Solid growth driven by domestic demand continues while slowdown in exports deserves attention

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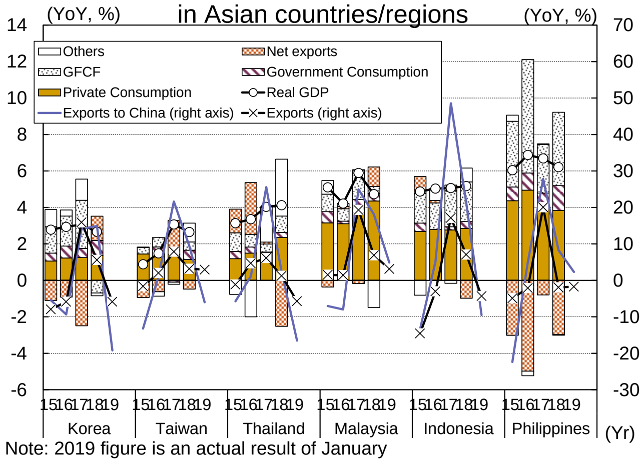
A slowdown in export growth in Asia on the back of global economic downturn has been putting downward pressure on growth rates in the region. Looking at the contribution of net exports (exports less imports) to real GDP growth rate in 2018, ones in Taiwan, Thailand and Indonesia turned negative and negative contribution in Philippines widened substantially (see chart 1). A sluggish export growth is intensifying further at present and export growth in January showed year-on-year decline in South Korea, Thailand and Indonesia. Looking at the breakdown of exports, exports to China, which account for approximately 20% of total, declined substantially which indicates that the impact of China's economic slowdown, on the back of tightening of regulations on shadow banking and US-China trade friction, is spreading to other Asian economies.

Since the 2008 financial crisis, exports to China from Asian economies marked the largest year-on-year decline in 2015. In case the Chinese economy slows even further owing to the intensifying US-China trade friction, it is possible that exports will decline to the similar level as 2015. According to the estimate of the ratio of decline in exports to China to each economy's GDP, the ratio will be 1.7%, which is significant, in Singapore and Taiwan that are heavily dependent on China as an export destination while the ratio will not be so significant in Philippines and Indonesia, 0.5% and 0.3% respectively, with less dependency on China (see table 1). In general, NIEs economies are more dependent on China in terms of trade compared to ASEAN economies and it appears that NIEs economies will be more affected by China's economic slowdown.

However, solid domestic demand driven by private consumption underpinned the growth and the risk of a further economic deterioration was averted in 2015 although exports including the one to China declined year-on-year in most countries then. This time, although a slowdown in exports will be unavoidable due to global economic downturn, considering that 1) private consumption is expected to remain firm on the back of favourable employment and income environment and the ongoing accommodative monetary policy owing to stable currency and inflation, and 2) the economies are also supported by the governments' infrastructure investment, Asian economies as a whole will remain solid and no need to be overly pessimistic about the outlook.

Chart1: Real GDP and Exports in Asian countries/regions



Note: 2019 figure is an actual result of January

Source: Individual country statistics, MUFG Bank Economic Research Office

Table 1: The ratio of decline in exports to China due to China's economic slowdown to each ecnomy's GDP (Estimate)

	Exports to China in 2015 (YoY, %)	The ratio of exports to China to each economy's GDP (%)	The ratio of decline in exports to each economy's GDP (%)
Singapore	- 10.4	16.7	1.7
Taiwan	- 13.4	12.3	1.7
Malaysia	- 7.8	9.3	0.7
S. Korea	- 5.6	9.2	0.5
Thailand	- 7.1	6.5	0.5
Philippines	- 20.4	2.6	0.5
Indonesia	- 14.5	2.3	0.3

Note: "The ratio of exports to China to each economy's GDP" are 2017 results.

Source: UNCTAD, MUFG Bank Economic Research Office

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