

Asia: breaking new new ground

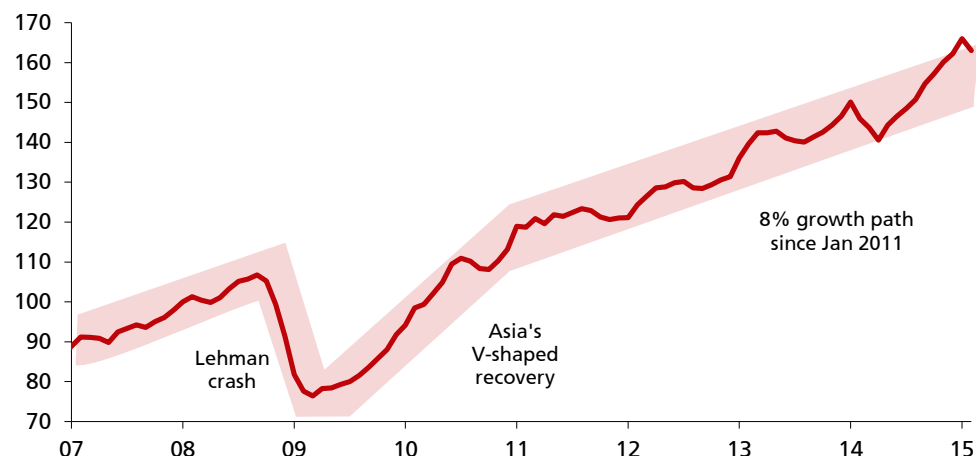
- Asia's exports continue to advance at an 8% pace. It's not the 20% pace of yesteryear but it's respectable given the sluggish global economy
- When the going is tough, every little bit counts. Asia is growing its exports by entering new markets and stealing market share in both old and new markets
- Latin America and Emerging Europe have become as important to Asia's exporters as Japan
- Half of Asia's export growth in Latin America has come from stealing market share, not organic / local growth
- In Emerging Europe, the contribution is an even greater 62%

A couple of weeks back, we asked how it was that Asia continued to grow its exports at a seemingly decent pace when the global economy was so flat ("Asia: breaking new old ground", 22Apr). Measured with a basket of dollars, euros and yen – so as to remove the effects of large currency swings that have characterized markets for the past year – Asia's exports have trended northward at an 8% pace since early-2011. How so? Who's buying?

Looking at Asia's key markets – the US, Europe, Japan and Asia itself – the answer was pretty straightforward. The biggest driver of Asia's export growth wasn't the US, or Japan or Europe. It was Asia itself. That shouldn't surprise. Asia's GDP continues to grow at a 6.25% as it has for the past four years. As we regularly point out, 6.25% growth on a base of \$16trn 'creates' a Germany every 3.5 years, right here in Asia. Not for nothing is Asia now driving most of its own GDP and export growth.

Asia 10 – exports

Jan08=100, sa, 3mma, avg USD, EUR and JPY terms

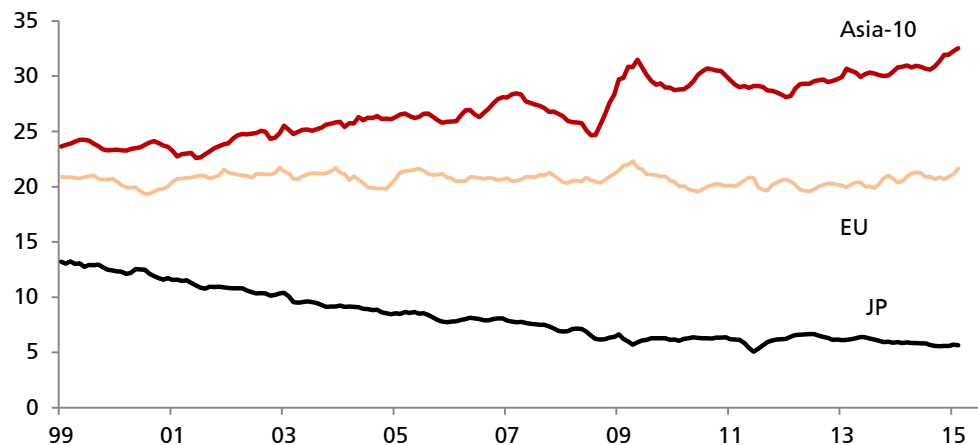


But, we noted, it's not just about Asia. Exports to Japan have continued to grow, albeit slowly, in tri-currency terms. Exports to developed Europe stopped falling in early-2013 and have run northward for the past two years. That U-turn has helped Asia a lot.

And exports to the US have expanded at a 5%-6% per year pace in tri-currency terms. How was that possible, we asked, when US import growth was barely half that? By (further) penetrating the US market: stealing market share. Some 55% of Asia's growth owed to greater penetration – only 45% came from a bigger US pie.

US – import market shares

% share of total US imports by country, 3mma



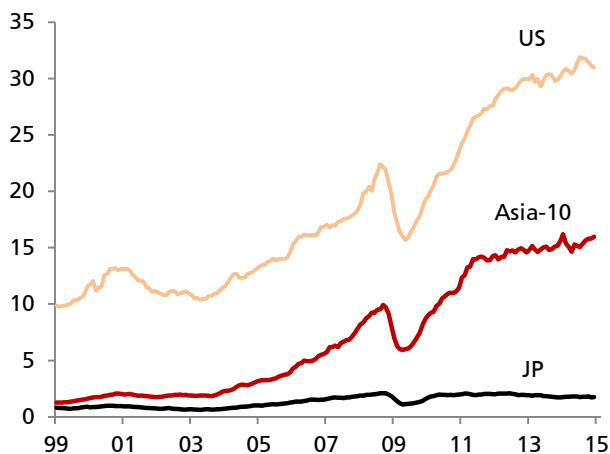
Latin America and Emerging Europe

With the global economy in such mediocre shape, every scrap of export growth matters. Besides the usual markets – the US, developed Europe and Japan – where is Asia breaking new ground, if at all?

The answer is Latin America and Emerging Europe. Asia's exports there have grown by 13x-14x since 1999, 3 times faster than those markets themselves have grown, and 2.5 times faster than Asia's total exports have grown [1]. In short, Asia and Emerging Europe and Latin America are becoming increasingly important to each

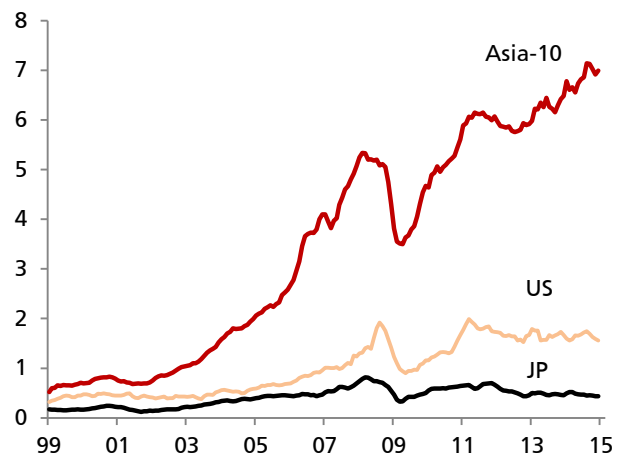
LatAm – imports

USD bn/mth, sa, 3mma



Emerging Europe – imports

USD bn/mth, sa, 3mma

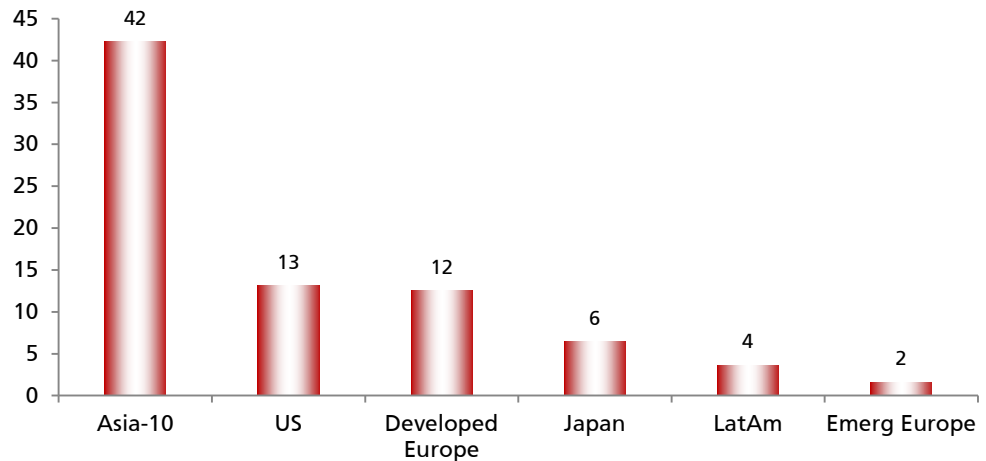


other. From Asia's perspective, by the end of 2014, exports to LatAm and Emerging Europe accounted for 6% of all Asia-10 exports, making those two markets as important to the region as Japan (chart below).

Asia now exports as much to Latin America and Emerging Europe as it does to Japan

Asia-10: export destinations

percent share of Asia-10 exports destined for various regions, 2014



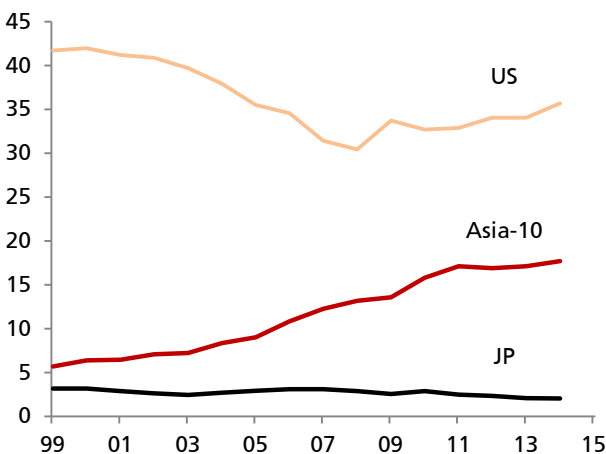
Stealing market shares again

As with the US, Asia isn't just sending more exports to Latin America and Emerging Europe, it's penetrating those markets, stealing market share. Asia has tripled its LatAm market share since 1999, lifting it to 18% from 6%. In Emerging Europe, Asia has doubled its share and now 'owns' some 12% of the EE market (charts below left and right).

Plainly, stealing market share has raised Asia's export revenues by far more than organic growth alone would have done. Over the past four years, Asia's export revenues from Latin America have grown by about US\$54bn / month (saar, see table next page). Only half of that would have been pocketed had Asia not grown its market share.

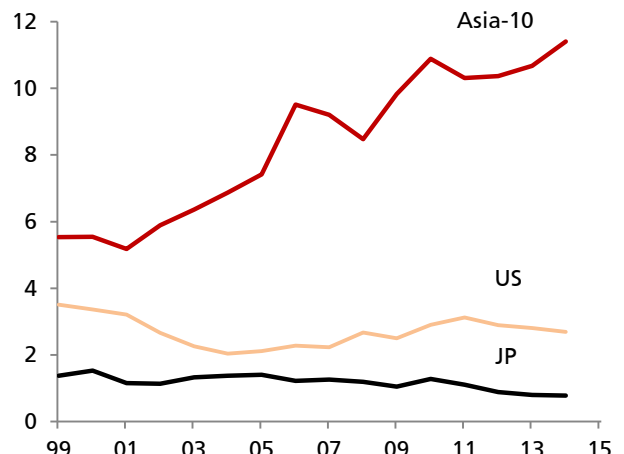
LatAm – import market

% share of total LA imports by country



Emerging Europe – import market

% share of total EE imports by country



Asia-10: export growth to Latin America and Emerging Europe

January 2011-January 2015

Half of Asia's growth in Latin America has come from stealing market share, not indigenous / local growth. In Emerging Europe, the ratio is an even greater 62:38

	Emerging Europe*	Latin America ^
Change in total imports (US\$bn/mth, saar)	60.3	174.5
Asia-10 local mkt share Dec 2010 (%)	10.5	15.8
Asia export growth assuming constant market share (US\$ bn/mth, saar)	6.3	27.5
Actual Asia X growth (US\$bn/mth, saar)	16.6	54.4
% contribution from ethnic growth	38.1	50.6
% contribution from Asia's market penetration	61.9	49.4

* EE-7: Bulgaria, Croatia, Hungary, Lithuania, Poland, Romania, Turkey

^ LA-10: Argentina, Brazil, Chile, Columbia, Dominican Republic, Ecuador, Guatemala, Mexico, Peru, Venezuela

In Emerging Europe, the contribution is even greater. Asia's exports there expanded by \$17bn/mth (saar) between January 2011 and January 2015. Sixty-two percent of that came from eating some else's lunch, not from growth in the overall market.

The economic facts of life

At the end of the day, constant upgrading of skills and productivity is what gives any country higher incomes. It allows economies to produce more for less and become more competitive in the process. Penetrating global markets is one way to measure that increased competitiveness. Asia continues to break new ground in old markets such as the US and new ground in new markets such as Latin America and Emerging Europe. Asia is slowing down, as all developing economies must do. But lifting competitiveness and penetrating global markets prevents all countries from slowing more than they should. It's all the more important when the global economy runs at such a pedestrian pace.

Nomenclature:

[1] In this report, country regions adhere to the following terminology:

Asia-10: CH, HK, TW, KR, TH, MY, SG, ID, PH, IN;

LatAm10: Argentina, Brazil, Chile, Columbia, Dominican Republic, Ecuador, Guatemala, Mexico, Peru, Venezuela;

Emerging Europe: Bulgaria, Croatia, Hungary, Lithuania, Poland, Romania, Turkey

Sources:

Except where noted, data for all charts and tables are from CEIC Data, Bloomberg and DBS Group Research (forecasts and transformations).

GDP & inflation forecasts

	GDP growth, % YoY					CPI inflation, % YoY				
	2012	2013	2014	2015f	2016f	2012	2013	2014	2015f	2016f
US	2.3	2.2	2.4	2.6	2.4	2.1	1.5	1.6	1.2	1.7
Japan	1.8	1.6	0.0	1.3	1.0	0.0	0.4	2.7	1.0	0.8
Eurozone	-0.7	-0.4	0.9	0.9	1.2	2.5	1.3	0.4	0.2	1.1
Indonesia	6.0	5.6	5.0	5.1	5.5	4.0	6.4	6.4	6.0	5.5
Malaysia	5.6	4.7	6.0	4.9	5.0	1.7	2.1	3.1	3.4	3.0
Philippines	6.8	7.2	6.1	6.3	6.0	3.2	2.9	4.2	3.2	3.8
Singapore	3.4	4.4	2.9	3.2	3.5	4.6	2.4	1.0	0.4	1.3
Thailand	6.4	2.9	0.7	3.6	4.3	3.0	2.2	1.9	0.8	2.8
Vietnam	5.0	5.4	6.0	6.0	6.2	9.3	6.6	4.1	1.9	3.5
China	7.7	7.7	7.4	7.0	6.8	2.6	2.6	2.0	1.8	2.2
Hong Kong	1.7	2.9	2.3	2.8	3.0	4.1	4.3	4.4	3.7	3.5
Taiwan	2.1	2.2	3.7	3.4	3.5	1.9	0.8	1.2	-0.2	1.2
Korea	2.3	3.0	3.3	3.0	3.5	2.2	1.3	1.3	0.8	2.1
India*	5.1	6.9	7.4	7.8	8.3	7.4	9.5	6.0	5.6	5.8

* India data & forecasts refer to fiscal years beginning April; prior to 2013.

Source: CEIC and DBS Research

Policy & exchange rate forecasts

	Policy interest rates, eop					Exchange rates, eop				
	current	2Q15	3Q15	4Q15	1Q16	current	2Q15	3Q15	4Q15	1Q16
US	0.25	0.25	0.25	0.50	0.75	...	...	...	...	...
Japan	0.10	0.10	0.10	0.10	0.10	119.9	121	122	123	124
Eurozone	0.05	0.05	0.05	0.05	0.05	1.117	1.11	1.08	1.05	1.02
Indonesia	7.50	7.50	7.50	7.50	7.50	13,126	13,250	13,460	13,660	13870
Malaysia	3.25	3.25	3.25	3.25	3.25	3.60	3.60	3.64	3.69	3.73
Philippines	4.00	4.00	4.00	4.00	4.25	44.6	45.2	45.3	45.4	45.4
Singapore	n.a.	n.a.	n.a.	n.a.	n.a.	1.34	1.34	1.36	1.38	1.40
Thailand	1.50	1.50	1.50	1.50	1.50	33.6	33.0	33.2	33.3	33.5
Vietnam [^]	6.50	5.50	5.00	5.00	5.00	21,533	21,565	21,565	21,565	21,565
China*	5.10	5.10	5.10	5.10	5.10	6.21	6.22	6.24	6.26	6.28
Hong Kong	n.a.	n.a.	n.a.	n.a.	n.a.	7.75	7.76	7.77	7.77	7.78
Taiwan	1.88	1.88	1.88	1.88	2.00	30.7	31.8	32.0	32.2	32.4
Korea	1.75	1.50	1.50	1.50	1.75	1091	1118	1133	1147	1161
India	7.50	7.25	7.25	7.25	7.25	63.8	63.6	64.6	65.6	66.7

[^] prime rate; * 1-yr lending rate

Market prices

	Policy rate	10Y bond yield		FX		Equities		
	Current (%)	Current (%)	1wk chg (bps)	Current	1wk chg (%)	Index	Current	1wk chg (%)
US	0.25	2.14	3	95.0	-0.5	S&P 500	2,116	0.4
Japan	0.10	0.40	4	119.9	0.2	Topix	1,588	-1.9
Eurozone	0.05	0.53	16	1.117	0.2	Eurostoxx	3,467	1.0
Indonesia	7.50	8.14	43	13123	-1.3	JCI	5,182	1.9
Malaysia	3.25	3.90	5	3.60	-0.8	KLCI	1,808	-1.9
Philippines	4.00	0.00	0	44.6	0.0	PCI	7,763	0.6
Singapore	Ccy policy	2.41	16	1.336	-0.3	FSSTI	3,452	-1.0
Thailand	1.50	2.78	25	33.6	-0.7	SET	1,511	-1.4
China	5.10	...	...	6.21	-0.1	S'hai Comp	4,206	-5.3
Hong Kong	Ccy policy	1.67	16	7.75	0.0	HSI	27,577	-2.0
Taiwan	1.88	1.59	5	30.7	-0.3	TWSE	9,692	-1.3
Korea	1.75	2.40	2	1091	-1.3	Kospi	2,086	-2.7
India	7.50	7.93	7	63.9	-0.9	Sensex	27,105	0.3

Source: Bloomberg

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