

Trade tensions' impact on ASEAN: A preliminary assessment

Key findings

One year into the US-China trade tensions, we analyzed data in key ASEAN countries to assess how the grouping is affected, based on trade, investment and consumption patterns.

Across export products, we have identified five key export clusters that have been negatively impacted by the trade tensions, while there are some exports clusters that appeared to be relatively unaffected.

ASEAN members also seemed to be affected differently by the US-China trade tensions. Thailand, Vietnam and Indonesia have a sizeable part of their exports that are unaffected by the ongoing tech slowdown. Singapore and Malaysia however, given their manufacturing structure and products mix, is most exposed to the ongoing trade tensions.

Pockets of ASEAN had in fact benefited given their relatively low- manufacturing costs especially in Vietnam, Thailand and Malaysia, while the US-imposed tariffs pushed up the costs of Chinese exports, this has led Chinese producers diversifying their production bases towards ASEAN. China's firms are also increasingly tapping on the growing ASEAN consumer market.

Domestically, high consumption base in Philippines, Malaysia and Indonesia can provide some cushion against further trade headwinds. The Philippines stands out as having the largest consumer consumption base across the ASEAN-5 region, followed by Malaysia and Indonesia.

Overall, the ongoing US-China trade tensions has resulted in trade headwinds globally and in ASEAN case, both exports and imports contracted in the first half of 2019. However, some exports sectors appeared to escape the downward pressures. Less trade-exposed and high domestic consumption economies in ASEAN could cushion better in such an environment in the near term, though a protracted and unresolved US-China trade disputes would eventually harm the global economy.

An account of what happened so far

Back in early 2018 when US President Donald Trump announced worldwide tariffs on imported solar panels (30%) and washing machines (50%), market-watchers had likely no inclination that the headwinds against global trade could have taken such significance today. Since then, the United States Trade Representative (USTR) has imposed multiple rounds of trade tariffs against mainly China, though other nations such as Mexico, India, Vietnam and even the European Union have also faced tariff-related actions from the US.

Accounting for the intensified trade-related frictions, the World Bank had warned that global growth will slip to 2.6% in 2019 before “inching up to 2.7% in 2020”. These growth rates, not seen since 2016, are attributed to the declining trade momentum and a collapse in investment spending. The International Monetary Fund (IMF) also warned of severe downside risks for the global economy, as it estimates that the heightened US-China tariffs could reduce global GDP by 0.5% into 2020, or about US\$455 billion loss in global output.

The Association of Southeast Asian Nations (ASEAN) has no doubt been negatively affected by the onslaught of trade-related headwinds. Based on our calculations, the collective total trade growth in ASEAN 5 (namely Singapore, Malaysia, Indonesia, Thailand and Philippines) with the rest of the World has contracted by 3.7% y/y on a 3-month moving average rate in April 2019, down from its growth peak of a +15.0% y/y pace back in June 2018. Similarly, ASEAN 5’s total trade with the rest of ASEAN (also referred to as intra-ASEAN trade) has declined 6.1% y/y, compared to a peak of 15.6% growth in Aug 2018.

Exhibit 1: ASEAN trade with the world (3-month moving average)

Source: Macrobond, UOB Global Economics & Markets Research



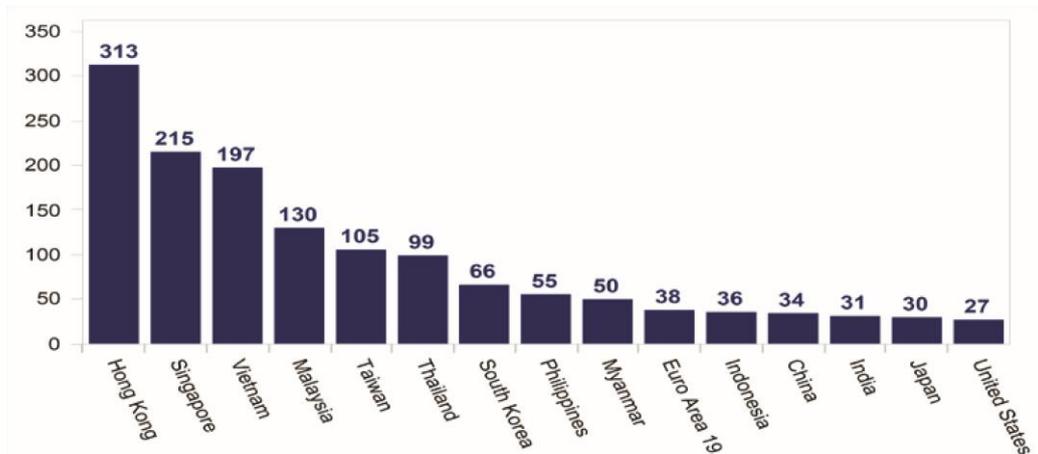
First order consequences: The dependence on trade

Our statistical study begins with the observation on how trade-reliant economies are, given that the first order consequence of the trade tensions has perceptibly been the negative impact on global trade momentum. Notably, economies within the ASEAN region are generally trade-reliant relative to other developed economies, based on total trade value as a percentage of gross domestic product (% of GDP).

Across the ASEAN economies, Singapore tops other nations at 215% of GDP in 2018, followed by Vietnam (197%), Malaysia (130%), Thailand (99%), Philippines (55%), Myanmar (50%), and Indonesia (36%). Other Asian economies including Hong Kong (313%), Taiwan (105%), and South Korea (66%) have sizeable external trade exposure as well. These are in contrast with the Euro Area (38%), Japan (30%), China (34%), and United States (27%) which are markedly less exposure to the global trade flows given their relatively larger domestic economies.

Exhibit 2: Total trade (merchandise) % of GDP (latest annual data)

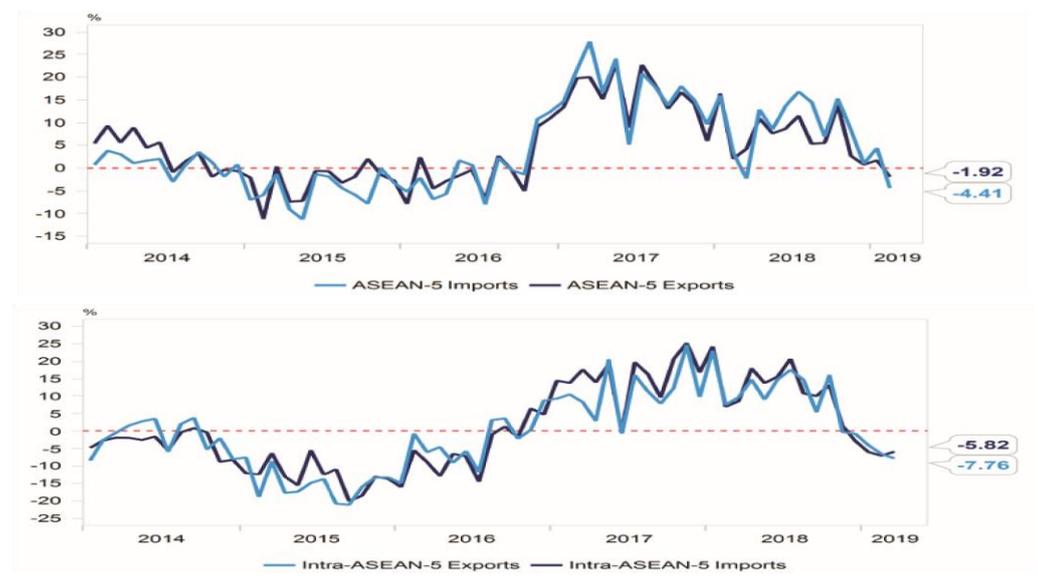
Source: Macrobond, UOB Global Economics & Markets Research



With ASEAN's high trade dependency, trade headwinds since 2018 has also accompanied the downturn of exports in technology, electronics, and materials products. The fall in these exports are in line with the first two tranches of tariffs on Chinese products highlighted by the USTR which included products in the "aerospace, information and communications technology, robotics, industrial machinery, new materials, and automobiles."¹ The third tranche of US-imposed tariffs on US\$200 billion worth of Chinese imports which saw tariff rates lifted to 25% from 10% in May also affected a broad range of products including agricultural goods, chemicals, building materials, and electronics. Year-to-date, the trade headwinds have since dragged ASEAN's export and import growth into contraction zones.

Exhibit 3: ASEAN export and import growth with the World and ASEAN has tapered lowered into 1H19 (Latest annual data)

Source: Macrobond, UOB Global Economics & Markets Research

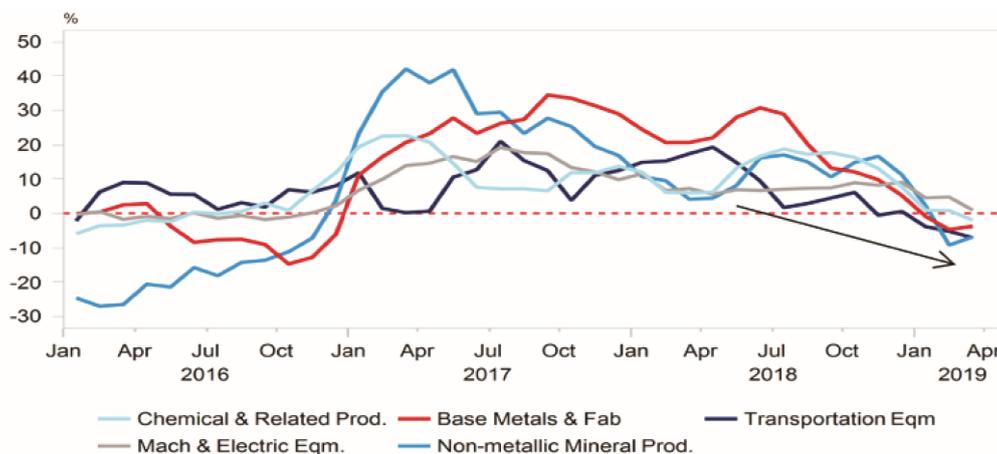


¹ Office of the United States Trade Representative, [USTR Issues Tariffs on Chinese Products in Response to Unfair Trade Practices](#), June 2018

The above-mentioned tariffs have led to the decline in ASEAN exports seen in five key clusters. They consisted of Transportation Equipment, Machinery & Electric Equipment, Chemical & Related Products, Base Metals & Related Fabricated Products, and Non-Metallic Mineral Products. Collectively, exports of Transportation Equipment have fallen for four months out of the last five months into March 2019, while exports of non-metallic mineral products (which include mineral fuels and products of their distillation) contracted for four straight months since December 2018. Exports of chemicals & related products also saw a contraction pace of 7.2% y/y in March, the deepest fall since October 2016, while exports of Base Metals & Related Fabricated Products declined for its second straight month, after bucking its 25 straight month of expansion seen since November 2016.

Exhibit 4: Decline in export growth in specific industries were seen as a direct impact from US-China tariffs (Calculated via three-months moving average basis)

Source: Bloomberg, UOB Global Economics & Markets Research



Trade perspective: Five key clusters that suffered under the trade conflict

Given the identification of these industries that have primarily dragged export growth across the ASEAN region, the next order of things will be to observe the share of exports individual ASEAN economies see in these industries.

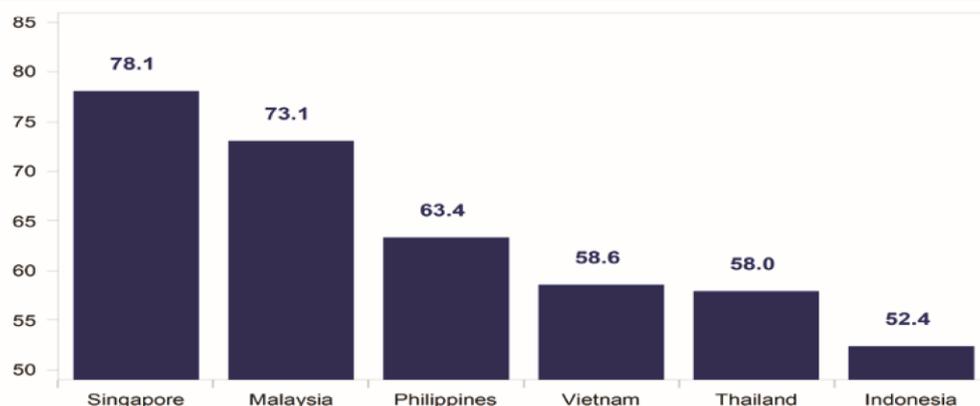
Importantly, despite the fall in exports in these industries, we note that the export shares of these products across the ASEAN region differ among the economies. Given available data in Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam, the significance of impact given the US-Sino trade tension may be ranked according to how much of the "affected industries" are being exported as a percentage of total exports.

It is worth noting that Singapore's exports of the above-mentioned five key clusters as a percentage of total exports ranked the highest across the other ASEAN region at 78.1%. Notably, the export of Machinery & Transport Equipment accounts for 47.7% of total exports when measured via a 12-months cumulative basis, followed by Chemicals & Related Products (14.4%) and Mineral Fuels (12.7%). Malaysia also exports a rather sizeable portion of products that are affected by the trade tensions, accounting for 73.3% of total exports, in which Machinery & Transport Equipment also accounts for a strong 44.2% of total exports. For details of the exports across the ASEAN region, kindly refer to the appendix.

Exhibit 5: Percentage of exports* directly affected by the US-Sino trade tensions (12-months cumulative)

Source: Macrobond, UOB Global Economics & Markets Research

* Exports consist of the above-mentioned five key clusters



In the case of Singapore, the high level of export share of these five clusters is likely the key reason for the continued lackluster economic performance since the start of the year. Latest nonoil domestic exports (NODX) declined by 15.9% y/y in May, led by the endemic electronic sector which contracted 31.4% y/y (the deepest fall since the onset of the 2008 crisis of January 2009). In all, the NODX grew at a pallid -9.3% y/y pace in the first five months of 2019. Consequently, Singapore's industrial production data saw another contraction of 2.4% y/y in May 2019, suggesting that the manufacturing environment is still negatively affected by the poor export environment. Specific sectors that dragged the overall industrial production growth include Precision Engineering and Electronics, which are seen to be semiconductor-related in nature.

Similar to Singapore, the other export-oriented economies including Malaysia and Philippines (amongst the top three ASEAN nations that are most impacted by the trade tensions given their export dynamics as illustrated in Exhibit 5) have also seen export declines, albeit less severe compared to Singapore. Malaysia's export growth declined 0.2% y/y in the first four months of 2019 (4M19), the first decline since 4M15. Products that saw export declines since the start of this year include Miscellaneous Manufactured Articles (-0.7% y/y), while exports of Machinery and Electric Equipment (which accounts for over 40% of total exports in 2018) has moderated to a mere +6.3% y/y in April 2019, the slowest pace in 26 months. In the Philippines, export also contracted 2.1% y/y in the 4M19, led by lackluster shipments of Base Metals & Fabricated Products (clocking five consecutive months of negative growth into March 2019), Chemicals & Related Products (16 months of consecutive contraction), and Transport Equipment (nine consecutive months of contraction).

Not all products clusters suffered declines

Importantly perhaps, not all exports products in ASEAN saw negative growth in the US-China trade tensions. **This could be due to the ASEAN intra-regional trade linkages**, as well as different price elasticities across the product ranges.

Based on the same set of data, we note a similar basket of top five exports that have remained relatively unscathed by the external trade headwinds, which include exports of **Raw Food, Pharmaceutical Products, Processed Food and Tobacco, Textiles & Clothing and Rubber & Plastics**, as shown in the chart. These products have continued to stay in positive growth territories despite the trade tensions, and have clearly benefited economies that have a relatively stronger agricultural and primary products industrial base.

Exhibit 6: Top five clusters that stayed in positive growth despite the ongoing trade war (Calculated via three-months moving average basis)

Source: Macrobond, UOB Global Economics & Markets Research

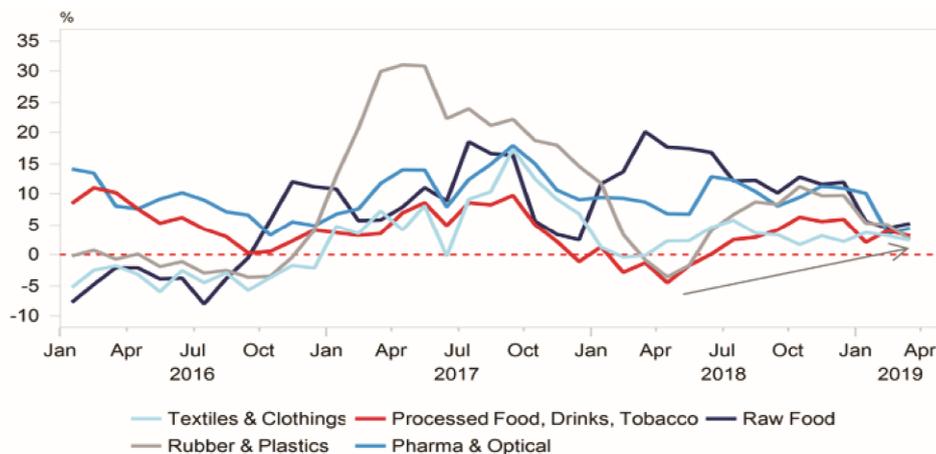
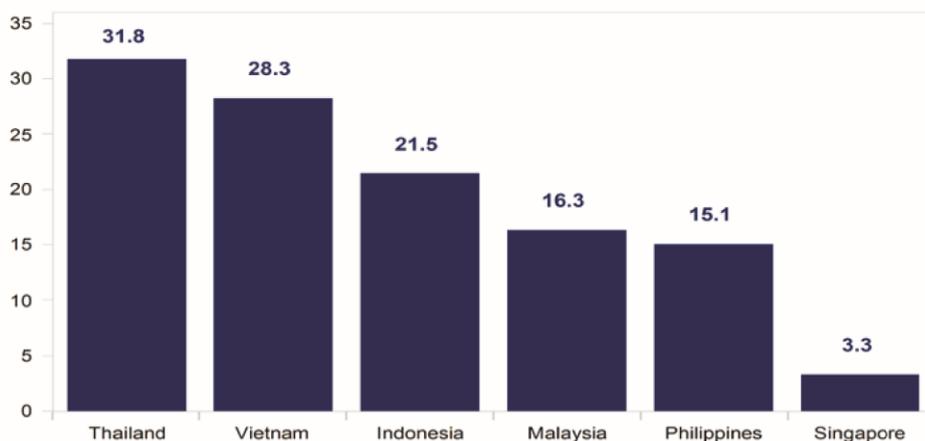


Exhibit 7: Percentage of exports^ that are relatively unaffected by trade tariffs (12-months cumulative)

Source: Macrobond, UOB Global Economics & Markets Research
 ^ Exports consist of the products which saw positive growth despite the trade



Based on these product clusters, the top three economies that see some export cushion from the ongoing US-China trade conflict are Thailand, Vietnam and Indonesia. These economies have a relatively higher percentage of exports in primary products.

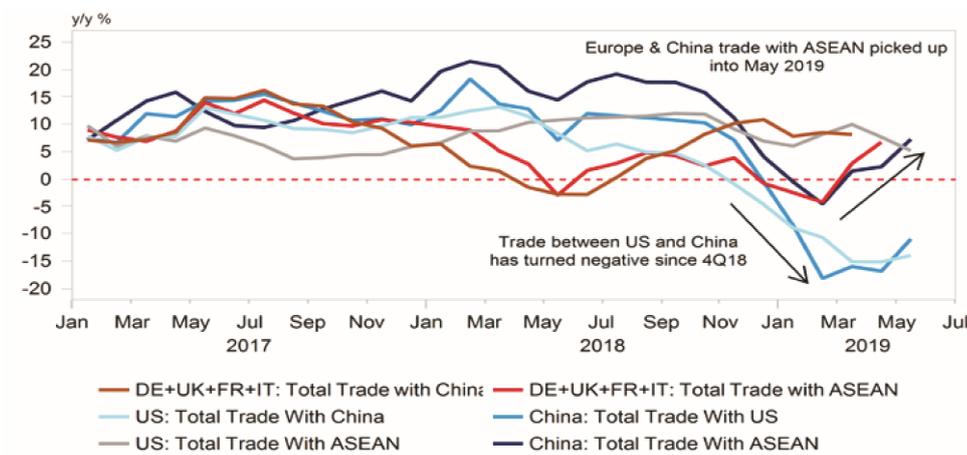
Notably, Thailand is the world’s largest rice exporter, while other crops grown in the country include rubber, sugarcane, and tobacco amongst other exports. Elsewhere, Vietnam’s Ministry of Agriculture and Rural Development (MARD) reported that the production targets of the agricultural sector in 2018 exceeded the whole-year plan and were higher than that of the previous year. The export revenues of the Agriculture, Forestry and Fishery sector stood at US\$40.02 billion, resulting in a trade surplus of US\$8.72 billion according to official data, where the top five export products in 2018 included Wood & Wood Products (US\$8.9 billion), Shrimp (US\$3.6 billion), Fruits & Vegetables (US\$3.8 billion), Coffee (US\$3.5 billion) and Cashew Nuts (US\$3.4 billion). Lastly, while the share of Indonesia’s Agriculture, Forestry & Fishing industry as a percentage of GDP has fallen from 15.5% in 2002 to 2018’s 12.8%, it remains a sizeable share.

Beyond the “winners” and “losers” in the trade tensions with regards to export composition, is that pockets of ASEAN enjoy the advantage of relatively low-costs of manufacturing especially in Vietnam, Thailand and Malaysia. This is observed from two key trade shifts in the recent year: (1) US tariffs have empirically pushed up the cost of China-made products, and global importers are seen to favor cheaper alternatives and (2) China’s decline in total trade growth with the US has

been cushioned by renewed trade growth with ASEAN. As seen in Exhibit 8, the US-China trade tensions have worsened total trade growth between the world's two largest economies into negative territories since the fourth quarter of 2018. In contrast, trade flows between the US, China and Europe² with ASEAN has continued to stay in positive growth.

Exhibit 8: Trade with ASEAN has risen in the expense of falling Chinese trade (Calculated via three-months moving average basis)

Source: Macrobond UOB Global Economics & Markets Research



Lastly, we continue to find confidence in ASEAN's external environment, given statistical evidence that substantiates ASEAN's intra-regional trade linkages. Across the ASEAN-5³ economies, the total intra-regional trade touched US\$524 billion in 2018, up from US\$472 billion in the previous year. This compares to the average total trade value of US\$443 billion between 2006 and 2018, suggesting that ASEAN trade remains highly connected, and has strengthened into the last year.

Exhibit 9: ASEAN-5 total trade with ASEAN & Non-ASEAN region

Source: Macrobond, UOB Global Economics & Markets Research



² We used total trade data from the four largest European economies (Germany, UK, France and Italy) as a proxy for European trade data.

³ ASEAN-5 includes Singapore, Malaysia, Thailand, Indonesia and Philippines

Impact on investment and consumption

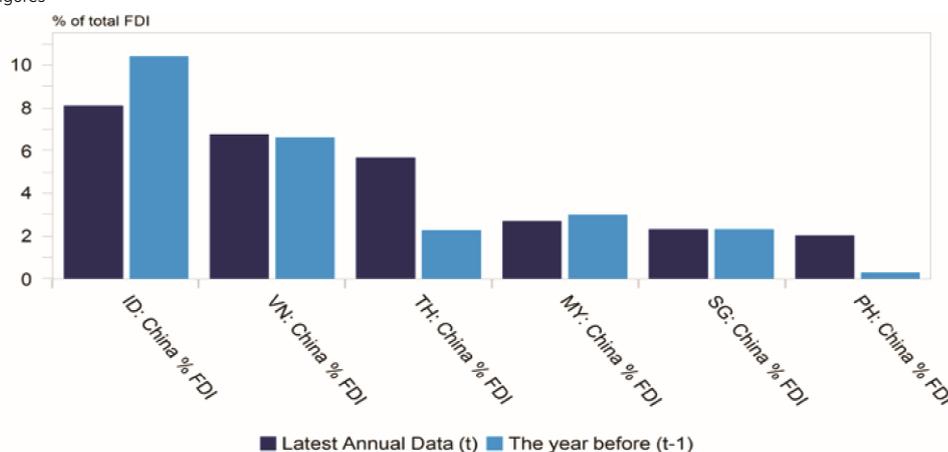
We supplement the trade exposure analysis with consumption and investment trends seen to date. Importantly, ASEAN nations that have seen persistently healthy domestic consumption growth and investment inflows would be relatively more cushioned against the negative impact of the trade tensions.

Headline news has revealed that the ongoing trade tensions have likely steered Chinese investment towards Southeast Asia mainly due to the following factors: Chinese companies have likely accelerated investment towards alternative production bases to avoid US-led tariffs. China's Belt and Road Initiative has also encouraged companies to look to investing in this part of the world. Lastly, Chinese firms' interest in ASEAN is unsurprising given its robust GDP growth pace and its potential to be the fourth-largest economy in the world by 2030 after the US, China and the European Union.

Exhibit 10: Foreign Direct Investment flows from China has risen for most ASEAN economies

Source: Macrobond UOB Global Economics & Markets Research

Note Singapore's FDI numbers are based on 2016 and 2017 figures, while the rest of ASEAN are based on 2017 and 2018 figures

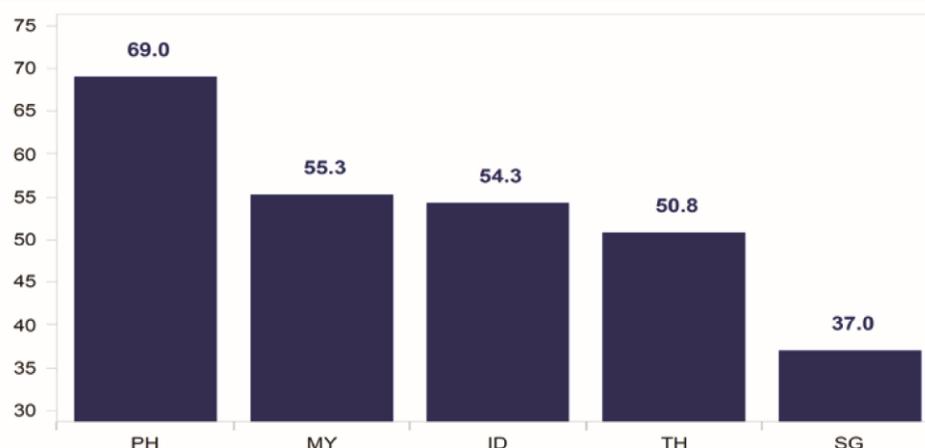


Based on available data, we note that Chinese foreign direct investment (FDI) into Vietnam, on approved projects basis, has risen to US\$1.56 billion, clocking over 500% in the first five months of 2019 when compared to January - May 2018. Cumulative FDI between January and April 2019 alone has surpassed the Chinese-led total FDI in 2018. Thailand in particular has also seen strong FDI interest from China, where net-FDI flows from China has risen to THB7.3 billion in the first four months of 2019, four times more than the THB1.75 billion between January - April 2018 and equivalent to over 40% of net FDI for the entire 2018. Higher Chinese-led investment into Philippines can also be expected in 2019 with the improved Sino-Philippines ties based on cooperation agreements for 29 projects during Chinese President Xi Jinping's visit to Manila in November 2018. Investment interest into Indonesia has also risen, as total Chinese-led FDI rising to US\$1.2 billion in 1Q19, the highest since 2Q17.

Within the domestic economy, we note that the size of the consumption base varies in each of the ASEAN-5 economy. In general, the larger the domestic consumption as a percentage of GDP, the more insulated the economy from external trade conditions. The Philippines has the largest consumer consumption base at 69.0% of GDP, which is significantly higher compared to 59.5% back in 1981. Elsewhere, Malaysia also has a sizeable domestic consumption of 55.3% of GDP, up from 53.9% back in 2015. Singapore however comes with the smallest domestic consumption % GDP at 37.0% owing to its high externally-oriented and open economic structure, compared to 60.1% of GDP back in 1975. However, while a high domestic consumption base can provide some cushion, we also recognize that a sizeable part of domestic employment in ASEAN is dependent on external demand and foreign direct investments.

Exhibit 11: Domestic consumption % GDP (annualised)

Source: Macrobond UOB Global Economics & Markets Research



Our assessment

We have presented some evidence that provides clarity on how the ASEAN-5 economy is affected based on trade, investment and consumption patterns. In a nutshell, total trade with the ASEAN space has clearly deteriorated given the external headwinds seen since the onset of the US-China trade tensions. Across the products, we have identified five key export clusters that have been negatively impacted by the trade tensions, while providing a separate list of clusters that are relatively unaffected. Elsewhere, although intra-ASEAN trade would be impacted in 2019, it still remains a formidable source of trade in the region given its rapidly growing trend since 2005.

Summary of key indicators

	MFG % GDP	Private C % GDP	GFCF % GDP	Total Trade % GDP	% of exports negatively impacted by tariffs [^]	% of exports unaffected by tariffs [*]	% Total Trade with China	% Total Trade with US	% Total Trade ASEAN	% Total Trade EU
ID	21.3	54.3	32.6	33.2	52.4	21.5	14.2	7.5	23.1	7.1
MA	22.3	55.3	25.0	42.1	73.3	16.2	14.2	9.4	29.3	10.4
PH	23.3	69.0	28.1	50.0	63.4	15.1	12.7	12.3	20.9	10.6
SG	19.0	37.0	26.7	209.7	78.1	3.3	11.7	8.4	26.7	10.5
TH	27.6	50.8	24.3	100.5	58.0	31.8	13.7	8.5	21.1	9.7
VN	17.4	67.6	34.0	193.2	58.6	28.3	22.0	12.0	11.7	11.6

Source: Macrobond, UOB

Figures are annualized based on latest prints

[^] Identified by the top five export clusters that are negatively affected by the trade war

^{*} Identified by the top five export clusters that are unaffected / positively affected by the trade war

Accounting for all the data and analysis seen above, we find that protracted US-China trade uncertainties will likely continue to negatively affect the trade environment in ASEAN, albeit in differing extent for each economy. Thailand, Vietnam and Indonesia have a sizeable part of its exports to products that are unaffected by the ongoing tech slowdown. Singapore and Malaysia however, given their manufacturing structure and products mix, is most exposed to the ongoing trade tensions given their highly export-oriented economies and are more exposed to exports in products that have seen export weakness at this juncture.

Elsewhere, we have also found that pockets of ASEAN had in fact benefited given their low-cost manufacturing hubs especially in Vietnam, Thailand and Malaysia. This is due to the cheaper export alternatives as US-led tariffs has pushed up the cost of Chinese exports, while China is seen to increasingly tap on the ASEAN market given pallid US demand for its products. We have also shown that ASEAN’s intra-regional trade linkages which touched US\$524 billion in 2018, up from US\$472 billion in the previous year (and above the 2006 - 2018 average of US\$443 billion).

In addition, Chinese-led investment into ASEAN has risen for most ASEAN-5 economies, as the ongoing trade war has likely steered Chinese investment towards Southeast Asia. This phenomenon can be explained on three fronts. Firstly, Chinese companies have likely accelerated investment into Asia in an effort to avoid US-led tariffs. Secondly, China’s expansion of its Belt and Road Initiative into the region has also encouraged investment into the region. Lastly, Chinese interest in ASEAN is unsurprising given its robust GDP growth pace and its potential to be the fourth-largest economy in the world by 2030 after the US, China and the European Union.

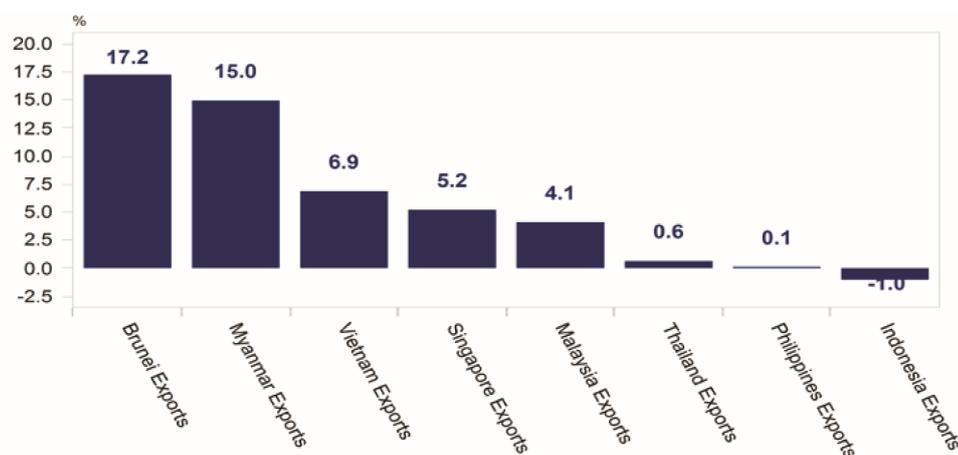
Last but not least, high domestic consumption base in Philippines, Malaysia and Indonesia can provide some cushion against further trade headwinds. Suffice to say, the larger the domestic consumption as a percentage of GDP, the more insulated the economy from external trade conditions.

Overall, the ongoing US-China trade tensions has resulted in trade headwinds globally and in ASEAN case, both exports and imports contracted in the first half of 2019. However, some exports sectors appeared to escape the downward pressures. Less trade-exposed and high domestic consumption economies in ASEAN could cushion better in such an environment in the near term, though a protracted and unresolved US-China trade disputes would eventually harm the global economy.

Appendix

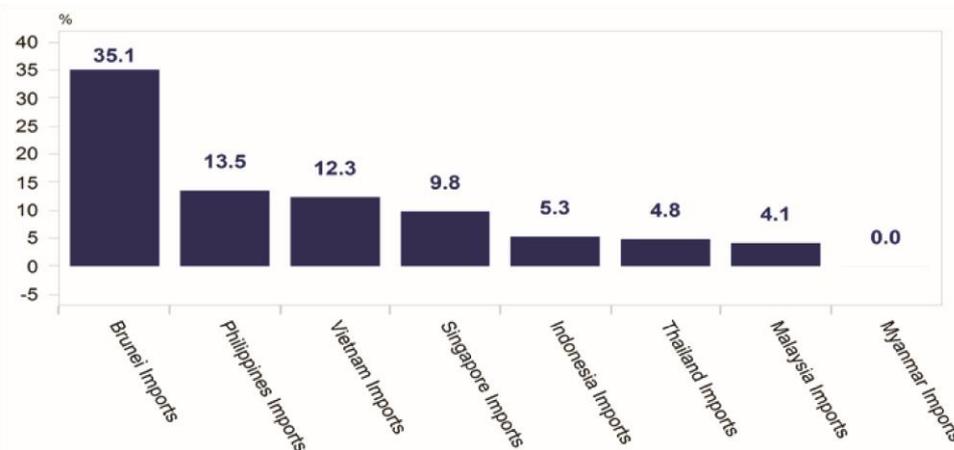
ASEAN exports growth (12-months average to latest print)

Source: Macrobond UOB Global Economics & Markets Research



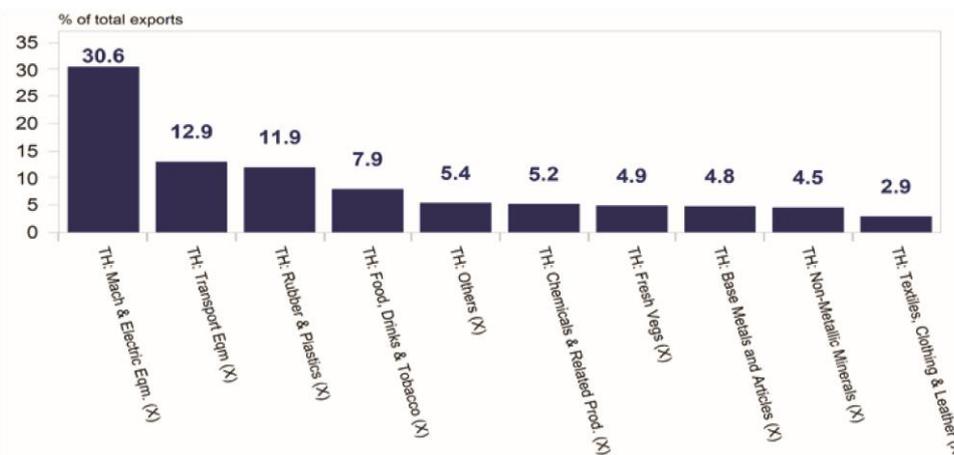
ASEAN import growth (12-months average to latest print)

Source: Macrobond UOB Global Economics & Markets Research



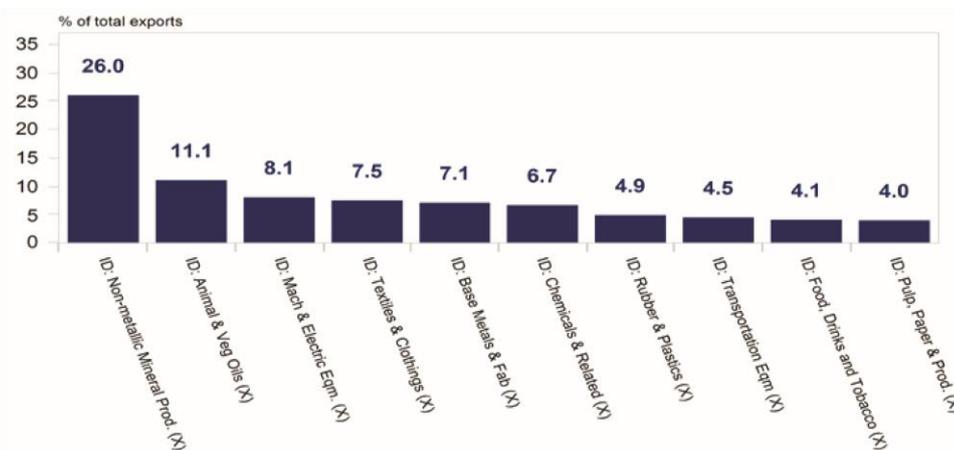
Top Ten Thailand exports (12-months cumulative)

Source: Macrobond UOB Global Economics & Markets Research



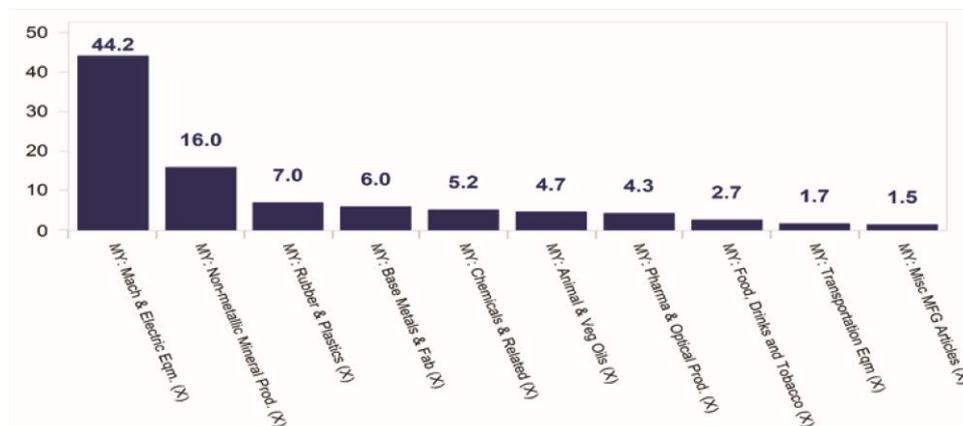
Top Ten Indonesia exports (12-months cumulative)

Source: Macrobond UOB Global Economics & Markets Research



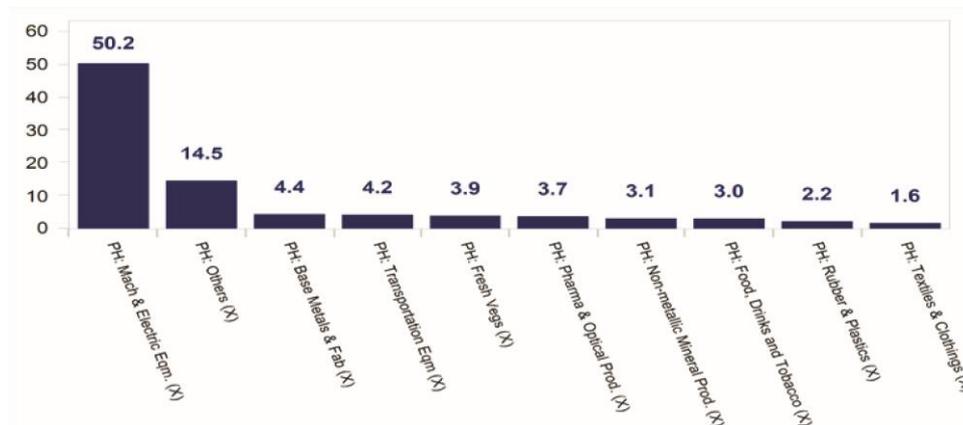
Top Ten Malaysia exports (12-months cumulative)

Source: Macrobond UOB Global Economics & Markets Research



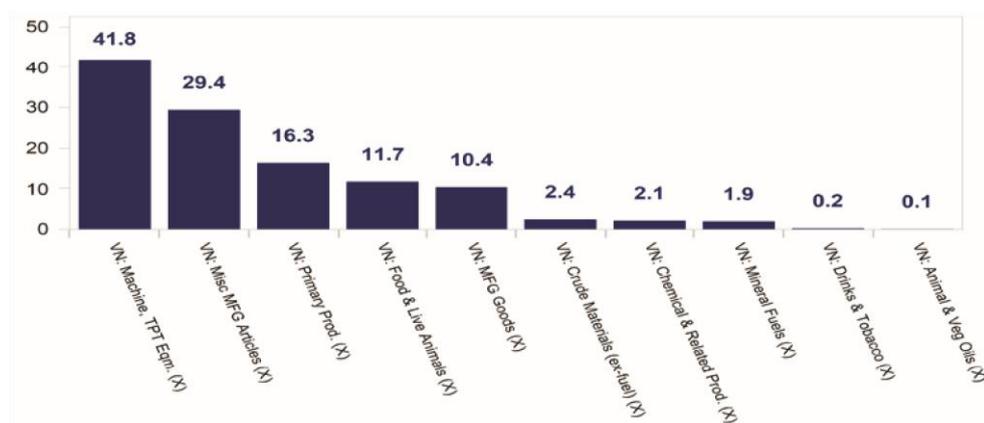
Philippines Top Ten exports (12-months cumulative)

Source: Macrobond UOB Global Economics & Markets Research



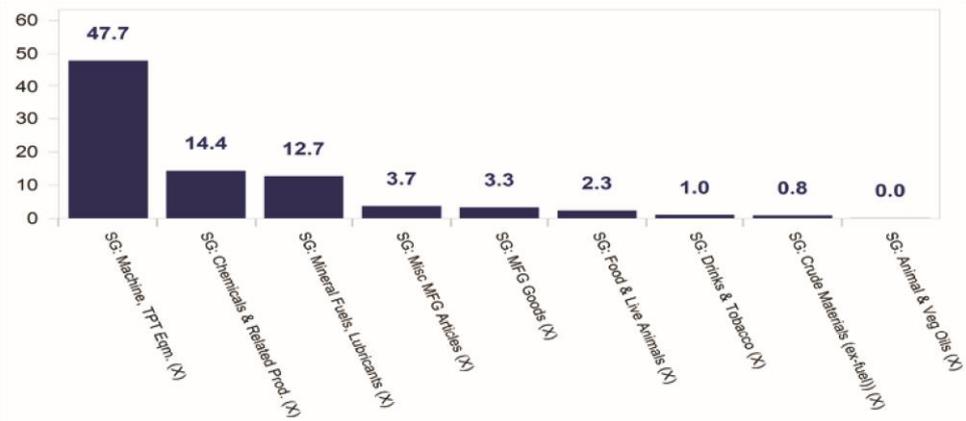
Vietnam Top Ten exports

Source: Macrobond UOB Global Economics & Markets Research



Singapore Top Exports (12-months cumulative)

Source: Macrobond UOB Global Economics & Markets Research



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