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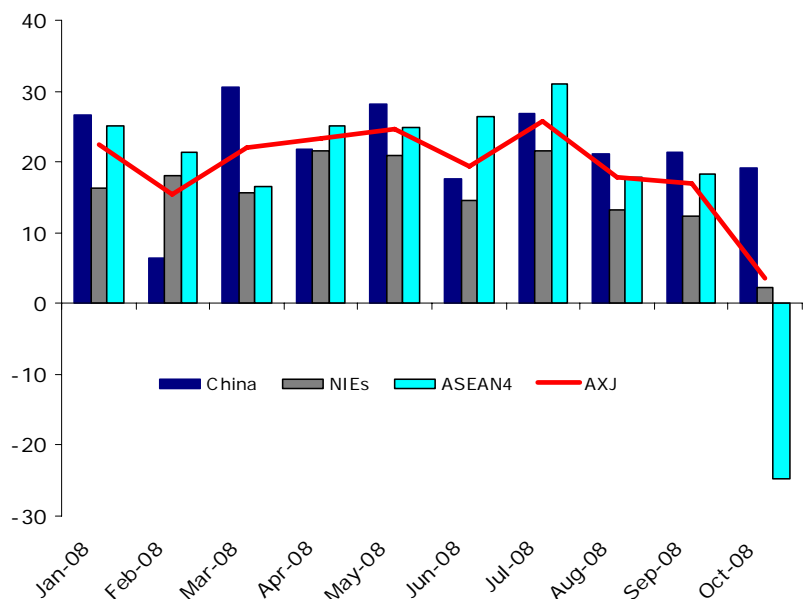
Export growth in emerging Asia has slowed dramatically in recent months reflecting the decline in foreign demand as the recession in the advanced economies has broadened and deepened. Indeed, export growth has turned negative in a number of key economies in the region. This is particularly true in Northeast Asia, where economic growth is more dependent on exports.

This note takes a deeper look at emerging Asia's export slowdown. By going beyond the headline year-on-year growth rates, we assess: 1/ the flagging momentum in the region's exports, 2/ how individual product groups have fared, and 3/ which countries' exports might be more resilient to the still-unfolding global recession. This analysis not only informs our view about near-term export prospects for the region, but also provides clues as to how the recovery might unfold, although we do not expect to see signs of this until late 2009.

Emerging Asia's Exports: The Big Picture

Export growth for emerging Asia (AXJ), which had been slowing since mid-2008, collapsed by 13 percentage points to 3.6% (y/y) in October.¹

Emerging Asia - Export Growth (y/y)



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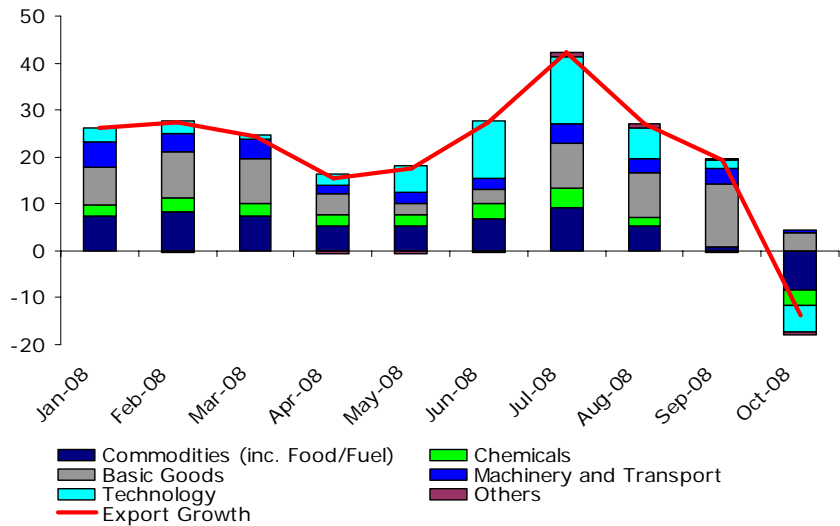
¹ This note uses information published as of December 19, including October trade data for all AXJ. November data are incorporated as available.

The situation likely deteriorated further in November, as exports contracted on a year-on-year basis in China (-2.2%), Korea (-18.3%), Singapore (-11.8%) and Taiwan (-23.3%).

Exports by Product

The slowdown in emerging Asia's exports, while broad-based across almost all product categories, has been led by commodities and technology. (The chart below, along with most of the charts that follow, shows exports on a 3mma saar or "momentum" basis.²) In particular, commodities and chemicals exports have contracted due to falling *prices*, with the CRB Index dropping 52% from its peak in July through mid-December. Technology exports (including semiconductors, computers and telecoms) have also fared poorly, but this reflects *volumes*, as these are relatively income-sensitive goods targeted at advanced markets where consumers are currently deferring discretionary purchases.

Emerging Asia Export Growth (3mma saar) - by Product



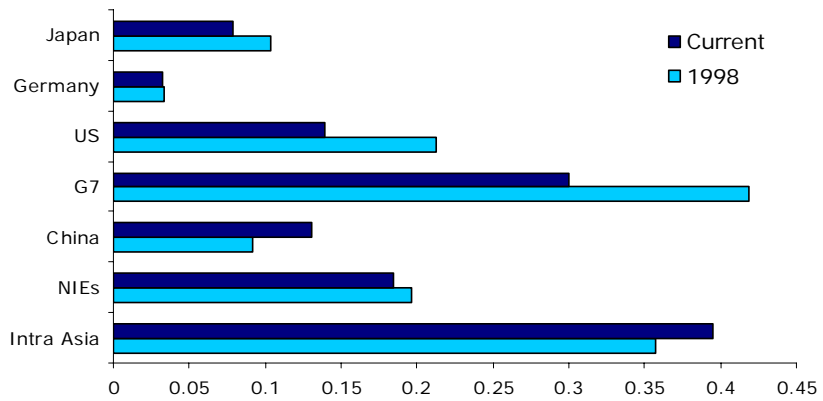
In contrast, basic goods exports have held up relatively well, as these include essential (less income elastic) products and are thus more resilient to a downturn. Industrial machinery and transport exports were flat in October, but going forward we expect continued contraction as firms continue to slash investment spending and as consumers cut back on long term durables purchases or are unable to secure financing for these products.

Exports by Destination

By destination, export growth in emerging Asia is increasingly led by intra-regional shipments, which currently constitute 40% of the total, up from 36% a decade ago. There has been a steady rise of exports to China, which accounts for 13% of the region's exports as compared with 9% in 1998, while the share of emerging Asia's exports to the G7 has declined significantly from 42% to less than one third.

² "3mma saar" means a three-month moving average, seasonally adjusted annualized rate. This basically magnifies changes over the previous quarter.

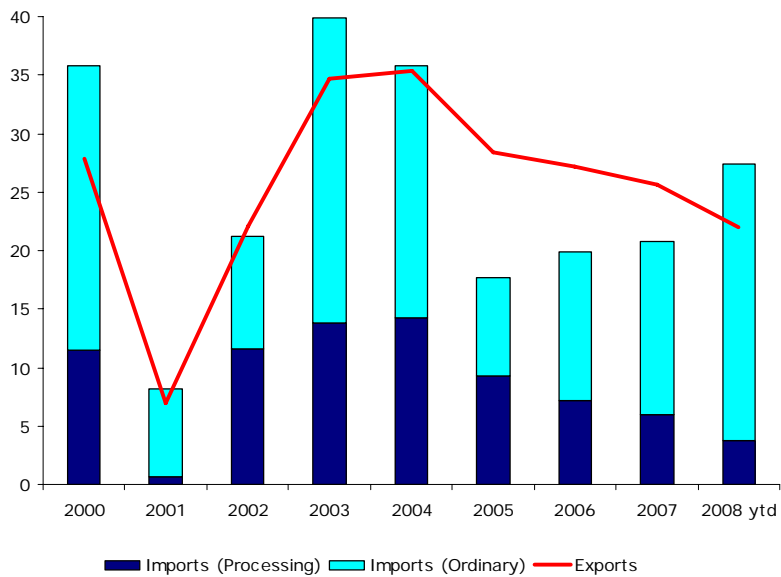
Intra-Regional Trade Rising



It is important to distil how much of the rise in intra-regional trade is due to increased end-user demand versus a shift in the regional pattern of production—namely, increased shipments of intermediate goods to China for processing before shipment of the final goods to developed markets.

Looking at Chinese customs data, we find evidence that the processing trade has been diminishing in importance since 2004. Indeed, the decline in exports in 2008 has been broadly matched by a fall in imports for processing. Over the same period, ordinary imports continued to grow strongly suggesting strong end-use demand within China. The current situation appears different from 2001, when ordinary imports fell sharply along with exports.

Composition of Annual Trade Growth - China



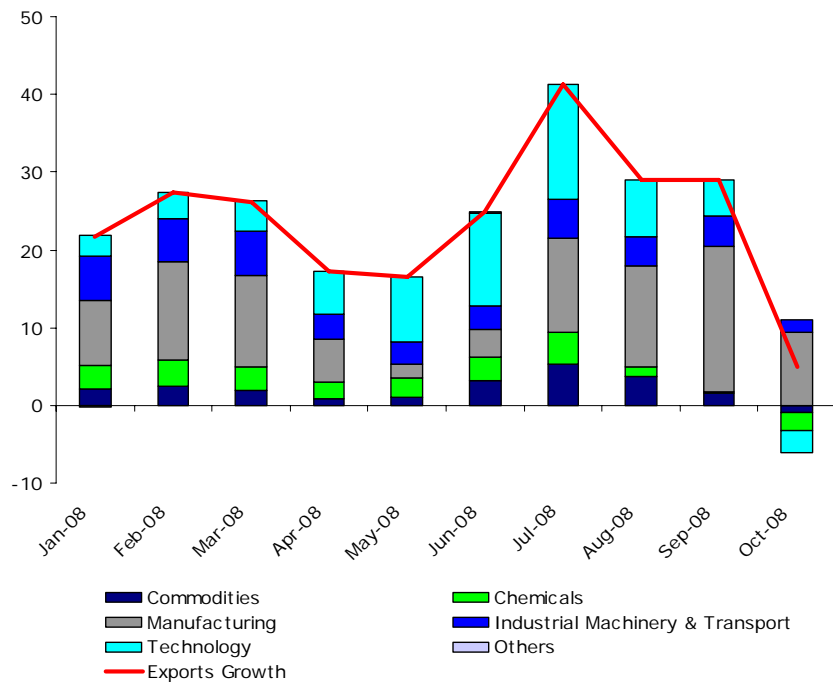
China

China's export growth, which peaked in July on a momentum basis and had been holding up well, fell sharply in October, to 4.9% from 28.9% in September. The loss of momentum in Chinese exports was borne out by the outturn of -2.2% y/y in November compared with growth of 19.1% in October.

Exports by Product

By product, basic manufacturing was the only significant contributor to China's export growth in October with industrial machinery being the only other group with a positive contribution to growth. Technology (which had been a major contributor to export growth earlier in the year) and chemicals exports switched to negative growth in October.

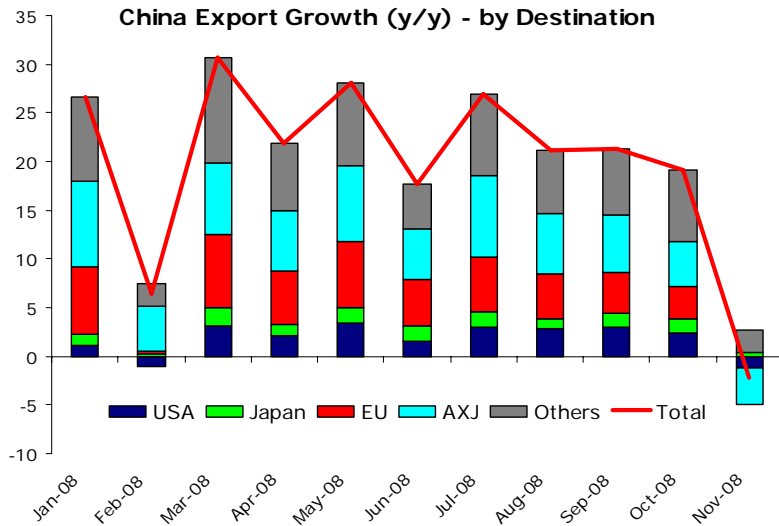
China Export Growth (3mma saar) - by Product



Given that 41% of China's exports are basic manufactured goods (see Appendix), Chinese exports are likely to be somewhat more resilient to a slowdown in global demand.

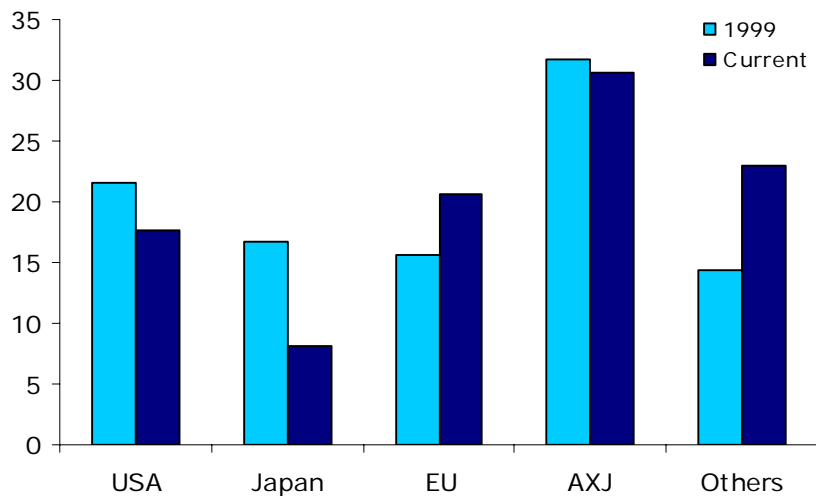
Exports by Destination

By destination, China's export performance deteriorated sharply across almost all trading partners in November. While exports to non-traditional markets were modestly positive, shipments to all other regions were zero or negative. The largest decline in export growth was to non-Japan Asia, followed by the United States.



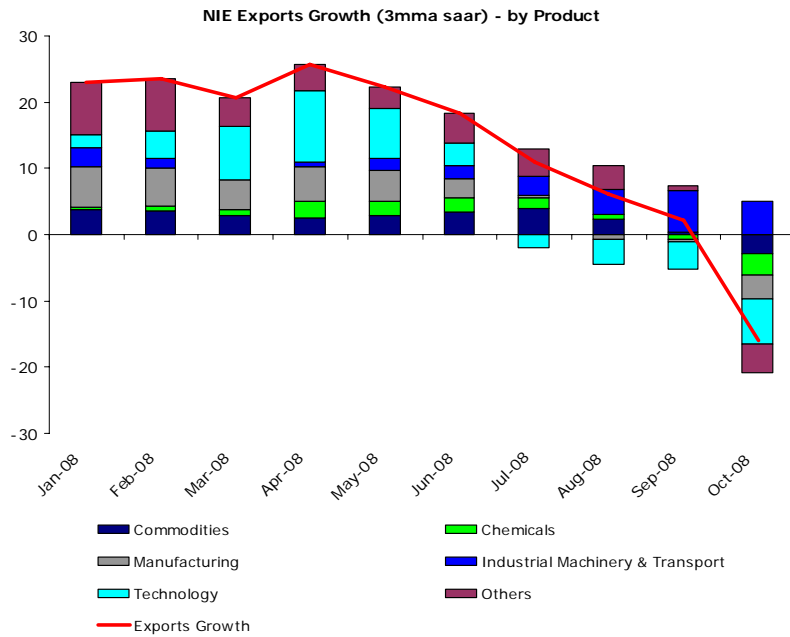
Foreign demand for China's exports comes from a more diversified set of sources than a decade ago. Exports to non-traditional markets (essentially Latin America, the Middle East, Eastern Europe, and Africa) currently account for over one-third of exports, up from a fifth in 1998. As seen below, its more diversified export base has helped China remain somewhat more insulated from the current recession in advanced economies.

China Export Shares



Newly Industrialized Economies (NIE)

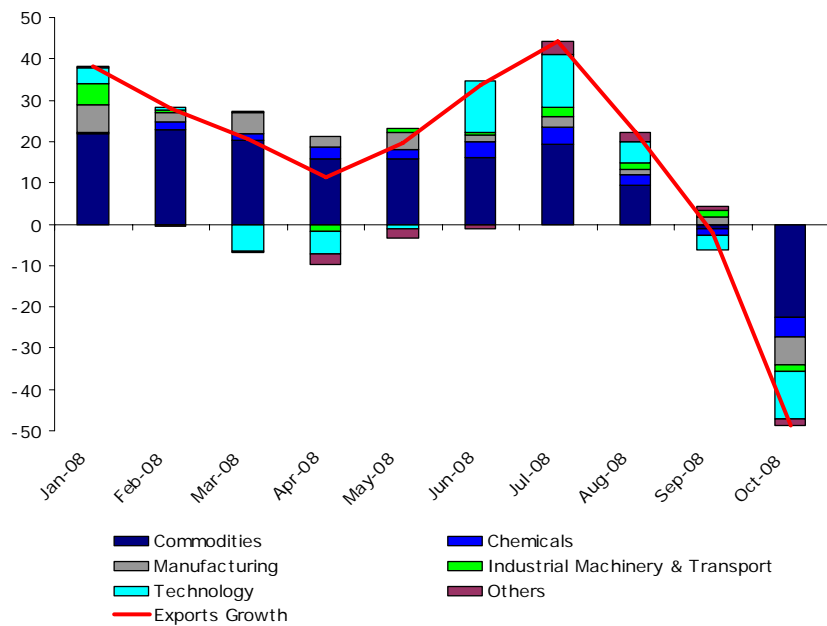
On a momentum basis, NIE exports peaked in April, earlier than the rest of emerging Asia. This reflects the high NIE exposure to the electronics sector, products that are higher value-added and considered to be more discretionary and thus more sensitive to a slump in global demand. (High technology products account for 43% of NIE exports compared with 35% for China, see Appendix charts). In contrast, China generally exports lower-end, less income-sensitive products. The only bright spot for NIE exports was the industrial machinery and transport sector—all other product groups registered negative export momentum in October.



ASEAN

In October, ASEAN export growth contracted by a staggering 48.6% (3mma saar). This decline was seen across all product segments, led by contractions in technology, food and fuel exports. It is interesting to note that while the headline year-on-year export growth was still a relatively healthy 18.4% in September, the momentum measure was sending an advance warning signal, contracting by 1.9%.

ASEAN Export Growth (3mma saar) - by Product



On a momentum basis, ASEAN is currently the worst performing group in our sample, although momentum continued to increase through mid-2008, even after NIE exports had peaked!³ Unlike the

³ Vietnam was excluded owing to data timeliness issues.

NIEs, however, the sharp decline in ASEAN exports on this measure reflects a decline in prices rather than volumes.⁴ Indeed, ASEAN's export growth has fallen away sharply in tandem with the abrupt end in the third quarter of the multi-year uptrend in global commodity prices, which have since declined by some 45%.

Implications for 2009

How do these recent developments in the export sector map into the outlook for emerging Asia more generally? As we have argued elsewhere—our “Asian Split” story—there is a wide spectrum of export dependency across the region. On average, the NIEs have derived a higher proportion of growth (on a value-added basis) from net exports in recent years. This implies that their headline GDP growth rates would be more affected by the slowdown in exports and this is indeed what we have seen to date with Hong Kong and Singapore in recession, Taiwan with negative growth in Q3 and activity soft in Korea. In contrast, the ASEAN economies have been more domestic demand led in recent years and, as we have seen, growth in that part of Asia is holding up relatively well. Chinese growth is slowing more sharply than expected, but this is more from a domestic investment downturn than lower exports.

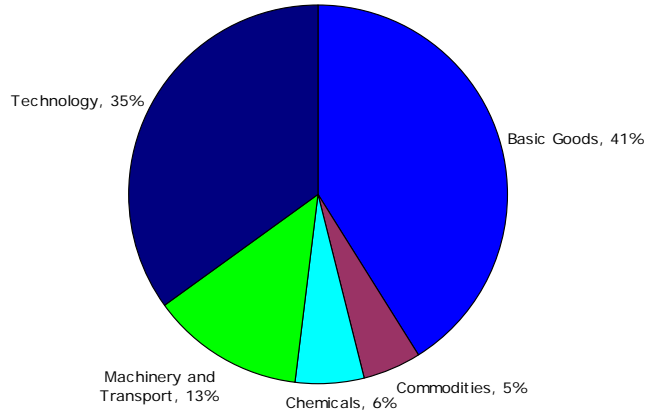
A wildcard in emerging Asia's export outlook is the impact of the credit crisis on trade and consumer finance. Available evidence suggests that the difficulties in obtaining financing on the part of importers and end-users is exacerbating the magnitude of the slowdown in exports we would expect in a scenario when the advanced countries are in a recession. Therefore, to the extent that the availability of trade and consumer financing returns to more normal levels as the credit crisis eases, there may be some upside to exports as previously repressed demand comes through.

Finally, the anatomy of emerging Asia's export slowdown provides clues as to how the recovery will look when it takes place. (In our view, we may not see the first signs until late 2009.) Namely, we should look for a pattern in the region that is roughly the reverse of what we have seen in 2008. Exports from the NIEs are likely to show the first signs of life, led by more discretionary product types, such as higher-end technology products. We would expect China and then ASEAN to follow. As to indicators, export orders and other orders data typically recover first. Given the relative sluggishness of year-on-year indicators, we would recommend focussing on momentum measures to try to gauge turning points.

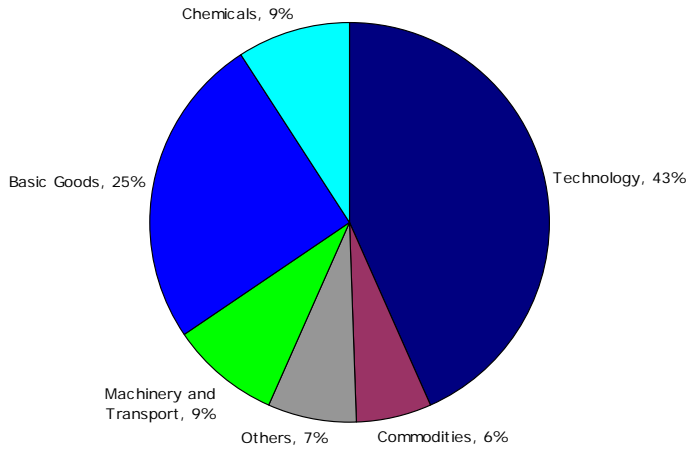
⁴ There is a strong correlation between ASEAN export growth and commodity price movements.

Appendix

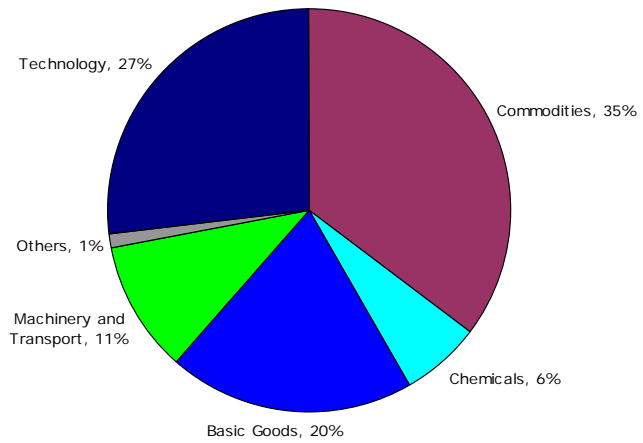
2008 Chinese Exports by Product



2008 NIE Exports by Product



2008 ASEAN4 Exports by Product



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