



## Asia-Pacific Trade Briefs

### East and North-East Asia

(China; Democratic People's Republic of Korea; Japan; Mongolia; Republic of Korea; Hong Kong, China; Macao, China)

**Merchandise trade:** Merchandise trade by the East and North-East Asia (ENEA) economies is dominated by China (53.4%), Japan (17.5%), Hong Kong, China (14.7%) and the Republic of Korea (13.2%), respectively. The subregion remains a global hub for electrical goods and machinery with medium and high value-added, such as telephones, electronic integrated circuits and motor vehicles. Merchandise exports in the subregion grew by 5.2% on average during 2010-2015, however in 2015 exports fell by 4.7%. This decline was, however, less stark than the Asia-Pacific average export decline of 9.7%. This was largely due to the relatively better export performance of China – the largest exporter in the subregion as well as the world (accounting for 64.9% of total exports by the subregion) – falling by only 2.9% compared to Japan and the Republic of Korea, whose exports fell by 9.5% and 8.0%, respectively. The weak global and intraregional demand, from China in particular, hurt exports by Japan, Mongolia and the Republic of Korea. Furthermore, in 2015, the subregion followed the Asia-Pacific trend in the strong contraction of imports (14.6%), with import demand shrinking not only in China but also in Mongolia and Japan. Several factors explain the decline in imports, including the impact of economic slowdown, falling import prices especially for fuels and mineral resources, the effect of yuan depreciation on the demand for imports, and the increased domestic-sourcing by China of intermediates.

**Services trade:** The services trade share of total subregional trade in 2015 reached 17.3%, slightly up from 16.1% in 2014. Overall, services exports expanded robustly by 7.4% on average during 2010-2015, but exports fell by 3.6% in 2015. Similarly, while the growth of services imports expanded substantially by 10.0% over that five-year period, a mild contraction of 0.6% was observed in 2015. Similar to the goods trade, the subregion still performed relatively better than the Asia-Pacific region on average where service exports and imports declined by 4.8% and 5.2%, respectively. The service trade performance of the subregion was largely driven by China (49.2%), Japan (21.8%), the Republic of Korea (13.7%), and Hong Kong, China (11.7%). Travel services are the most important export and import services of the subregion with a share of 33.4% and 42.7% for exports and imports, respectively, while transport services and other business accounted for about 20% and 16%, respectively, for both exports and imports. Most service subsectors experienced a trade decline in 2015. The decline was most apparent in other business services where both exports and imports dropped about 20%, while transport services declined 7.8% for exports and 15.6% for imports. Trade in travel services are relatively robust with imports still growing by 18.7% while exports decreased only slightly by 1.2%.

**Intraregional trade:** In 2015, 55.5% of goods exports in the subregion were to Asia-Pacific economies while 34.6% of exports were intra-subregional, of which exports to China accounted for 12.9%. Compared with 2014, the shares of intraregional and intra-subregional exports fell slightly from 56.6% and 35.5% in 2014 to 55.5% and 34.6% in 2015, respectively. Meanwhile, intraregional and intra-subregional imports increased from 55.1% and 33.5% in 2014 to 58.4% and 37.3% in 2015, respectively. The trend seems to be encouraging for the rest of the region as it implies that intraregional trade opportunities still remain amidst the slowdown of global demand.

**Foreign direct investment (FDI):** The ENEA economies are collectively the most important subregion in terms of sources and destinations of FDI. During 2010-2015, the 9.7% growth of FDI inflows in ENEA outperformed the Asia-Pacific average of 4.7%. Remarkably, in 2015, inflows into ENEA increased by 23.2% compared with the Asia-Pacific average of 5.6% growth. As a result, the share of the ENEA subregion in regional FDI inflows went up to 56.7% in 2015 from 48.6% in 2014. Most of the inflows in 2015 were to China and Hong Kong, China, with inflows to China increased by 5.5%. However, this figure may be underestimating inflows to China given the fact that inflows to Hong Kong, China, widely regard as an entry port for investment in China, rose as much as 53%. For FDI outflows, China and Japan were the two largest investors in 2015, individually accounting for around 38% of subregional outflows, followed by Hong Kong, China (16.2%) and the Republic of Korea (8.1%). Despite the increasing overseas investment made by China and Japan in 2015 at the growth rates of 3.6% and 13.3%, respectively, FDI outflows from the subregion decreased by 13.0% mainly due to a decrease in investment by Hong Kong, China of more than 55.9%.

**Trade costs:** Intraregional and international trade costs of the ENEA subregion dropped significantly between 2009 and 2011, but appear to have plateaued after that. Three members of the subregion, China, Japan, and the Republic of Korea, are considered to be among the most efficient major traders in the Asia-Pacific region, however the remaining economies in the subregion have significantly higher trade costs. On the other hand, trade costs for the European Union-3 incurred in reaching Asian markets are, on average, higher than for the ENEA economies, which contributes towards the strengthening of South-South trade and investment in Asia. This is also helped by relatively low tariff protection in the subregion. All of the subregion's economies (except for the Democratic People's Republic of Korea) are members of WTO, and the binding coverage for the subregion, excluding Hong Kong, China, and Macao, China is much higher (98.1% of tariff lines) than the Asia-Pacific average (84.9%). The level of MFN bound tariff is 9.8% which is less than half of the Asia-Pacific average of 20.0%. In contrast, MFN applied and effectively applied tariffs averaging of 8.1% and 6.5% are higher than the Asia-Pacific average of 6.9% and 5.9%, respectively.

Figure 1. Key trade and investment indicators

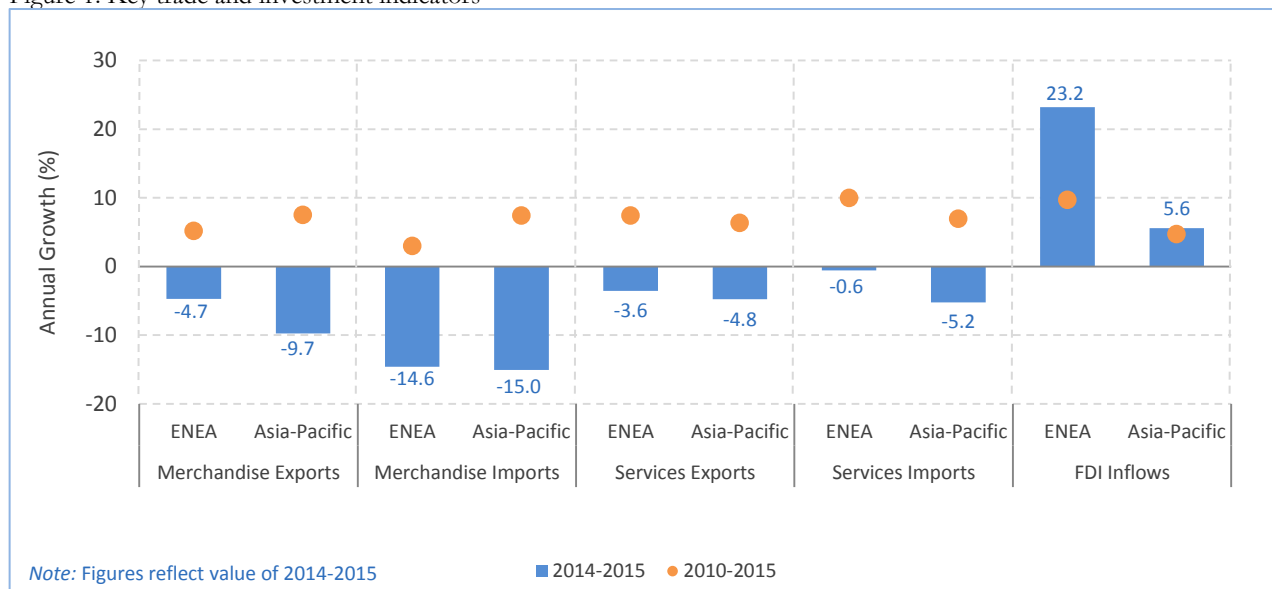


Figure 2. Top merchandise markets

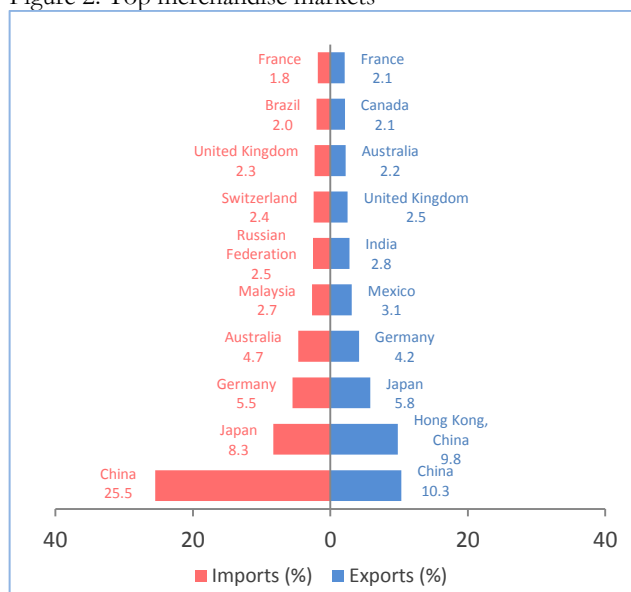


Figure 3. Top merchandise products

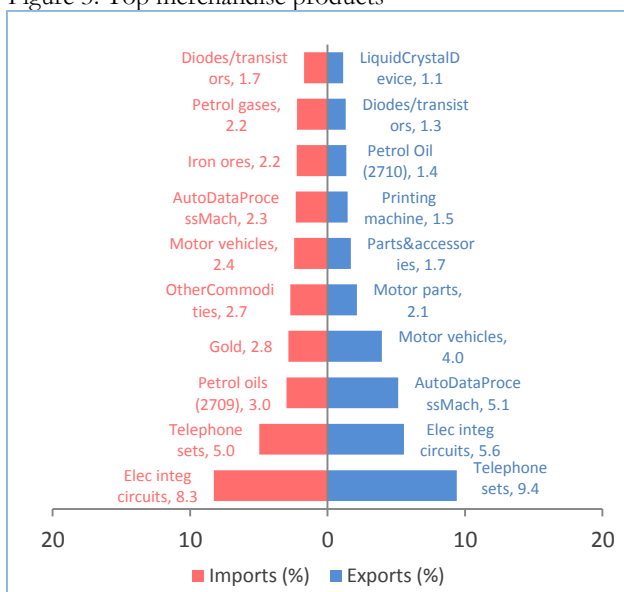


Figure 4. Breakdown of East and North-East Asia intraregional trade

Sources/Destinations (% share)	East and North-East Asia imports from		East and North-East Asia exports to	
	2014	2015	2014	2015
Asia-Pacific	55.1	58.4	56.6	55.5
East and North-East Asia	33.5	37.3	35.5	34.6
North and Central Asia	2.8	2.5	2.6	1.8
South-East Asia	11.7	12.4	12.1	12.4
South and South-West Asia	2.4	2.1	4.5	4.8

Figure 5. Foreign direct investment

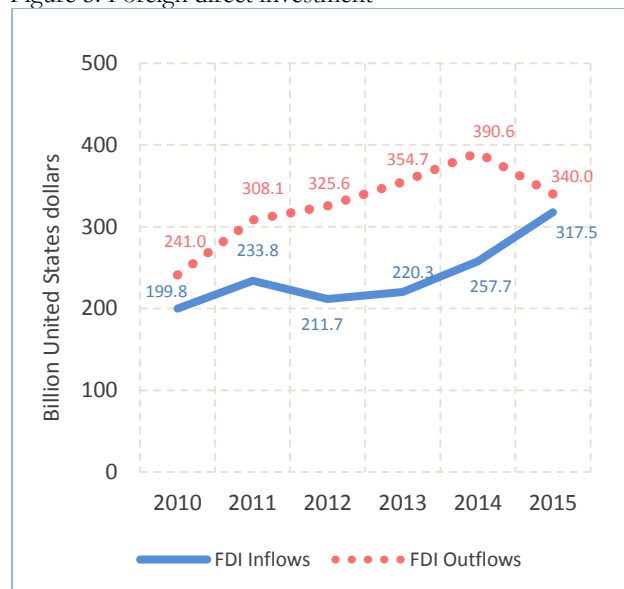


Figure 6. Tariffs (2014)

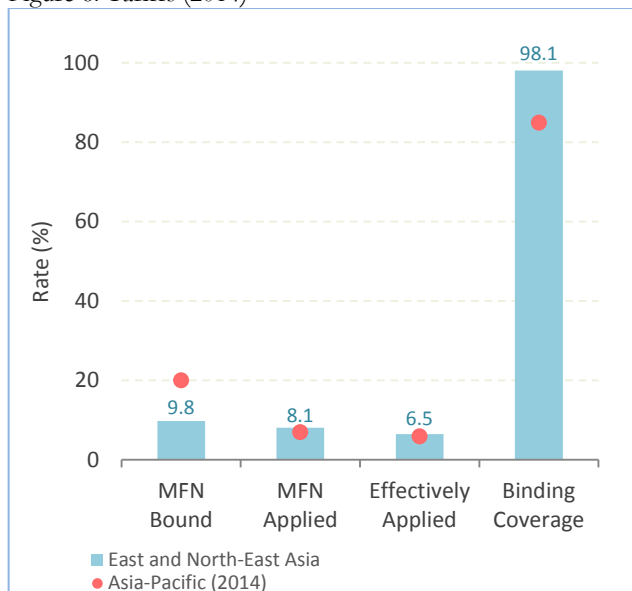
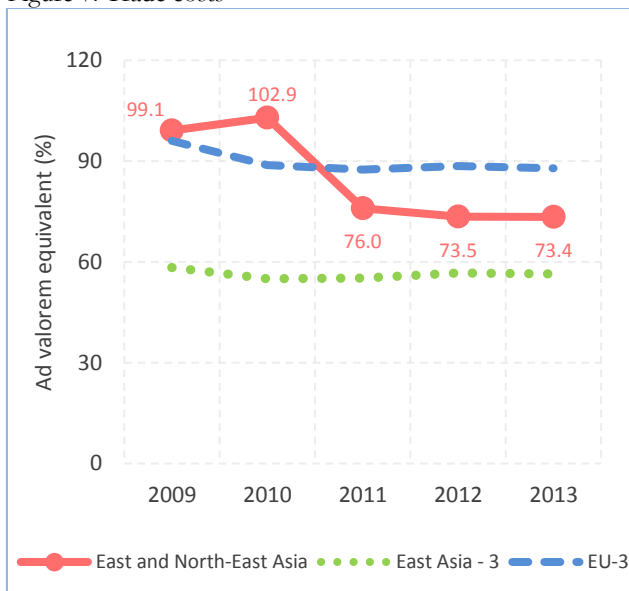


Figure 7. Trade costs



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