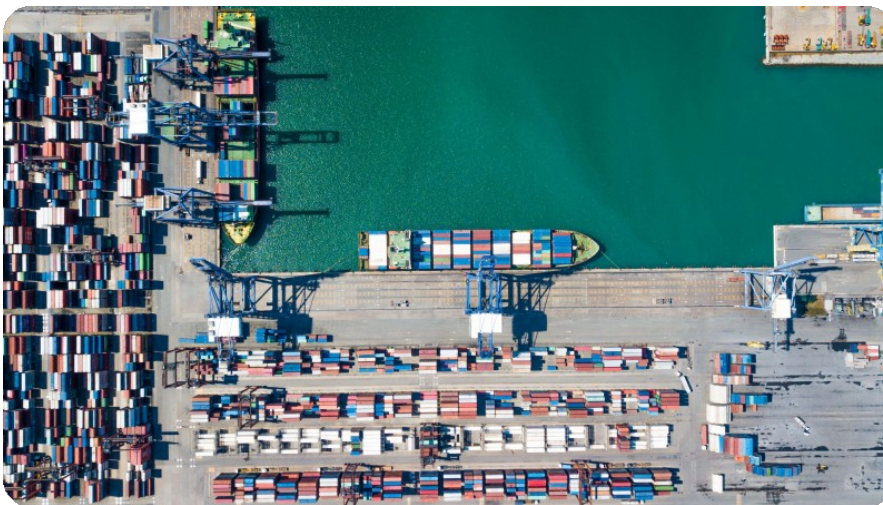


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CHINA INDIA

Asian exports are softening

Non-China Asian exports are still growing, but the pace of increase has slowed and will slow still further as key export destinations struggle with inflation, energy security, and rising recession risks



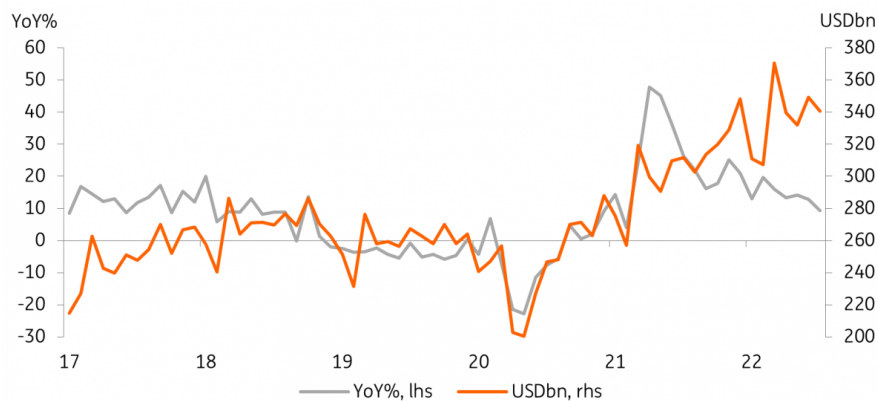
Global exports from Asia are slowing. Pictured: Thailand's Chonburi Laem Chabang Port

Asian exports going sideways

As economies worldwide re-opened after the lockdowns of the Covid pandemic, non-China Asian exports to the rest of the world surged. But that rate of growth looks like it's slowing. Distortions caused by the Lunar New Year always make interpretation of trade data trends at the beginning of the year tricky, and there was an expected jump in March. But since then, the numbers look to be struggling. In year-on-year terms, the rate of overall export growth is now skirting single-digits again. A slowdown in year-on-year terms was inevitable after the re-opening surge, but this slowdown has also become evident in USD terms in recent months.

Non-China Asia export growth slowing

Japan, India, South Korea, Taiwan, Malaysia, Vietnam, Thailand, Singapore, Philippines



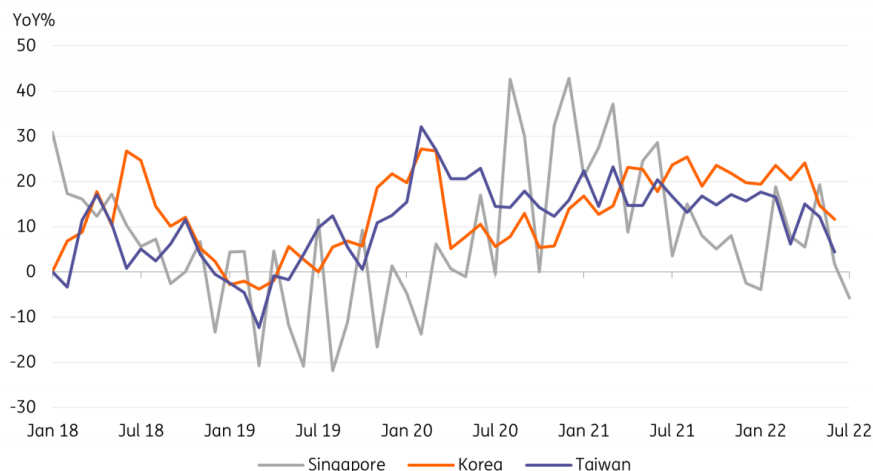
Source: CEIC, ING

Electronics production growth has also moderated

Digging deeper into the Asian export numbers, one of the more surprising aspects is that the electronics sector did not have a stronger recovery in 2021/22. Globally, semiconductor sales grew robustly in 2021, but topped out in December 2021 and have gone only sideways since then. Given the dominance of this sector in Asia, the increase in non-China Asian electronics exports over this period has been disappointing, not matching the strength in global electronics sales.

Explaining this isn't easy. One interpretation is that given shortages in electronics globally, more of Asia's output remained locally - less of it being shipped overseas. But that hypothesis doesn't actually stack up against production figures, which show an equally lacklustre performance since January this year. Instead, this seems to point more firmly to capacity constraints in the industry as the main explanation.

Selected Asian electronics production (YoY%)



Source: CEIC, ING

China's lockdowns played their part, but they are now over

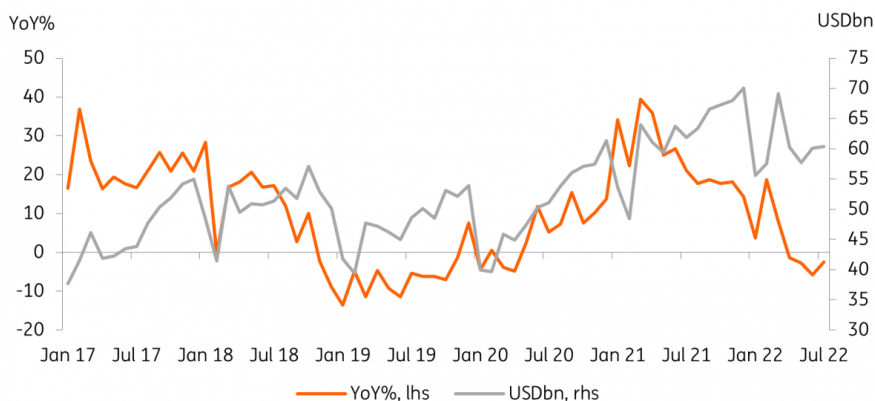
Back in April and May this year, China was struggling with its zero-Covid policy, and the port of Shanghai had its operations disrupted by lockdowns. As the world's busiest port, this will have hurt the exports of firms across the region and beyond. Even though China's Covid cases are still bubbling away in the background, the lockdowns are now much more focused, and the big citywide lockdowns of the second quarter that were so disruptive are not being repeated. Yet Asia's export figures continue to look weak.

As well as potential roles for capacity constraints and lingering supply disruptions, there does seem likely to be a demand element at play. Non-Asian exports to Mainland China have been weakening sharply in recent months. China's macroeconomy is not in great shape currently (see our specific China section). Ongoing, albeit lower intensity Covid restrictions continue to weigh on the economy to some extent. But on top of this, the languishing property sector has also cut demand for building materials. And topping things off, heatwaves, drought and related power shortages have all taken a toll, which an ever-expanding list of government stimulus policies seems only partially able to offset.

It's worth also considering that this may not be an entirely China demand story. Asia's complicated supply chains mean that China is only an intermediate destination for some of Asia's exports, many of which may then be destined for Europe or the US after further processing.

Asia's exports to China

South Korea, Taiwan, India, Indonesia, Japan, Malaysia, Philippines, Singapore, Thailand, Vietnam



Source: CEIC, ING

Recession risks could further undermine Asia's exports

There are some definitional changes to the Harmonized Commodity Description and Coding System (HS) data that can explain some of the declines in exports of some specific items, in particular, exports of smartphones. But these should not adversely impact the broader export figures for the region. And we doubt that China has, despite its best efforts, already managed to become self-reliant in all these areas of technology.

More time and more data will help shed light on the evolution of this sector for the Asia Pacific region over the rest of the year. But if it turns out that capacity issues are a factor, then these are unlikely to be solved before 2023. Likewise, China's activity could pick up slightly over the second half of the year, though will probably still fall well short of the government's 5.5% target for 2022 (about which we hear relatively little these days). The global slowdown outside the region in contrast is only likely to get worse. Europe may already be in recession (see also our European note). The US is technically already there, but the technical nature of its recession may give way to a more substantive recession as we move into 2023 and rate rises bite deeper.

In short, whatever the full reality of the complicated situation we are trying to untangle, Asia's trade sector is more likely to become a drag on economies in the region over the coming quarters. And on top of the drag from inflation on domestic spending power, we may need to reflect this with some more moderate growth forecasts for the second half of this year, and potentially for full-year 2023.

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