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ECONOTE No. 86 The US-China tariff war and its impact on Asian exports and economies

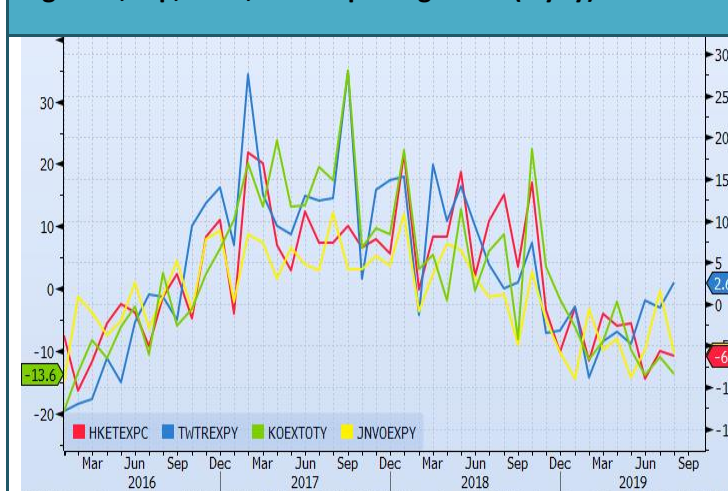
Summary	Investment Conclusions
The US-China tariff war started in April- July 2018 although US tariffs which did include Chinese exports were first levied in Feb.2018.The war will reach its peak in Oct.15 2019 when virtually all-Chinese exports to the US will have duties levied on them. The impact of these, and of the countervailing tariffs imposed by the Chinese on US imports, was supposed to lower China's and US's GDP growth but would benefit the US by jobs created by the protected local industries. There is also the key issue examined here, the collateral damage of this war on Asian economies as supply chains are severed and as China's growth shrinks, so will its imports from Asia.	The obsession that the tariff war will lead to a global recession has little basis on evidence. We examine here the current trends in total exports of 10 Asian economies ranked on the basis of their export dependence on China. There are, for now, no menacing results of steep declines in the growth of total Asian exports. Furthermore there does not seem to be a link between high dependence on China and slower exports growth. There were cyclical forces in place before the war started, and tariffs will add to forces slowing global growth, but these are not the ones which initiated it.

Dependence, collateral damage and exports

Question: As the US has imposed a few, if any, tariffs on Asian economies other than China, why should this impact their exports and growth? **Answer:** If these economies were part of a chain of supply to China, then they may find that their exports to China decreased as China's exports to the US decreased. However although the US bought in 2018 about 19.0% of all China's exports that leaves the other 81.0% unaffected ! **Question 2 :** But suppose that some of these Asian economies were highly dependent on China for their exports. Their exports could have been part of a supply chain and thus will be directly affected, or if they were not, then they could be affected if China's GDP slows further and China imports less. **Answer:** The degree of dependence then play a very important role here in determining the extent of collateral damage. There is also the added consideration, on which Econotes has written extensively. Exports growth plays a highly differentiated role in Asian economies and in some cases, such as that of China, the growth of net exports (growth of exports minus growth of imports) can play a very small role in GDP growth. The contribution in China can be as low as 15 bps for every 100 bps of GDP growth, and sometime even negative.

Last question: Are any of these Asian economies benefiting from these tariffs ? **Answer:** Yes, there has been relocation of factories from China to other countries, such as Vietnam, in order to avoid the tariffs. There is more talk of this accelerating with low wages economies such as Bangladesh (not strictly "Asian") benefiting. But please note, few, if any, US- owned factories moved from China back to the US !

Fig 1. HK, Jap, Taiw, S.K : Exports growth (%yoy) 2016-19



Source: Bloomberg. HK (red), Taiwan (blue), S.Korea (green), Japan (yel)

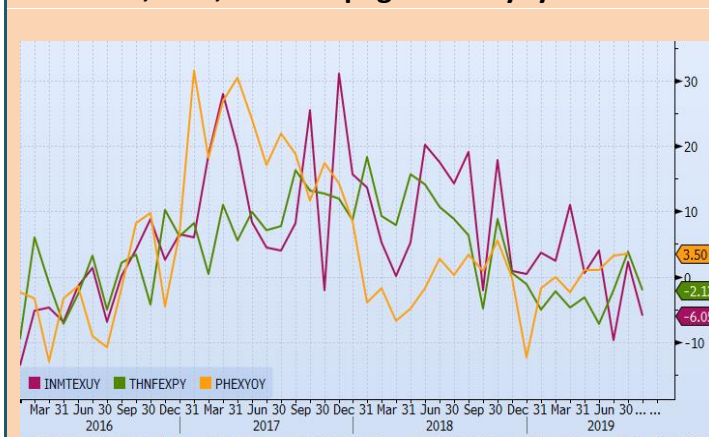
Measuring dependency

The following table shows the percent of the total exports from these Asian economies sold to China. Most of the % are for 2018 with some estimates based on 2017. The classification High/Medium/Low is, of course, arbitrary and relatively dependent on the actual percentage. (Source "Trading Economies").

High	Medium	Medium/Low
Hong Kong 56.0	Indonesia 15.0	Philippines 12.0
Taiwan 28.8	Malaysia 14.0	Thailand 12.0
S.Korea 28.0	Singapore 12.2	India 5.2
Japan 21.0		

The next stage is to see whether "high" or "medium/low" dependence made any difference on the current rate of exports growth.

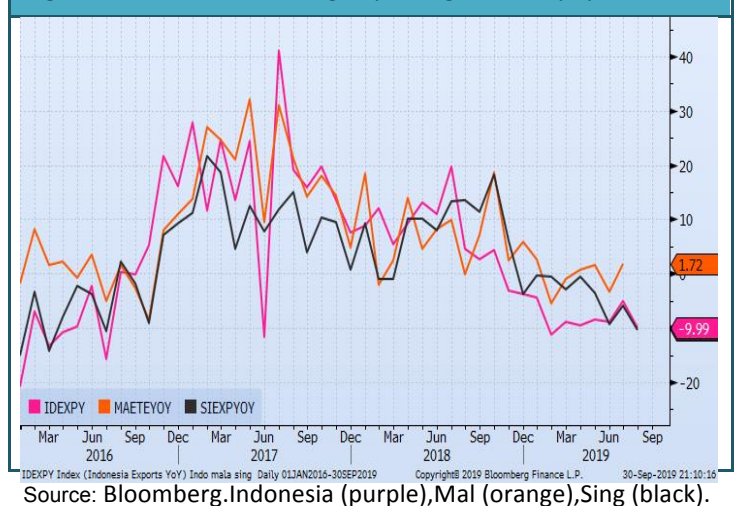
BOX: Phil, Thai, India: Exp. growth %yoy 2016-2019



Source: Bloomberg. India (purple), Thai (green), Phil (gold)

Fig.1 shows the exports growth of the 4 "High" dependent Asians, the Box above shows that for the Medium/Low dependency and Fig.3 those of Medium. Drawing conclusions from the chart lines can be arbitrary, as is our classification of High, (H) Medium (M) and Low (M/L). However there are some interesting trends. The five countries with decelerating exports growth are Hong Kong (H), S.Korea (H) Singapore (M), India (M/L) and Indonesia (M). The ones with clearly accelerating exports growth are Taiwan (H) and the Philippines (M/L). For the rest the trend could be bottoming, Japan (H), Malaysia (M) and Thailand (M/L). So however simple the criteria used here, there is

Fig.2: Indonesia, Mal, Sing Exports growth %yoy 2016-19



Source: Bloomberg. Indonesia (purple), Mal (orange), Sing (black).

Conclusions

No clear evidence that the High dependence economies are being hit, while the Medium/Low avoided any deceleration in their exports growth. We are back in the awkward territory that different countries have, so far, different reactions to the potential impact of the trade war. It is by no means true that ALL Asian exporters are registering deceleration in their exports growth or those with High dependence are more likely to be the victims of collateral damage. One very likely, and also credible, explanation why the US-China war is not hitting every country in Asia equally, or even at all, is the following. The economies examined here were registering decelerating exports growth from around 2017 onwards and, hence, what is observed here is the impact on exports of a mixture of cyclical plus "events" causes. Hong Kong is possibly the worse effected given its role as the centre of the re-export trade of China plus the impact of four months of severe political instability. The surprise here is Taiwan, very closely linked to China, but with its exports accelerating.

Conclusions: We will need more evidence to show a quantified and unequivocal impact of the tariff war on the exports of Asian economies. So far the evidence on the likely cause of any exports growth deceleration is not easy to discern, and it is likely to consist of cyclical and "collateral" causes. However, the evidence is highly differentiated among the 10 Asian economies examined here and irrespective of their dependence on China.

Andrew Freris (writing concluded on 29/9/2019)