Can Asia's Private Consumption Mitigate A Slowdown Resulting From Weaker External Demand?

- *The growth of Asia's middle-income group in the past decade and improving household and corporate balance sheets will buffer the region in the event of a global recession. But only to a certain extent.*
- *Private consumption in Asia has not kept up with the pace of growth in the region's GDP. The heavy reliance on trade to drive growth indicates that external demand will remain the key growth engine in the foreseeable future.*
- *Intra-ASEAN trade and those with China and India has increased dramatically, compared with a declining share to EU 27 and the North America.*
- *However, the decline in ASEAN's direct exports to North America and EU has masked the fact that the region is still heavily dependent on the developed markets for its final exports. Intra-regional trade increase over the years was largely the result of the vertical specialization in the production cycle, which saw developing Asia's exports being channeled through China to the developed economies.*
- *Around a third of combined merchandise exports from ASEAN and China are still heading to EU and North America even though direct ASEAN exports to these destinations have declined significantly from 2000.*
- *Besides trade, Asia will also be affected via an expected drop in foreign direct investment (FDI) and the contagion risks in the financial markets causing the credit and liquidity conditions in the global markets to tighten. The impact of a global downturn on Asia will still be significant despite the improving economic fundamentals in the region.*

There is high expectation for private consumption to help Asian economies weather a global downturn. The growth of Asia's middle-income group in the past decade and improving household and corporate balance sheets will buffer the region in the event of a global recession. But only to a certain extent. Private consumption in Asia has not kept up with the pace of growth in the region's GDP. Asia's private consumption accounts for around 41.5% of GDP compared with a higher 52.7% in 1995. On the other hand, merchandise export and total trade as a share of GDP has increased over the years. The heavy reliance on trade to drive growth indicates that external demand will remain the key growth engine in the foreseeable future. Afterall, developed economies still account for two-thirds of world GDP.

Private Consumption Expenditure (% of GDP)			
Country	1995	2000	2010
China	46.7	46.2	33.2
Hong Kong	62.0	59.0	62.2
Indonesia	61.6	61.7	56.7
South Korea	52.3	54.8	52.5
Malaysia	47.9	43.8	48.0
Philippines	74.1	72.2	71.6
Singapore	41.4	41.9	37.9
Taiwan	57.2	58.8	58.0
Thailand	53.2	56.1	53.7
Weighted Average	52.7	51.9	41.5
Source: CEIC, UOB Economic-Treasury Research			

Merchandise Exports (% of GDP)			
Country	1995	2000	2010
China	20.5	20.8	26.6
Hong Kong	120.5	119.4	173.8
Indonesia	22.5	38.2	22.3
South Korea	23.6	32.3	45.9
Malaysia	83.2	104.7	83.4
Philippines	23.6	47.6	25.8
Singapore	135.7	146.3	157.7
Taiwan	41.1	46.4	63.6
Thailand	33.6	56.2	61.1
Weighted Average	38.0	42.4	41.1
Source: CEIC, UOB Economic-Treasury Research			

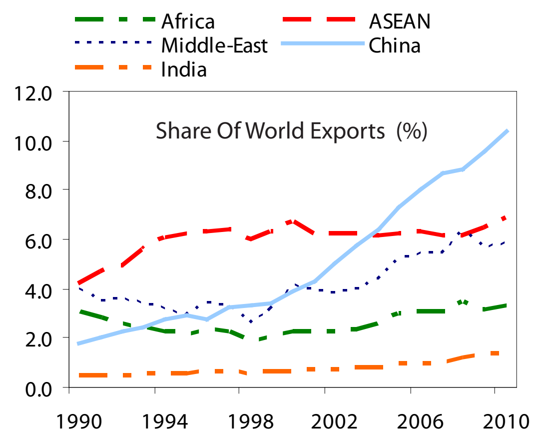
Asian Exporters Still Depend Significantly On Extra-Regional Demand

Intra-ASEAN trade and those with China and India has increased dramatically, compared with a declining share to EU 27 and the North America. Exports from ASEAN to countries in the same region accounts for around a quarter of its total exports. Including exports to China and India, the Asian region would account for nearly 40% of ASEAN's total merchandise exports.

Total Merchandise Trade (% of GDP)			
Country	1995	2000	2010
China	38.7	39.6	50.2
Hong Kong	254.1	245.2	366.8
Indonesia	42.5	58.8	41.5
South Korea	49.1	62.4	87.8
Malaysia	170.5	192.1	152.4
Philippines	59.5	90.6	53.2
Singapore	278.6	289.1	297.1
Taiwan	79.0	89.5	121.9
Thailand	75.7	106.9	118.9
Weighted Average	77.3	81.4	79.0

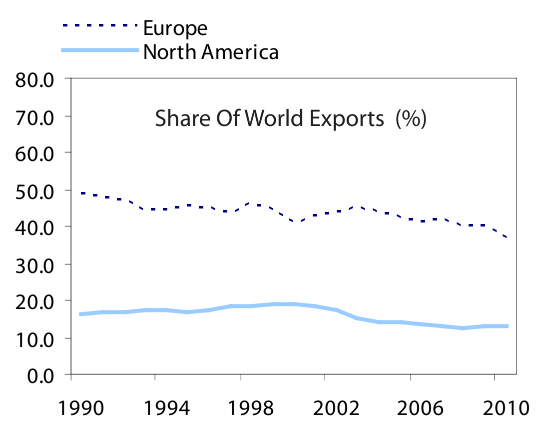
Source: CEIC, UOB Economic-Treasury Research

Developing Economies Becoming More Important In Global Trade



Source: WTO, UOB Economic-Treasury Research

Developing Economies Becoming More Important In Global Trade



Source: WTO, UOB Economic-Treasury Research

The decline in ASEAN's direct exports to North America and EU has masked the fact that the region is still heavily dependent on the developed markets for its final exports. Intra-regional trade increase over the years was largely the result of the vertical specialization in the production cycle, which saw developing Asia's exports being channeled through China to the developed economies. The trade data shows that around a third of combined merchandise exports from ASEAN and China are still heading to EU and North America even though direct ASEAN exports to these destinations have declined significantly from 2000.

The combined share of ASEAN and China's exports to the EU and North America stood at a high of 32.3% in 2010 even though this has fallen from 36.0% in 2000 (indication of increasing consumption in Asia but which cannot offset that in the developed markets yet). This indicates that end-demand still resides in the developed markets despite the surge in the intra-regional trade. With these developed markets accounting for a third of Asia's exports, a global downturn will definitely be a significant drag on the region's export sector.

ADB working paper in August 2010 showed that the share of parts and components in intra-ASEAN exports has surged to around 56.0% of total exports from the region in 2006/07 from 34.6% in 1992/93. Parts and components account for around 40% of China's imports from ASEAN in 2006/07, up sharply from 11.9% in 1992/93. Unfortunately, we do not have official data on retained imports in China which would be a crucial piece of information on the consumption demand growth in the country. Although we believe the proportion has been increasing steadily in recent years as a result of rising income and urbanization in the country, it cannot offset demand from the developed economies. As China remains heavily dependent on the West for its exports, a slowdown in those economies will also affect the purchasing power in China.

Besides trade, Asia will also be affected via an expected

ASEAN Total Merchandise Exports By Destination (% of total)		
Country	2000	2010
ASEAN	22.8	25.1
China	3.9	10.8
India	1.6	3.6
Japan	13.6	9.8
EU27	14.9	11.0
North America	20.1	10.9
Middle East	1.9	2.6
South Africa	0.3	0.5

Source: WTO, UOB Economic-Treasury Research drop in foreign direct investment (FDI) and the contagion risks in the financial markets causing the credit and liquidity conditions in the global markets to tighten. The impact of a global downturn on Asia will still be significant despite the improving economic fundamentals in the region.

Combined Exports From China And ASEAN (% of total)		
	2000	2010
EU	15.1	16.3
North America	20.9	16.0

Source: WTO, CEIC, UOB Economic-Treasury Research