

ECONOMICS: ASIAN PERSPECTIVES

ASIA'S EXPORT CYCLE: RECOVERY OR RELAPSE?

+ Anthony Chan, Asian Sovereign Strategist—Global Economic Research, anthony.chan@abglobal.com

With January and February data distorted by the Lunar New Year, anxious investors hoped that March figures would underscore a recovery in Asia's exports. But when the smoke cleared, the picture wasn't pretty. The odds are stacked against a swift recovery in the near future owing to a dearth of demand outside the US and of growth drivers apart from some technology products.

Asia's exports in March were a huge disappointment. Not only did exports fail to improve after the distortion caused by the Lunar New Year holidays in January and February, the figures for the region's major exporters contracted markedly. This suggests continued weakness in export markets' demand, and it may be signaling the risk of a renewed slackening in the Asian exporters' growth momentum.

Moreover, an initial reading for April—the preliminary first-20-day export data in South Korea—shows that the sluggishness has continued. Indeed, our analysis of Asia's export product mix and destinations reveals lingering weakness in demand outside the US and an absence of a growth driver outside the tech sector.

Signs of Renewed Weakness

Based on our estimation, Asia's total exports grew by about 5% year on year in the first two months of 2015. This is roughly the same pace as the 4% annual growth rate in 2014. But March data released so far in major exporting countries show a substantial year-on-year contraction in exports, with China's exports falling 15%, Taiwan's 9% and South Korea's 4.5%. Indonesia's exports also shrank by

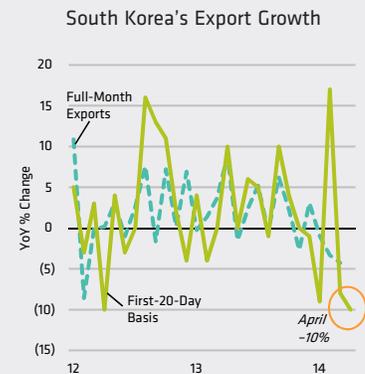
16%, and India's plummeted 21%. These are significant declines, and even if we net out the impact of falling oil prices on some of these countries' chemical and oil product exports, the drop remains alarming.

The outlook isn't inspiring, either. South Korea's first-20-day data showed that the country's exports were on pace to fall by 10% year on year in April, worse than the already-dire 8% decline during the same 20-day period in March. Although the first-20-day figures may not perfectly predict the full-month trend, the increasing correlation between the two data series since 2013 makes us worry about the full-month results (*Display 1*). And, importantly, South Korea's trade data normally provide a good insight for the region's overall performance.

Lack of Product Catalyst

Looking at Asia's aggregate export trends, tech exports have been performing better than non-tech exports over the last two years. The former have been buoyed by the global penetration of smartphones and their major upgrades, benefiting primarily Taiwan, South Korea and China. Smaller electronics manufacturing countries such as Singapore, Malaysia, the Philippines and

Display 1
April Exports Look Uninspiring Again



As of April 2015
Source: CEIC Data and AB

Display 2
Tech Exports Hold Up, but Others Plummet



As of February 2015
Source: CEIC Data and AB

Thailand have gained less from the smartphone boom—and have even faced headwinds due to the stale computer and home electronics markets.

Outside the technology sector, there has been an absence of key drivers for the region's performance over the past two, or three years. As shown in *Display 2*, *previous page*, non-tech exports used to grow more strongly than tech exports before 2012, but that trend has reversed.

Obviously, the recent collapse in global oil prices has affected related shipments, such as chemical and oil products, in some Asian countries. The falling value of these commodity-based exports has exacerbated the recent contraction in non-tech exports and contributed to the weakness in overall exports. But the commodity-price effect aside, the real concern is an absence of a conventional manufacturing export driver, particularly given the uncertainty about tech exports once the current smartphone boom comes to an end.

Display 3 lays out these trends in terms of the contributions from different sectors to Asia's total export growth. Traditional manufacturing exports (labeled as "Other Manufacturing Goods" in the display) used to be the backbone of Asian exports, but their importance has been diminished in the past few years.

Weak Demand Outside US

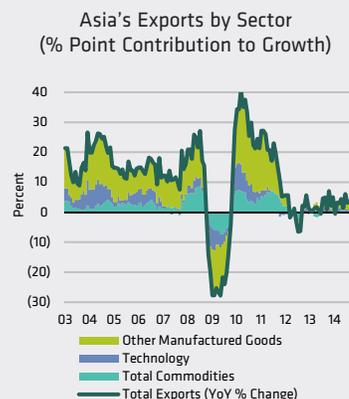
Looking at Asian exports by destination, it is clear that shipments to developed

markets (DM) have fared better than those to emerging markets (EM). However, the improvement in exports to DM countries is attributable almost solely to growth in US demand. Exports to Europe have remained depressed even though policy easing in the continent has expanded (*Display 4*).

Growing intra-regional trade in Asia and the increasing presence of the Chinese market worked well during the upcycle, but these factors have been working the other way since China's domestic demand started to slacken in 2012. As *Display 5* shows, the huge lift from intra-regional trade in Asia in the aftermath of the global financial crisis in 2008–2009 was due mainly to China's massive stimulus measures. China's share as the destination for intra-regional exports has grown from about half of total value in the mid-2000s to two-thirds in the early 2010s. But as the concentration increased and China's domestic demand slackened, intra-regional exports have plateaued from their peak in 2013.

This is a worrying trend. But, then again, Asian exports to the rest of the EM had flattened out even earlier, in 2012. And the outlook for emerging markets as a whole doesn't seem too promising in the near term, given the difficult stages of economic development in which many of those nations are right now. ■

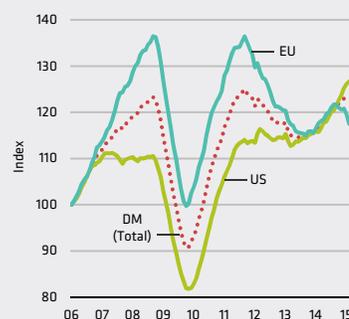
Display 3
Lack of Driver Outside Tech



As of February 2015
Source: CEIC Data and AB

Display 4
US Remains Sole Bright Spot in DM

Asia's Exports to Developed Markets



As of February 2015
January 2006 = 100
Source: CEIC Data and AB

Display 5
Demand in China and Other EM Countries Tapering Off

Asia's Exports to Emerging Markets



As of February 2015
*January 2006 = 100
Source: CEIC Data and AB

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