asia Region	0.51 (7.0)	1.61 (16.0)	0.15 (2.8)

Other variables: Common Language and Colony Dummies.

Actual and Predicted US Goods Exports, 2005



With East Asia Region Adjustment. Chart excludes Canada and Mexico.

Services Trade

- Gravity equations also work very well for services trade
 - Partner country data from OECD for 1999-05,
 - U.S. data for 1992-2005
 - Distance effects are smaller than for goods
 - Large elasticities for market size
 - Strong East Asia influence on trade
 - U.S. trade with China and India are close to predicted values.
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Gravity Equations for Service Exports: United States, Japan, EU-15 (with fixed effects by year)

	United States	Japan	EU-15
	Log Exports/GDP	Log Exports/GDP	Log Exports/GDP
	(1)	(1)	(1)
Weighted Distance	-0.56 (-14.7)	-0.25 (-1.9)	-1.08 (-20.9)
Log Population	0.71 (40.1)	0.84 (15.5)	0.74 (40.5)
Log GDP per Capita	0.90 (41.6)	1.11 (18.0)	0.77 (31.1)
East Asia Region	0.49 (11.2)	1.68 (9.5)	0.73 (8.4)

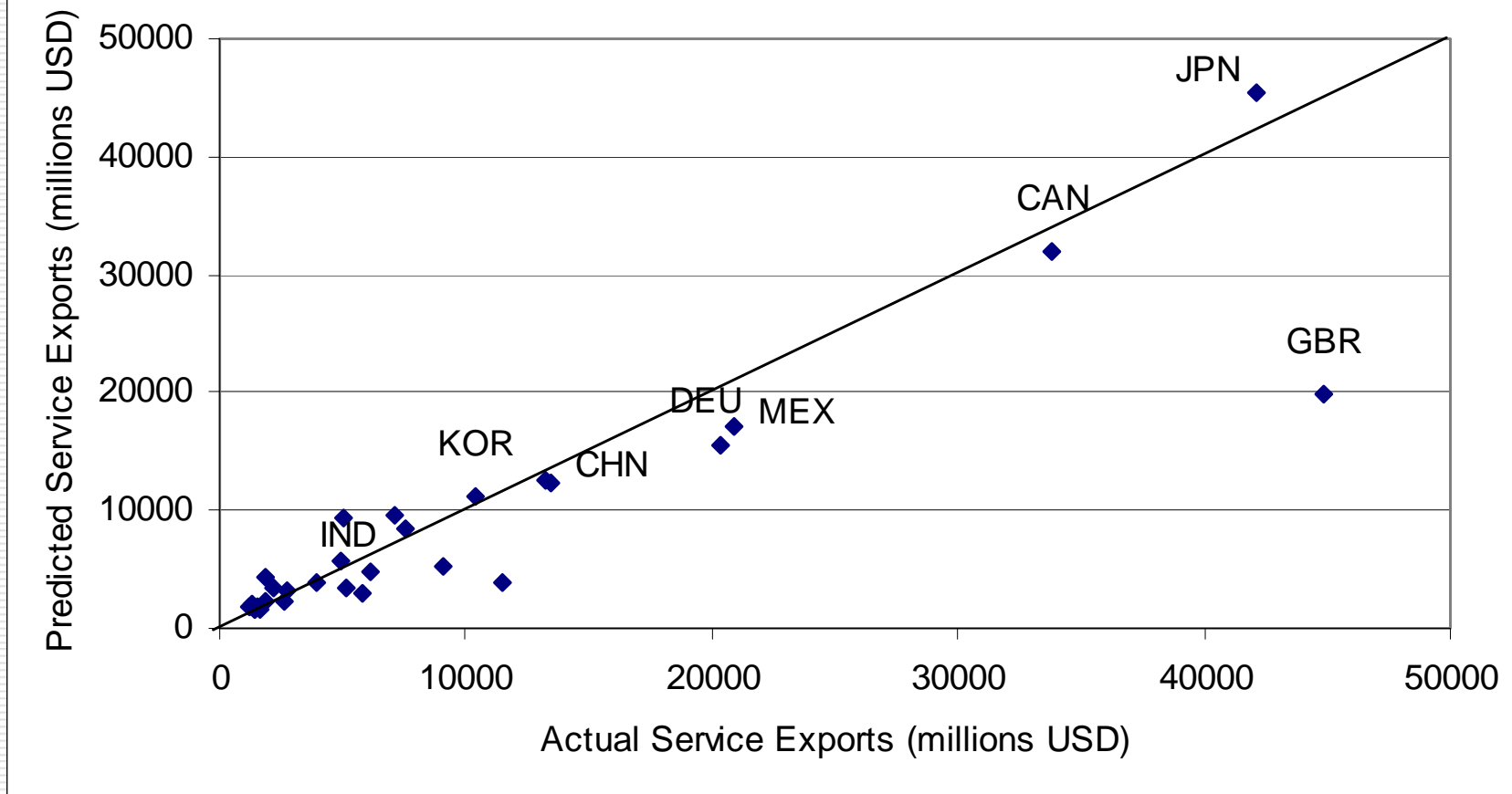
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Gravity Equations for Service Imports: United States, Japan, EU-15 (with fixed effects by year)

	United States	Japan	EU-15
	Log Imports/GDP	Log Imports/GDP	Log Imports/GDP
	(1)	(1)	(1)
Weighted Distance	-0.57 (-10.0)	-0.32 (-3.3)	-0.87 (-13.5)
Log Population	0.78 (29.2)	0.79 (20.2)	0.81 (35.2)
Log GDP per Capita	1.01 (31.2)	1.19 (26.0)	0.78 (25.0)
East Asia Region	0.57 (8.7)	1.71 (13.2)	0.92 (8.4)

Other variables: East Asia Region, Common Language and Colony Dummies.

Actual and Predicted US Service Exports, 2005



With East Asia Region Adjustment

Role of U.S. Global Trade Deficit

- U.S. exports to China and India are not low relative to U.S. exports elsewhere.
 - China (3rd), India (20th) largest export market
 - U.S. total imports same GDP share as EU-15 & Japan: 14%
 - U.S. share of GDP devoted to exports (7%) is less than half that of EU-15 and Japan.
 - Export & import price elasticities both near unity.
 - Devaluation implies:
 - Import share of GDP unchanged
 - Export share will rise toward 14%
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Trade Shares

<u>Country</u>	<u>Exports</u>	Percent <u>of GDP</u>	<u>Imports</u>	Percent <u>of GDP</u>
US	904	7.3	1,733	14.0
Japan	595	13.1	515	11.4
EU15	1459	11.4	1,582	12.4

Conclusion

- Puzzle in trade imbalance is low level of exports, not high level of imports
 - Focused on trade with China and India
 - U.S. imports from China similar share of GDP to EU-15 and Japan.
 - Exports are much smaller share of GDP
 - Little evidence that trade imbalances with Asia are the result of “unfair” trade practices.
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Conclusion (2)

- Poor performance of exports does not reflect an unusual product composition
 - Strong competition with Japan & EU-15 in China
 - Small role for U.S. multinationals in both markets.
 - Gravity equations highlight importance of distance
 - East Asia is a larger than expected market
 - Exports & imports to China both appear large
 - Trade with India appears normal
 - Low level of U.S. exports is a global phenomenon, not limited to Asia.
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