AAPA Shifting Trade Patterns

*The Changing Asia Market*
Today’s objective

• Provide a 30,000’ perspective on the Asian economy and its short-term outlook

• Focus on three topics
  1. Economic growth
  2. Trade growth
  3. Short-term

• Hopefully provide a useful context for Greg’s remarks
Short-term outlook: it changes by the minute!

“Debt Haunts Emerging Markets”, WSJ 1/20/16

• Mounting debt burdens, particularly in Asia and Latin America threaten to become a drag on global growth

• Emerging markets are caught between fading growth and tighter lending conditions

• China......is the epicenter of fear jolting emerging markets

• Beijing’s ability to manage its economy is the single biggest unknown

• Indonesia’s PT Trikomsel Oke Tbk (telecom) has defaulted on $460M in debt
North America & China account for 53% of global GDP
All other countries and China accounted for 83% of the 2014 global population.
The Chinese economy dominated Asian economic growth between 2009 and 2014

Compound Annual Growth Rate

2009-2014 GDP Growth (Billions 2014 $U.S.)

Source: IMF
Japan’s economy dominates Northern Asia and accounted for the largest portion of economic growth between 2009 and 2015.

Source: IMF
Indonesia is Southeast Asia’s largest economy and drove regional economic growth between 2009 and 2014.
China accounted for an estimated 64% percent of total Asia-US loaded container trade in 2014 & two thirds of 2009-2014 growth.

Source: PIERS
Northern Asia-US loaded container trade is roughly divided among Japan, Korea and Taiwan.

Source: PIERS
Vietnam is Southeast Asia’s largest and fastest growing source of US-Southeast Asia loaded container trade

Source: PIERS
## China Outlook

### Economic

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Outlook</td>
<td>7.3%</td>
<td>6.8%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Inflation Outlook (AVG consumer prices)</td>
<td>2%</td>
<td>1.5%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Trade Outlook (Volume of Goods):</td>
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<td></td>
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<tr>
<td>Imports</td>
<td>4.6%</td>
<td>2.5%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Exports</td>
<td>5.1%</td>
<td>3%</td>
<td>3.5%</td>
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<tr>
<td>Helped By:</td>
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<tr>
<td>Low oil and commodity prices</td>
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<td>Increased consumer spending</td>
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<td>Structural reform</td>
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<tr>
<td>Hurt By:</td>
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<tr>
<td>Correcting real estate market</td>
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<td>High household and corporate debt</td>
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<td>Slowing investment</td>
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<td>Less foreign demand</td>
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### Government Policy

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five Year Plan (2016-2020):</td>
<td>Target GDP growth expected at 6.5% vs. the current plan’s 7%</td>
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<tr>
<td></td>
<td>• With high debt, the government would struggle to stimulate the economy if it is below target.</td>
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<td></td>
<td>• Likely will include</td>
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<td></td>
<td>• Expansion of welfare</td>
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<td></td>
<td>• Further relaxation or abolishment of one-child policy</td>
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<td></td>
<td>• Environmental protection and pollution controls</td>
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<td>• Investment in high-tech industries</td>
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<tr>
<td>One Belt, One Road Policy:</td>
<td>The “Belt”: new overland link to Europe</td>
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<td>• Could reach Moscow, Rotterdam, and Venice</td>
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<td></td>
<td>• Set up in corridors: China-Mongolia-Russia, China-Central and West Asia, China-Indochina Peninsula, China-Pakistan, Bangladesh-China-India-Myanmar</td>
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<td>The “Road” represents the maritime component</td>
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<td>• Link from South and Southeast Asia to East Africa and The Mediterranean</td>
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<td>• Series of ports and infrastructure</td>
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<td>Could include up to 65 countries representing 40% of world GDP and significant funding</td>
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<td>• $40 billion in New Silk Road Fund, expected significant lending from the Asia Infrastructure Investment Bank’s $100 billion, and China Development Bank is reported to plan to invest $900 billion in 900 projects including 60 countries.</td>
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</tbody>
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<tbody>
<tr>
<td>Japan</td>
<td>2014: -0.1%, 2015: 0.6%, 2016: 1%</td>
<td>2014: 2.7%, 2015: 0.7%, 2016: 0.4%</td>
<td>Imports-2014: 5%, 2015: 0.5%, 2016: 2.5%</td>
<td>Higher real compensation, Higher equity prices, Low oil and commodity prices</td>
<td>Slowing exports due to China slowdown (China is second largest export market)</td>
</tr>
<tr>
<td>Korea</td>
<td>2014: 3.3%, 2015: 2.7%, 2016: 3.2%</td>
<td>2014: 1.3%, 2015: 0.7%, 2016: 1.8%</td>
<td>Imports-2014: 4.7%, 2015: 2.5%, 2016: 4.2%</td>
<td>Low prices for commodity imports</td>
<td>Contracting consumption and investment, Slowing exports due to China slowdown (China is largest export market), Export losses outweigh benefits of low prices for commodity imports</td>
</tr>
<tr>
<td>Taiwan</td>
<td>2014: 3.8%, 2015: 2.2%, 2016: 2.6%</td>
<td>2014: 1.2%, 2015: -0.1%, 2016: 1%</td>
<td>Imports-2014: 4.7%, 2015: 2.5%, 2016: 3.7%</td>
<td></td>
<td>Slowing exports due to China slowdown (China is largest export market)</td>
</tr>
</tbody>
</table>

Source: IMF WEO Database October 2015; IMF "WEO Report April 2015"; IMF "WEO Report October 2015"; UN ESCAP "Economic and Social Survey of Asia and the Pacific 2015: Year End Update"; Capstan Analysis
### Indonesia

- **GDP Outlook (IMF):**
  - 2014: 5%, 2015: 4.7%, 2016: 5.1%

- **Inflation Outlook (AVG consumer prices):**
  - 2014: 6.4%, 2015: 6.8%, 2016: 5.4%

- **Trade Outlook (Volume of Goods):**
  - Imports-2014: -1%, 2015: -5.1%, 2016: 7.9%
  - Exports-2014: 2%, 2015: -1.3%, 2016: 5.3%

- **2015 Hurt By:**
  - Weaker terms of trade (Import prices rising faster than export prices)
  - Delays in significant government investment due to bureaucratic barriers
  - Export losses outweigh benefits of low prices for commodity imports
  - Hurt as exporter by low commodity prices
  - Domestic consumption hurt by high inflation and weak currency

- **2016 Helped By:**
  - Lower inflation
  - More public infrastructure outlays
  - Higher private investment

### Malaysia

- **GDP Outlook (IMF):**
  - 2014: 6%, 2015: 4.7%, 2016: 4.5%

- **Inflation Outlook (AVG consumer prices):**
  - 2014: 3.1%, 2015: 2.4%, 2016: 3.8%

- **Trade Outlook (Volume of Goods):**
  - Imports-2014: 4.3%, 2015: -0.4%, 2016: 5.2%
  - Exports-2014: 5.8%, 2015: -2.2%, 2016: 7.5%

- **Hurt By:**
  - Weaker terms of trade (Import prices rising faster than export prices)
  - Slowing exports due to China slowing (China is largest export market)
  - Export losses outweigh benefits of low prices for commodity imports
  - Weak export prospects hurt investment
  - Fixed investment contributions to growth trending downward (fixed investments need significant updates)
  - Hurt as exporter by low commodity prices
  - Downward trend in domestic consumption partially due to high household debt

### Philippines

- **GDP Outlook (IMF):**
  - 2014: 6.1%, 2015: 6%, 2016: 6.3%

- **Inflation Outlook (AVG consumer prices):**
  - 2014: 4.2%, 2015: 1.9%, 2016: 3.4%

- **Trade Outlook (Volume of Goods):**
  - Imports-2014: 5.3%, 2015: 18.7%, 2016: 7.8%
  - Exports-2014: 8.9%, 2015: 9%, 2016: 5.6%

- **Helped by:**
  - Low prices for commodity imports

- **Hurt by:**
  - Slowing exports due to China slowing (China is largest export market)
  - Export losses outweigh benefits of low prices for commodity imports

Source: IMF WEO Database October 2015; IMF "WEO Report April 2015"; IMF "WEO Report October 2015"; UN ESCAP "Economic and Social Survey of Asia and the Pacific 2015: Year End Update"; Capstan Analysis
South East Asia Economic Outlook (cont.)

### Singapore
- **GDP Outlook (IMF):**
  
  - 2014: 2.9%, 2015: 2.2%, 2016: 2.9%

- **Inflation Outlook (AVG consumer prices):**
  
  - 2014: 1%, 2015: 0%, 2016: 1.8%

- **Trade Outlook (Volume of Goods):**
  
  - Imports-2014: 2.4%, 2015: 3%, 2016: 5.5%
  
  - Exports-2014: 2.5%, 2015: 2.1%, 2016: 3.3%

- **Hurt By:**
  
  - Slowing exports due to China slowing (China is largest export market)
  
  - Export losses outweigh benefits of low prices for commodity imports

### Thailand
- **GDP Outlook (IMF):**
  
  - 2014: 0.9%, 2015: 2.5%, 2016: 3.2%

- **Inflation Outlook (AVG consumer prices):**
  
  - 2014: 1.9%, 2015: -0.9%, 2016: 1.5%

- **Trade Outlook (Volume of Goods):**
  
  - Imports-2014: -6.8%, 2015: 4.8%, 2016: 4.2%
  
  - Exports-2014: 0.7%, 2015: 2.2%, 2016: 3.8%

- **Helped By:**
  
  - More certainty in near-term governmental policies

- **Hurt By:**
  
  - Slowing exports due to China slowing (China is largest export market)
  
  - Weak export prospects hurt investment
  
  - Downward trend in domestic consumption partially due to high household debt

### Vietnam
- **GDP Outlook (IMF):**
  
  - 2014: 6%, 2015: 6.5%, 2016: 6.4%

- **Inflation Outlook (AVG consumer prices):**
  
  - 2014: 4%, 2015: 2.2%, 2016: 3.1%

- **Trade Outlook (Volume of Goods):**
  
  - Imports-2014: 14.8%, 2015: 22.2%, 2016: 11.6%
  
  - Exports-2014: 16.2%, 2015: 16.2%, 2016: 10.6%

- **Helped By:**
  
  - Low food and oil prices lead to low inflation and therefore more enticing monetary policy and increased investment and consumption
  
  - Low cost labor intensive manufacturing relocating from China

- **Hurt By:**
  
  - Potentially hurt due to China slowing (China is second largest export market)

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Source: IMF WEO Database October 2015; IMF "WEO Report April 2015"; IMF "WEO Report October 2015"; UN ESCAP "Economic and Social Survey of Asia and the Pacific 2015: Year End Update"; Capstan Analysis
## Panama vs Suez Routing for Asia-US & Gulf Coasts

<table>
<thead>
<tr>
<th>Year</th>
<th>Route</th>
<th>Services</th>
<th>Vessel Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>Panama Route</td>
<td>16</td>
<td>4,000-5,000 TEU</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Suez Route</td>
<td>3</td>
<td>4,648-5,900 TEU</td>
</tr>
<tr>
<td>2015</td>
<td>Panama Route</td>
<td>12</td>
<td>4,552 Average</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Vessel Size</td>
</tr>
<tr>
<td></td>
<td>Suez Route</td>
<td>7</td>
<td>7,593 Average</td>
</tr>
</tbody>
</table>

What will 2017-2018 look like?
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Partner

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703-319-3999