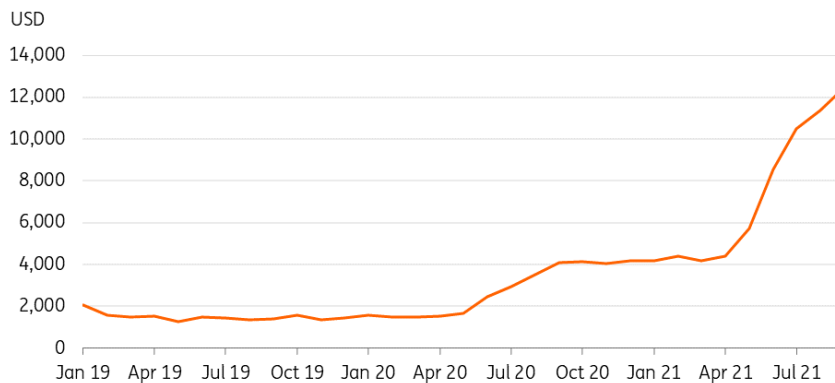


Asia: Rocked by supply disruptions

Covid remains a disruptive force in some parts of Asia, and it is now contributing to supply chain disruptions across the region



Shanghai to LA container cost (40ft box)



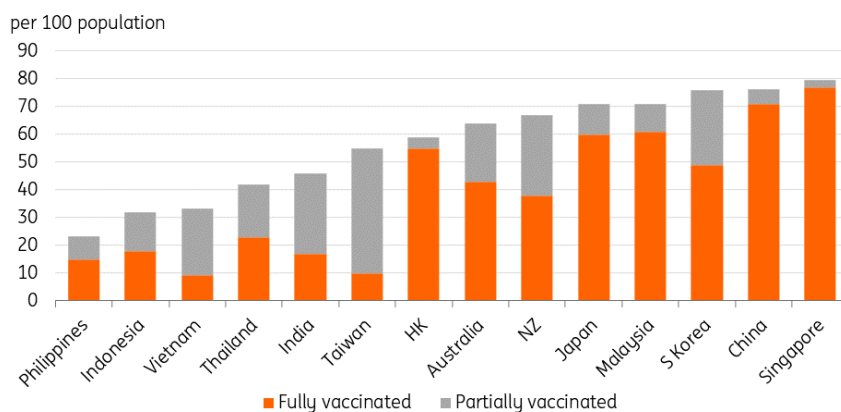
Source: CEIC

Ongoing problems

For most of this year, we have focused on the impact of the Covid pandemic in Asia, looking at daily cases, mortality, and more recently, the lack of progress on the vaccination rollout.

It is now October, and some things haven't changed. Encouragingly, one thing that has is that vaccination rates have picked up quite a lot, though some South East Asian economies are still lagging behind. Even so, daily Covid cases remain high in many countries, even where vaccination rates are high. In the less vaccinated countries, daily deaths due to Covid also often remain high. Governments are trying hard to exit the ongoing cycle of reopening, rising cases, and return to restrictions. But they aren't having much success. There just doesn't seem to be a coherent strategy for how to exit this impasse.

Asia vaccinations per 100 people by dose



Source: Our World in Data

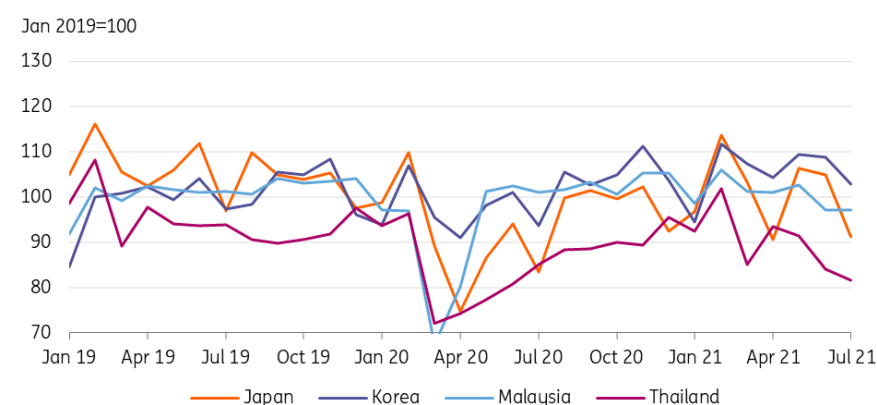
Asia hit hard by container shortages

As well as the direct impact on domestic demand and production from lockdowns and other restrictive measures, producers in Asia are struggling with the resulting supply chain disruptions this is causing. A container shortage is one such spillover and is a global problem. But Asia has been particularly badly affected by it. The causes are complicated, but include:

- Pandemic consumption patterns altering in favour of shipped goods and away from intangibles and services (more demand for containers)
- A more rapid initial recovery in Asia from the pandemic in 2020 than in Europe and the US, resulting in production and trade exports bouncing back more rapidly – more containers going to US and Europe than coming back to Asia – this remains in imbalance
- Increases in turnaround times at pandemic-affected ports resulting in more containers in storage or penned up inland and out of use
- A general shortage of containers – not enough new containers have been produced.

It isn't easy to get data on the impact this is having on production in the region. But indirectly, we can see the effect of the container shortage in unit prices for container traffic. These have risen from about \$1500 for a 40ft box on the Shanghai to LA route to more than \$12,000 today - an eight-fold increase. This price surge doesn't, however, pick up the delays that also accompany these shortages. Manufacturers are often having to wait many months to gain access to containers to export their goods..

Asia industrial production volumes (Index) - selected countries



Source: CEIC

It's not just high-Covid countries suffering

The impact of such supply chain disruptions across the region is mixed. SE Asia is often singled out given its poor Covid track record and its importance as a supplier of parts and intermediate goods in regional supply chains. And indeed, production volumes in Thailand and Malaysia have been particularly soft in recent months. Singapore, in contrast, has seen much steadier production volumes.

But North Asia has not escaped these disruptions either, which given its reliance on SE Asian parts, should come as no surprise. Production volumes in Japan and Korea have both dipped in recent months. Taiwan is doing much better. And as the pre-eminent producer of semiconductors globally, this puts it at the beginning of many supply chains, which may explain its resilience.

Financial markets in the region have been rocked by China's Evergrande issue, though we see few regional linkages outside Greater China. However, Asia is quite vulnerable to the energy price surges the world is witnessing, and which China's policies may be exacerbating. And with the domestic growth outlook currently challenged by a combination of Covid, supply chain disruption and China's restructuring policies, the added complication of rising global bond yields and a strengthening USD may be contributing to regional investor anxiety, especially with respect to the current account deficit emerging economies of the region.

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