

# China Economic Update July 2024

## Indonesia may mark a turning point for EM trade policies with China



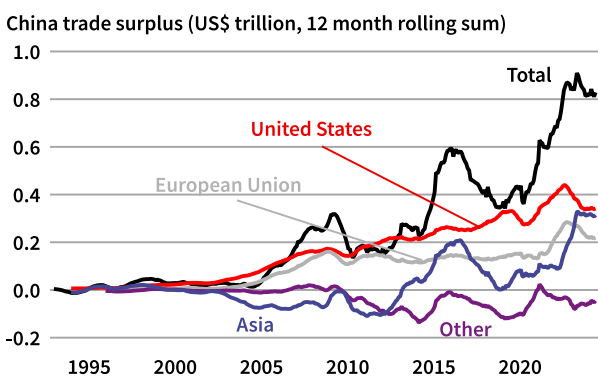
### NAB Group Economics

The flood of Chinese exports since mid-2023 has increased trade tensions between China and various major trading partners. The recent focus in the media has been on high tech exports to advanced economies – with the United States and European Union imposing high profile tariffs on electric vehicles in recent months – however there has also been strong growth in China’s exports to South East Asia in recent times (including in lower value products). This has culminated in Indonesia announcing that it intends to raise tariffs on various Chinese imports to between 100%-200%, with the stated goal of protecting domestic industries.

### Asia has seen the largest increase in China’s trade surplus

China’s rolling twelve month trade surplus steadily expanded between March 2020 (as its factories began to reopen following the initial wave of COVID-19) and April 2023 – when it reached a record high of US\$909 billion (an increase of US\$548 billion over the early 2020 trough). Over this period, the largest increase by region occurred in Asia, where China’s trade surplus increased by US\$272 billion (compared with a US\$136 billion increase for the European Union and a US\$130 billion rise in North America). That said, there has been more focus on the trade tensions between China and major advanced economies than on those with its Asian neighbours.

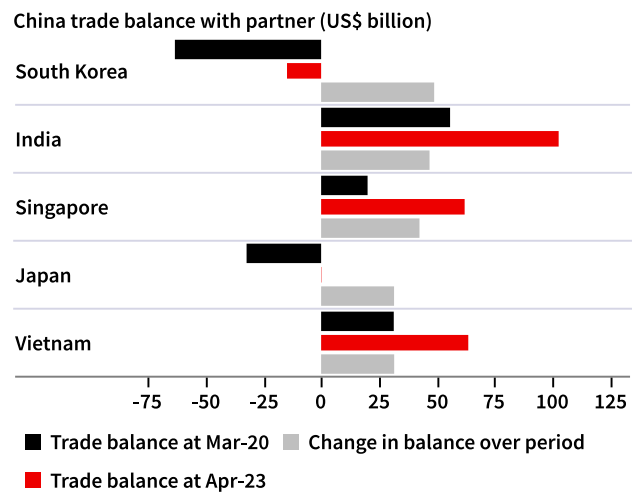
### Surge in China’s trade surplus Increase in Asia outpaces European Union and North America



Within Asia, the key economies that drove the increase in the trade surplus were South Korea (where the size of China’s typical trade deficit with South Korea was

considerably reduced over this period), India, Singapore, Japan and Vietnam, which combined accounted for almost three-quarters of the total. It is interesting to note that the trade patterns with Indonesia were considerably different.

### China’s trade balance with Asia Five key economies drove most of the increase in China’s surplus



In annual terms, China recorded trade surpluses with Indonesia between 2012 and 2020, however this balance shifted into deficit between 2021 and 2023. It is worth noting that this trend has begun to reverse – following a sharp increase in the value of China’s exports to Indonesia in May – resulting in a modest surplus of around US\$757 million in the first five months of 2024 (compared with an US\$3.8 billion deficit in the same period of 2023).

## China's trade with Indonesia

Following trade deficit between 2021-23, return to surplus in 2024



## China-Indonesia trade

In 2023, Indonesia was China's seventeenth largest export market, with exports totalling US\$65.9 billion, and was the fifth largest market in ASEAN (behind Vietnam, Malaysia, Singapore and Thailand). In contrast, China was the largest source of Indonesia's imports.

There is a notable difference in the composition of trade between the two countries. Indonesia primarily exports resources and agricultural products to China – such as coal, ferroalloys (used in the steel industry), natural gas, metal ores, palm oil and wood pulp. In contrast, China's exports to Indonesia are dominated by machinery and equipment products (comprising over 40% of the total value) – particularly high technology products, such as broadcasting equipment, mobile phones and computers, along with construction machinery.

## Indonesia signals trade protections

The prospect of Indonesian tariffs on selected Chinese exports was raised in late June. The country's Trade Minister noted that trade measures imposed by the United States and European Union could result in Chinese exporters pivoting to emerging markets and expanding volumes of goods into regions such as South East Asia. While the focus of trade measures in advanced economies have been on high tech products, such as electric vehicles, Indonesia has cited lower value added products, such as textiles, clothing and footwear, along with ceramics and cosmetics. The main concern is that an increase in Chinese goods entering the local market could cause significant harm to domestic producers – particularly micro, small and medium sized firms.

At this stage, it is not a clear timeline as to when the proposed measures are likely to be implemented, nor the scale of these tariffs by specific product line, with media reports suggesting tariffs of between 100% and

200%, while the Trade Minister noted that the average rate of these measures would exceed 100%.

There is additional uncertainty around China's policy response to these trade measures. Historically, China has imposed retaliatory measures in response to other country's tariffs – such as the escalation that led to the 2018 US-China trade war, while it is currently evaluating measures on various agricultural products in response to the recent EU announcement. Constraints on Chinese tourism to Indonesia could be a potential retaliation – similar to policies that reduced travel to South Korea in 2017. Alternatively, China may alter commodity purchasing preferences away from Indonesia – similar to unofficial customs bans on Australian coal early in the pandemic period.

## Conclusions

The surge in China's export volumes – at a time of slowing demand in the global economy – and falling export prices has increased competitive pressures on manufacturers globally across the value chain. It seems likely that if China does not address the concerns many countries have expressed around its industrial capacity and policies that further trade measures are likely to be implemented. For example, India's steel industry has called for tariffs on Chinese imports, despite the domestic industry currently being unable to meet the country's demand. Other emerging markets may follow Indonesia's lead, leaving reduced opportunities for China's manufacturers in coming years.

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