Asia’s export economies in free fall

John Chan
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Staggering falls in exports across Asia have shocked economic analysts and ended all claims that the global slump may be nearing its bottom. The IMF's growth forecast for Asia this year is just 2.7 percent—less than a third of the 9 percent growth rate of 2007. The prediction is a full percentage point less than during the 1997-98 Asian financial crisis.

IMA Asia analyst Richard Martin commented in the *Australian*: "It's a bit like watching a train wreck in slow motion. North Asia is suffering the biggest collapse in demand since World War II." Westpac bank's Richard Franulovich said that the "speed of the decline embedded in the latest Asia data is on par with the collapse in the US during the 1930s Depression."

Japan, the world's second largest economy, is already in recession and still declining. Japanese exports fell 35 percent in December from a year earlier, as the global demand for its cars, electronics and capital goods dried up. Industrial production plunged a record 9.6 percent, month on month, in December.

Bank of Japan chief economist Kazuo Momma warned this week that the economy was facing an "unimaginable" contraction, as analysts estimated that there was an annualised rate of contraction of 10 percent in the last quarter of 2008, even worse than the US. The government warned that 125,000 irregular workers, mainly in manufacturing, will lose their jobs in the six months to March, but an industry estimate put the figure far higher at 400,000.

China, the so-called "workshop of the world," is being hit particularly hard. Exports declined for the third consecutive month in January, falling 17.5 percent from a year earlier, after a 2.8 percent decline in December. Imports plunged even further—43.1 percent, twice as much as December's 21.3 percent year-on-year drop, the General Administration of Customs said on Wednesday.

Because many of China's imports are inputs into the country's manufacturing exports, the sharp decline in imports indicates further falls in industrial activity. Imports of machinery and high-tech goods fell by roughly 40 percent, also spelling disaster for the countries that sell such components for Chinese factories to assemble. Shipments from Japan fell by 43.5 percent from a year earlier; those from South Korea were down 46.4 percent and from Taiwan, 58 percent.

Although many economists are predicting that China will still grow at 5-6 percent this year, these figures are no more reliable than the previous claims that China would continue to expand at a near-record pace. More than 20 million migrant workers have lost their jobs so far, with some analysts warning of 50 million more job losses if the economy deteriorates further.

India, the other economy previously touted as a possible bulwark against world depression, is suffering as well. Exports fell 24 percent in January. According to official data, one million Indian workers in the export sector have lost their jobs since September, when the global financial crisis erupted in the US. Textile, gem and jewellery workers have been worst affected. Another half a million workers are expected to lose their jobs by March.

Although better known for its IT outsourcing services, India has become a major Asian exporter in recent years. Its exports increased from 16.9 percent of India's GDP in 2002-03 to 24.8 percent in 2007-08. Export industries employ 150 million workers, the second largest sector after farming. India's economic growth for the fiscal year ending in March is officially projected to be 7.1 percent—down from 9.1 percent last year.

For the next fiscal year, economists believe the Indian growth rates will be near 6 percent at best. Citigroup estimated a growth rate of just 5.5 percent. Although India is less dependent on exports than most East Asian countries, its financial position is much weaker. New Delhi's public debt stands at 75 percent of its GDP, compared to just 18.5 percent in China, leaving less room for large stimulus packages.

South Korea's plight is equally stark. Exports, the main driving force of the economy, plunged 32.8 percent in January. Finance minister Yoon Jeung-hyun warned on Tuesday that the fourth largest economy in Asia would shrink by about 2 percent this year—a sharp revision from the previous official forecast of 3 percent growth. According to Yoon, this would mean the loss of 200,000 jobs in 2009. Even this figure is too optimistic compared to the IMF's forecast of 4 percent negative growth. Credit Suisse has projected as much as a 7 percent contraction.

Taiwan, the sixth largest Asian economy, saw its exports fall 44.1 percent in January from a year earlier—the biggest fall since records began in 1972. Imports plunged 56.5 percent in the same month. For an economy where exports account for 70 percent of GDP, the impact is devastating. Morgan Stanley has sharply revised down Taiwan's growth rate this year to minus 6 percent—down from the previous positive 0.5 percent. CLSA, a Hong Kong-based brokerage house, last week predicted an even greater contraction—11 percent.

The export-dependent economies of South East Asia are also suffering. The IMF's projection for Philippines is just 2.25 percent this year, down from 4.6 percent last year and 7.1 percent in 2007. The official predication for Singapore, the region's trade and financial hub, in 2009 is a contraction of 5 percent—the deepest recession since the city-state was founded in 1965. Malaysia's exports in December plunged 14.9 percent from a year earlier, with exports to the US falling by 30 percent. Analysts expected the Malaysian economy to grow by just 1-1.5 percent in 2009, far lower than the government's target of 3.5 percent. Indonesia's central bank predicts the country's economy will slow to 4-5 percent in 2009 compared to 6.2 percent for 2008.

High saving rates and relatively secure financial institutions have not prevented the Asian economies from suffering massive losses. After the financial crisis of 1997-98, Asian countries strove to increase their exports in order to build large foreign currency reserves as a shield against further such financial shocks. As a result, however, they have merely swapped dependence on global finance for reliance on global demand.

Credit Suisse analyst Cem Karacadag has estimated that net exports account for two-thirds of GDP in Hong Kong and Singapore, almost half in Malaysia and Thailand and one-third in Taiwan and South Korea. He calculated that, even without taking into account secondary impacts, every 10 percent fall in exports would cut 2 percentage points of growth in South Korea and Taiwan, and up to 7 percentage points in Hong Kong and Singapore.

Over the past decade, the export share of Chinese GDP doubled to 40 percent. With a vast supply of heavily-policed cheap labour, combined with infrastructure developed by the state, it became a final assembly point for transnational corporations. They supplied factories in China with components, raw materials and capital goods made elsewhere in Asia, transforming the region into a giant export machine. It appeared that China had replaced the US as the growth engine for many Asian countries.

In fact, as Jong Wha-Lee of the Asian Development Bank pointed out, the intra-regional trade disguised the fact that 60 percent of the final demand for Asian goods still came from advanced capitalist countries in North America, Europe and Japan. China's exports to the United States and European Union fell by 9.8 percent and 17.4 percent, respectively, in January. As the demand in the West has collapsed, the booming intra-trade, which involved mainly components, inputs and capital goods, has quickly evaporated.

The *Korea Times* complained last week: "China has been emerging as the biggest threat to the Korean economy" because the "high dependence on China has made the country particularly vulnerable to the emerging China risk". Korea's exports to China, much of them for re-export, fell 33 percent in December, and 46.4 percent in January, compared to a year earlier, due to the accelerating drop in global demand for "Chinese" goods.

Chinese officials have been loudly talking up the prospect of sparking a "rebound" by stimulating infrastructure spending and ordering state banks to increase lending. But analysts are sceptical that the state spending will boost private investment. The Morgan Stanley China economist Wang Qing told the *Wall Street Journal*: "Profits and profitability in 2009 will be very poor, and this is the key reason why I do not expect much private investment—especially in the manufacturing sector where China suffers from an overcapacity problem." He estimated that manufacturing investment would be zero this year, with a 12 percent drop in property investment.

The *Financial Times* on February 10 explained: "Most of all, China cannot escape the broader global economic environment. The government's fiscal stimulus was designed to keep the economy going until Western consumers recover. Yet the recent indications are that the global economy could be in for a more prolonged slump than first thought."

The same conclusion can be applied to all the stimulus packages across Asia. Most Asian countries are largely cheap labour platforms whose exports outweigh their relatively small domestic markets. Confronted by the global slump, each is trying to export more, which means taking market share at their neighbours' expense. This is causing rising trade tensions. India has started 17 investigations into Chinese imports since October, and imposed restrictions on Chinese steel, textiles and petrochemicals. In January, India banned Chinese toys imports for six months to protect its own toy industry.

Apart from pitting their "own" workers against other workers in neighbouring countries, the Asian elites have no understanding of, let along solution for, the economic crisis. Some have turned to the gods for answers. During the Chinese New Year a senior Hong Kong official selected a fortune stick on the city's behalf. It was the unluckiest, 27. "A fortune teller at Che Kung temple, shrouded in incense and consulting the heavens for inspiration, declared it meant Hong Kong could not isolate itself from global financial turmoil," the *Financial Times* reported.