

## ASEAN: Weak exports on China, semiconductor

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### Highlights

- Exports in Q1 have been weak among the major ASEAN economies as well as South Korea and Taiwan
- Soft demand from China, particularly in the electronics space, have hurt exports in the region
- Electronics exports, especially semiconductors, have felt the brunt of China's slowdown more sharply than other sectors
- The US has surprisingly increased its imports from the ASEAN bloc, as it turns to the region for substitutes
- Looking ahead, China's economic stabilization and signs of green shoots will be key in turning ASEAN export fortunes around

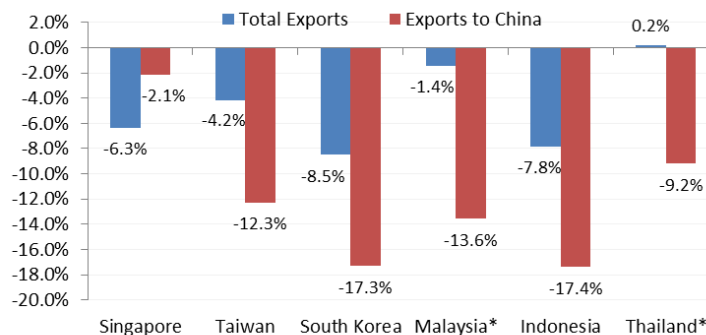
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### US-China trade tension takes its toll

Exports have hurt in Q1 across the major ASEAN economies, alongside the traditional global trade weather-vane economies of South Korea and Taiwan. Undoubtedly, the US-China trade tension has taken a toll in the trade fortunes of the ASEAN bloc, with many businesses in China all reportedly stalling on purchasing decisions until a clearer trade agreement surfaces. ASEAN economies were initially expected to be net beneficiaries of the US-China trade spat as trade inefficiencies between the two economic leaders lead them into sourcing for intermediate goods from this region. However, the heavier than expected drag on sentiment meant income effect has trumped the expected substitution effects, with most of the global economy now facing slower growth and trade prospects.

Despite the initial 90-day truce between the US and China (which has now been extended by a further 60 days), exports in the region posted contractions in Q1. The lack of demand from China has clearly hurt ASEAN economies.

### 2019 Q1 Exports YoY Growth

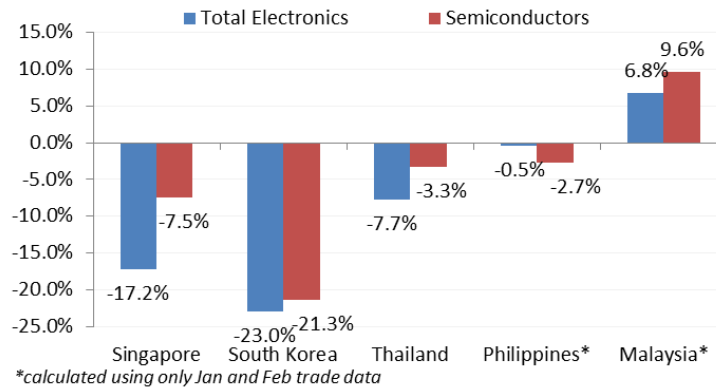


*\*calculated using only Jan and Feb trade data*

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Semiconductor demand has been one of the most badly hurt in the last quarter, with almost none of the economies – except Malaysia – posting growth in the electronics sector. Semiconductors and integrated circuits account for a huge portion of electronics exports in this region – ranging from 22% in Thailand to as much as 73.1% in the Philippines. The traditional electronics manufacturing powerhouses– Singapore and South Korea – have semiconductors accounting for about 53% of their total electronics trade.

**Semiconductors lead electronics trade lower**

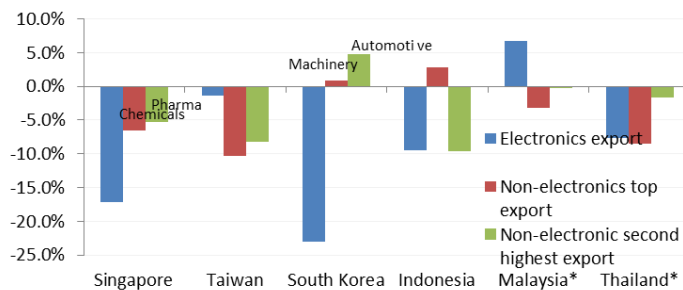


Source: CEIC, OCBC Bank

**Electronics trade fared among the worst versus other sectors**

Across the ASEAN bloc as well as Taiwan and South Korea, electronics trade has fared one of the worst, if not the worst, among other respective top exporting goods. Singapore, for instance, has seen its electronics exports declined -17% YoY in Q1, versus -6.6% and -5.3% in its chemicals and pharmaceuticals exports. South Korea, the other electronic-export leader, witnessed a whopping -23.0% decline in its electronics trade, versus a growth of +0.8% and +4.7% in its machinery and automotive exports. The electronics trade, led mostly by the semiconductor industry, has always been highly cyclical, with its demand very much dependent on China’s appetite for PCs and cellphones. When China sneezes, ASEAN feels the cold – and none gets the chills more than cyclical industries like semiconductors.

**Electronics vs respective dominant exports**



\*calculated using only Jan and Feb trade data

Source: CEIC, OCBC Bank

### US turn to ASEAN for goods

Perhaps the most interesting trend in the past quarter relates to ASEAN increasing exports to the US, despite exports declining to China and almost every other destination.

		Exports to										
Exports from	Q1 YoY	Total	US	China	EU	Japan	TW	SK	Misia	Indo	Thai	
		Exports										
Singapore	-6.3%	8.6%	-2.1%	-9.8%	-29.5%	-11.7%	-31.5%	-3.8%	-14.1%	1.2%		
Taiwan	-4.2%	19.4%	-12.3%	-1.0%	4.9%	-	18.0%	-12.2%	-17.7%	-7.0%		
South Korea	-8.5%	12.9%	-17.3%	-3.7%	-6.1%	-4.9%	-	3.1%	-17.7%	0.4%		
Malaysia*	-1.4%	-8.9%	-13.6%	-0.2%	-8.0%	12.9%	5.3%	-	-22.3%	2.9%		
Indonesia	-7.8%	-5.8%	-17.4%	-9.7%	-16.6%	28.8%	7.6%	-5.9%	-	-4.7%		
Thailand*	0.2%	51.8%	-9.2%	-8.5%	-5.8%	-14.2%	-0.5%	-1.4%	-7.8%	-		
Philippines*	-3.9%	9.1%	3.8%	-15.2%	-5.5%	-15.1%	-2.9%	-4.5%	5.8%	-5.2%		

Source: CEIC, OCBC Bank

There are two plausible explanations for this observation:

#### A) *Textbook substitution effect*

As trade stalls between the US and China – both of which have traded in huge volumes with each other – the US has turned to ASEAN for goods in a textbook demonstration of substitution effect. Thailand's export of principle manufacturing products, for example, has declined almost -10% YoY in the first two months of 2019; the same segment, however, has increased by 60% YoY. Similarly, Chinese demand for South Korean manufactured goods have fallen -4.9% YoY in Q1 2019, but the same exports to the US have increased +2.3% in Q1.

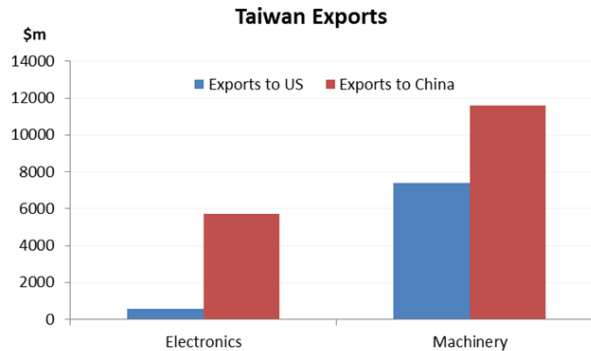


Source: CEIC, OCBC Bank

#### B) *The US imports more finished goods than intermediate goods*

China's manufacturing model often includes the import of primary or intermediate goods before exporting the finished good to other economies. Semiconductors – the hardest hit sector of ASEAN's export slump – are typically intermediate goods that are to be fit into PCs and cellphones, both of which are manufactured in large

quantities in China's backyard. The US, on the other hand, tends to import finished or close-to-finished goods, and has continued to import such goods from the region. Taiwan, for example, exported a negligible \$575mn of electronic products to the US in Q1 vs \$7.4bn of the same to China. In contrast, the US imported \$5.73bn of machinery from Taiwan in Q1 against China's import of \$11.6bn of the same.



Source: CEIC, OCBC Bank

## Conclusion

When China sneezes, ASEAN suffers. Much of the downturn in Q1 exports in the ASEAN bloc were due to reduced demand from China, most notably in the highly cyclical electronics sector. ASEAN (and even South Korea and Taiwan) exports to the US have surprisingly increased despite the ongoing US-China trade tension. It appears that the US has turned to ASEAN for resources to overcome the existing trade uncertainties it faces with China.

Looking ahead, we are noticing the sprouting of some green shoots from China's macro data – most notably stronger PMIs and industrial production figures. While it is too early to call for an economic rebound, we do expect some kind of stabilisation in China's economy in the near future, especially if the data print continues to drift in positively. China's ability to engineer a soft-landing and establish a bottom will be key in driving an uptick in exports from the ASEAN bloc and beyond.

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