

ASEAN: Exports at risk over US-China fallout

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Highlights

- ASEAN displays lower concentration of trade risk compared to Taiwan, South Korea.
- Regardless of exposure, few countries are likely to emerge unscathed from the ongoing Sino-US trade spat.
- South Korea and Taiwan remain most vulnerable to US-China trade spat; ASEAN economies have benefit of regional diversification.
- Export demand may dip further in Q2 as US front-loading runs the end of its course.
- Economies, industries with high labour content will have to innovate in the long term.

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Executive Summary

While ASEAN may have the benefit of regional diversification, the overall impact on the region arising from the US-China trade spat is likely to result in a net negative on export fortunes in the short-term. Sino-US trade relations appear increasingly strained and Chinese demand for goods in the region may erode on uncertainty. The likes of South Korea and Taiwan, the traditional weather vanes of global trade health, are also likely to see increasing strains on export demand. The Sino-US trade war is ultimately a battle for technological superiority; as the tech race heats up, ASEAN needs to rethink its approach to labour and productivity.

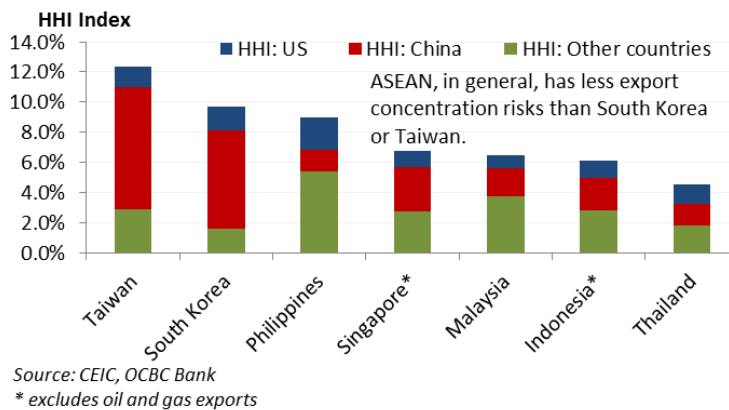
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1. ASEAN's trade diversification may likely cushion the US-China fallout

The export concentration risk for ASEAN-5 is noticeably lower than the likes of South Korea and Taiwan – and that may cushion the region's export fallout from the ongoing resulting US-China trade war. Using each country's top ten trading partners, the Herfindahl-Hirschman Index (HHI) shows that the concentration risks among ASEAN-5 ranges from 4.5% to 9.0% - lower than Taiwan and South Korea at 12.4% and 9.7% respectively. Despite the growing importance of China's demand in Southeast Asia, the HHI exposure of ASEAN-5 to China remains relatively muted compared to Taiwan and South Korea – in turn reducing the direct impact of an expected decline in China's demand from the ensuing trade war.

On hindsight, the economic cooperation within the ASEAN space, together with its multiple trade agreements within ASEAN members, may provide the region with crucial trade support from the current Sino-US trade spat. ASEAN's dependency on China's demand is unlikely to deviate much in the long-run, but in the short-term the region's export fortunes may feel lesser of a trade-war pinch compared to Taiwan or South Korea.

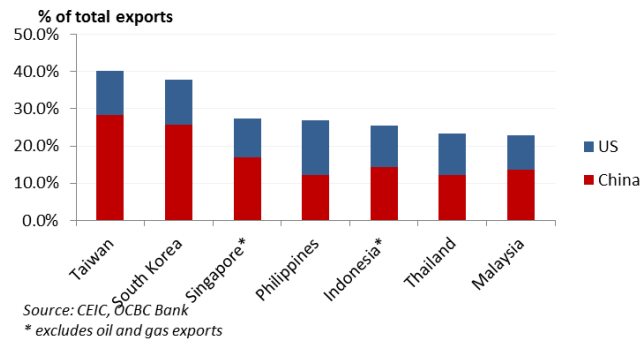
HHI, Top Ten Trading Partners 2017-18



2. Regardless the direct trade exposure to US and China, few countries are likely to emerge unscathed from the trade war

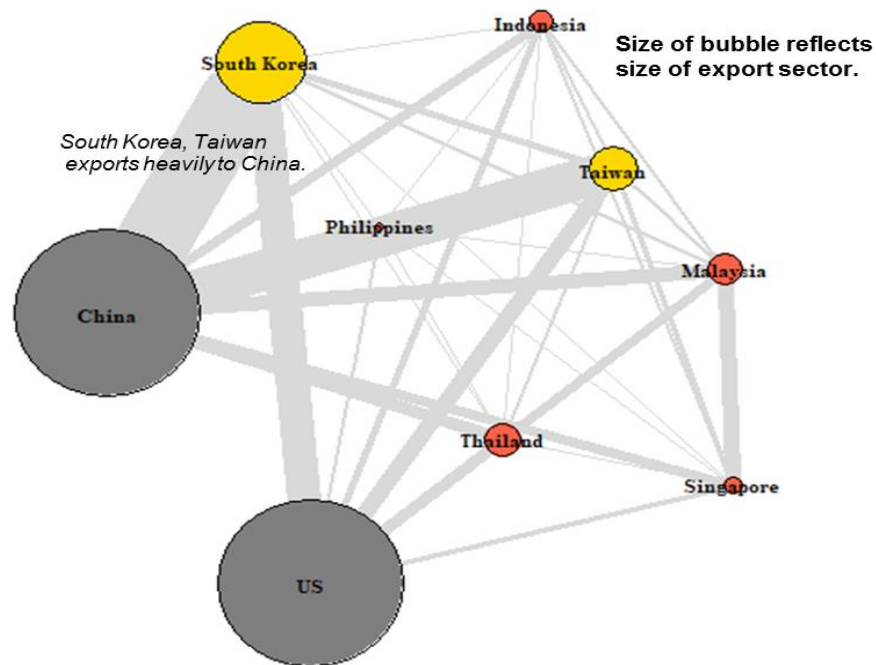
ASEAN-5 members may have considerably lesser direct trade exposure to both the US and China compared to South Korea and Taiwan, but the ensuing trade standoff between the two superpowers mean the exports of few Asian countries will remain unscathed. The average direct trade exposure to US and China among ASEAN-5 members appear fairly consistent, ranging from 23% (Malaysia) to 27% (Singapore) compared to Taiwan's 40% and South Korea's 38%. Most economies in Q1, however, have suffered a YoY contraction in exports – especially those dependent on electronics demand.

With the trade war now officially resuming, it is likely that the slump in Asian exports may continue through Q2.

2017-18 Average Trade Exposure to US and China

3. Impact on exports is more than just direct exposure to US and China

It will be incomplete to suggest that the impact on each economy's exports is limited to its exposure to solely China and the US. Primary effects arising from each country's direct export exposure to China and the US will undoubtedly provide the largest impact on export demand. However, other indirect secondary exposures to China and the US exist via the country's trade with other non-US/China economies, which will also have been stung directly by reduced US/China demand. Thirdly, there will also likely be persistence in demand feedback cycle, as a country's demand for trade diminish in a two-way looping effect.

Network Analysis of Trade Flows in Asia

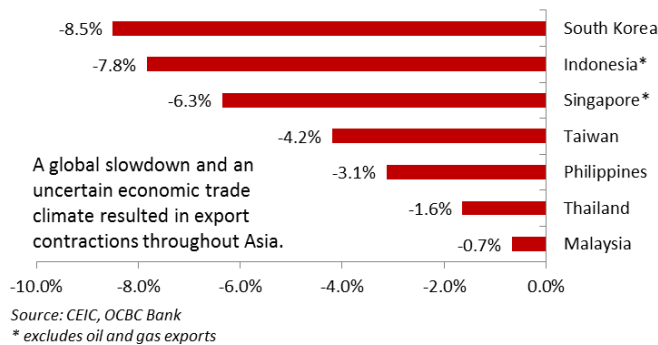
Source: CEIC, OCBC Bank

4. Things may get worse before getting better

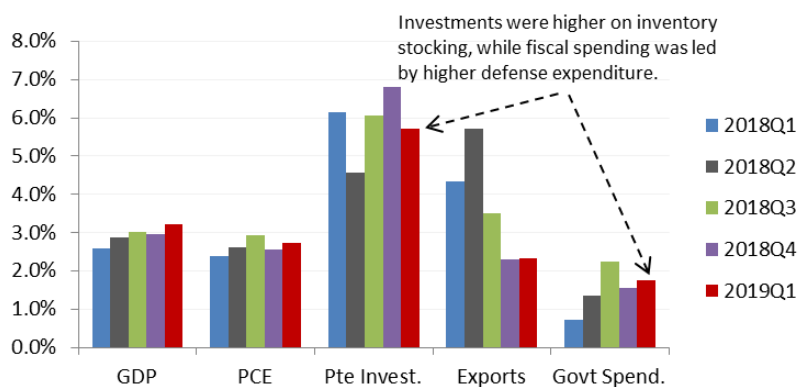
Despite the decline in Q1 exports across the Asian bloc, there is still potential for trade data to worsen before a tick-up in fortunes. Exports to the US in Q1 among the ASEAN-5, as well as South Korea and Taiwan, have largely risen as a result of inventory-building in the US ahead of the trade spat, as US companies attempted to front-run the tariffs. The build-up in stocks was reflected in US Q1 GDP, which beat expectations with growth of 3.2%.

The inventory-building by the US is unlikely to last beyond Q2 and that is likely to reflect in Asian trade data sooner than later. Regional export growth, even with the one-off increase in US demand, has already been deep in the red in Q1 – export demand is likely to sink even deeper once the transitory buying from the US wears off. If the US and China are unable to resolve their differences quickly enough, there is a possibility that Asian trade data may see further declines from current levels.

2019Q1 YoY Export Contraction



US GDP Expenditure YoY Growth



Conclusion: Long-term, ASEAN needs to re-think its technological approach

The US-China trade war has never been about President Trump attempting to right the US trade deficit with the Chinese. If it were so, the trade talks would have centered on demanding how much more China needs to buy from the US annually (which China has already agreed in principle to eventually grind the annual trade deficit to zero by 2024). Throughout the discussions, the US convoy has been prying China to reform its intellectual property (IP) laws in what it deems as “forced technology transfer” – the resulting deadlock provided the foundation for the resumption of tit-for-tat tariffs.

With the two global superpowers placing such a visible emphasis on technological superiority, it is perhaps time for ASEAN to rethink its long-term approach towards the tech space. The region’s dependency on labour as a manufacturing hub will prove inefficient as the technological evolution marches on. In the region, China has led the way in technological progress; the onus is now on ASEAN to keep up with the tech revolution.

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