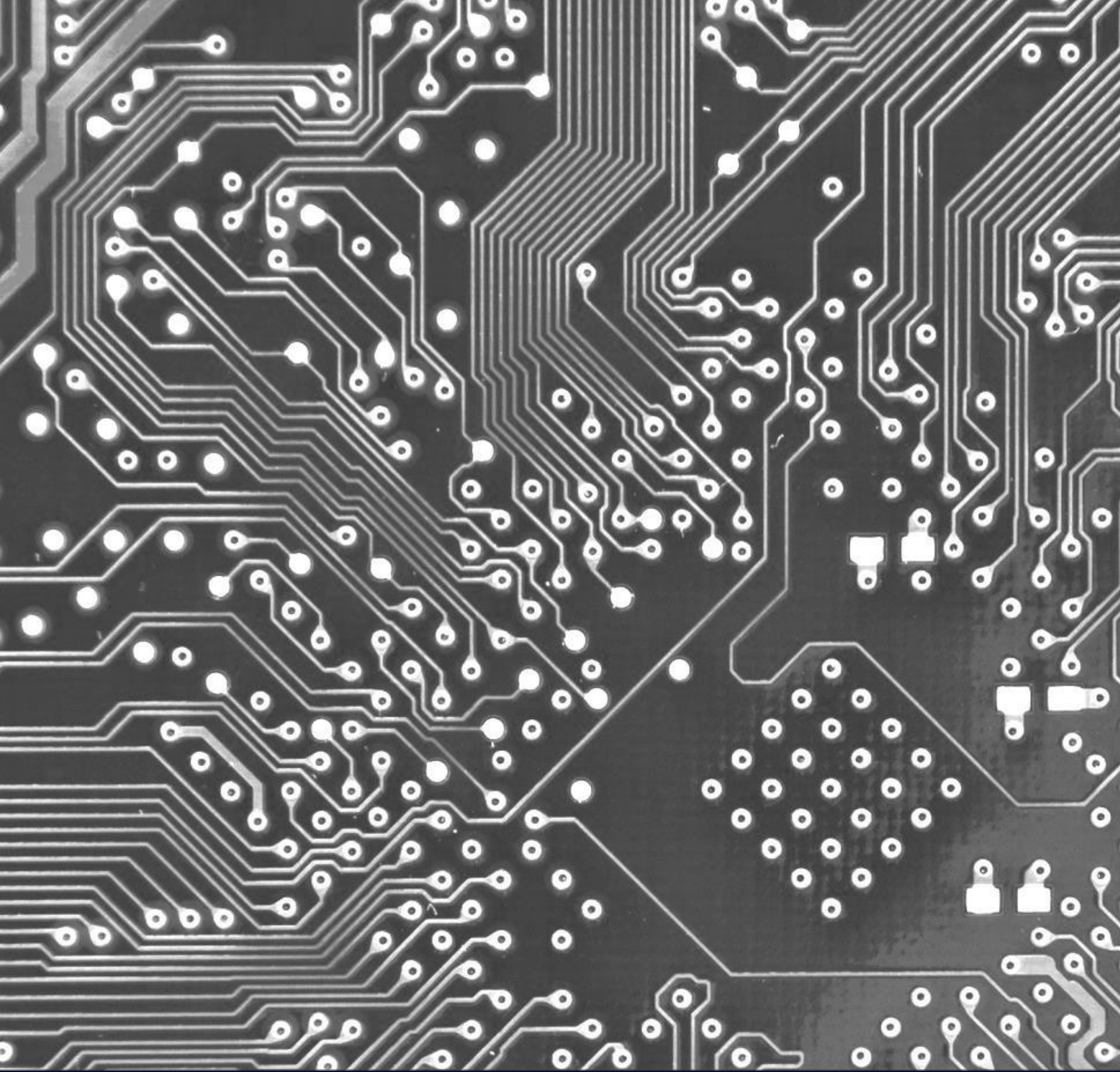

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Delta Economics | Regional Trade Profiles | Asia-Pacific

2nd Quarter 2013

About Delta Economics

Delta Economics is a pre-eminent source of specialist forecasting and economic research. We provide unique global market insight and analysis through our trade, trade payments and GDP forecasts and conduct economic research that allows our clients to anticipate market developments across a comprehensive range of sectors and continents.

About the Delta Economics World Trade Outlook

Delta Economics looks at the world from the perspective of the drivers of trade. Unlike other forecasts, we look at the things that affect businesses when they decide to trade abroad: the costs of trade in terms of capital, people and locating in a different country. We also look at reasons for trade: for example, differential economic conditions, investment and comparative advantage (including skills and education, innovation and ease of doing business) and indicators of long term economic development such as population growth and the Human Development Index.

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1.

Asia | Overview

Delta Economics forecasts marginally lower growth in trade in Asia-Pacific this quarter. The slight slowdown is a result of weaker conditions in some of Asia's key markets; most notably in Europe, a major supplier of medicaments to the region, and the US, their second-largest trade partner. We also forecast slight slowdowns in trade in three of the region's top-five economies; notably, trade growth in Japan is forecast to be just 1% in 2013. Lower commodity prices and higher import rates have also hurt growth, most noticeably in many of the Southeast Asian countries.

Intra-regional trade is starting to play an increasingly important role in the Asia-Pacific; analysts raised concerns that many of the export-led economies were too dependent on trade with countries within Europe or North America, to the detriment of their growth rates. It seems that this weakness has been recognised and many Asian countries have begun a programme of trade diversification. China, for example, now trades more with Asian partners than with Europe. We forecast Asia's exports to Germany and the US to grow by just 3.6% and 1.4% in 2013, compared with exports to Vietnam and India, which we see growing by 10.5% and 10.2%, respectively.

Table 1 | Asia's total trade growth

Asia	2012 Value (bn)	Last Forecast	This Forecast	% Change
Export Growth	5,341	5.5	5.4	↓ 0.1
Import growth	5,140	6.1	6	↓ 0.1
Total Trade Growth	10,482	5.8	5.7	↓ 0.1

Table 2 | Asia's top 5 economies

Top-5 economies (by GDP)	2012 market size (bn)	Last forecast	This forecast	% change
China	3,691	7.4	7.1	↓ 0.3
Japan	1,448	1.4	1	↓ 0.3
India	685	11.3	11.1	↓ 0.2
Rep. of Korea	1,017	6.6	6.7	↑ 0.1
Indonesia	413	10.5	10.5	--

2.

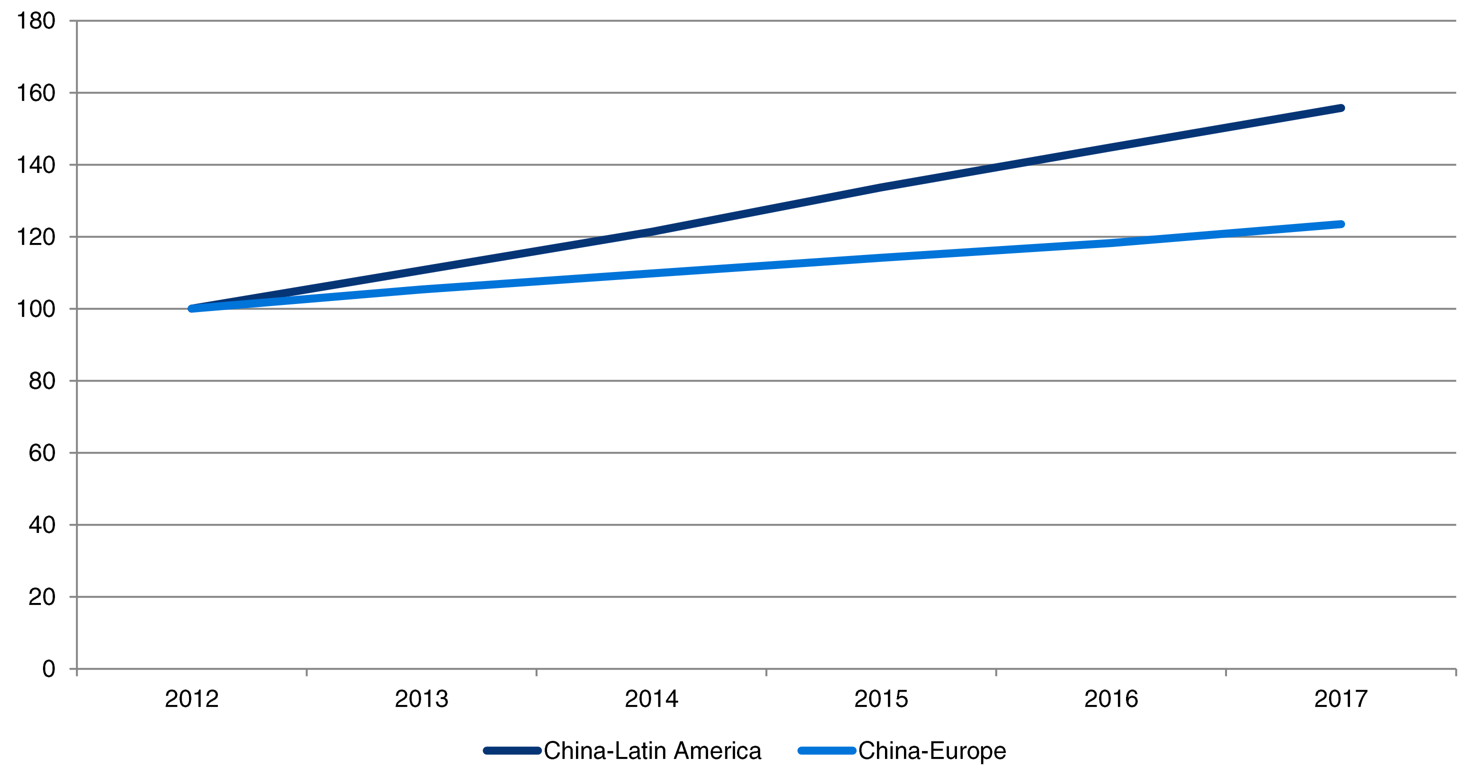
Asia | Top 5 Economies

China

Our YoY forecast total trade forecast is 0.3% lower than last quarter. China's economy is being affected by uncertainty in global markets and weak demand from the US and Europe. This sluggish demand has also hurt our export forecast, with a slip to 6.7% from 7% last forecast. In the short term, we expect China's trade growth to continue to slow with 5.8% total trade forecast in 2014, this will be a result of continued poor demand from key trade partners, but also due to an expansion in Chinese imports as they increasingly focus on developing a more domestic-based economy

However, in 2013 we do expect China to maintain high growth in exports in a number of key electronics sectors, for example, 11.8% in telephones, 15.1% in diodes/semi-conductors and 13.8% in printing. Latin America will also begin to play an increasingly important role in China's growth, we have seen trade between China and Latin America boom over the years and given Chinese president Xi Jinping's recent visit to the region it seems they are keen on nurturing this relationship. We expect bilateral trade to grow by 10.7% in 2013 and maintain strong growth thereafter

Graph 1 | Chinese trade with Latin America compared with Europe



Asia | Top 5 Economies

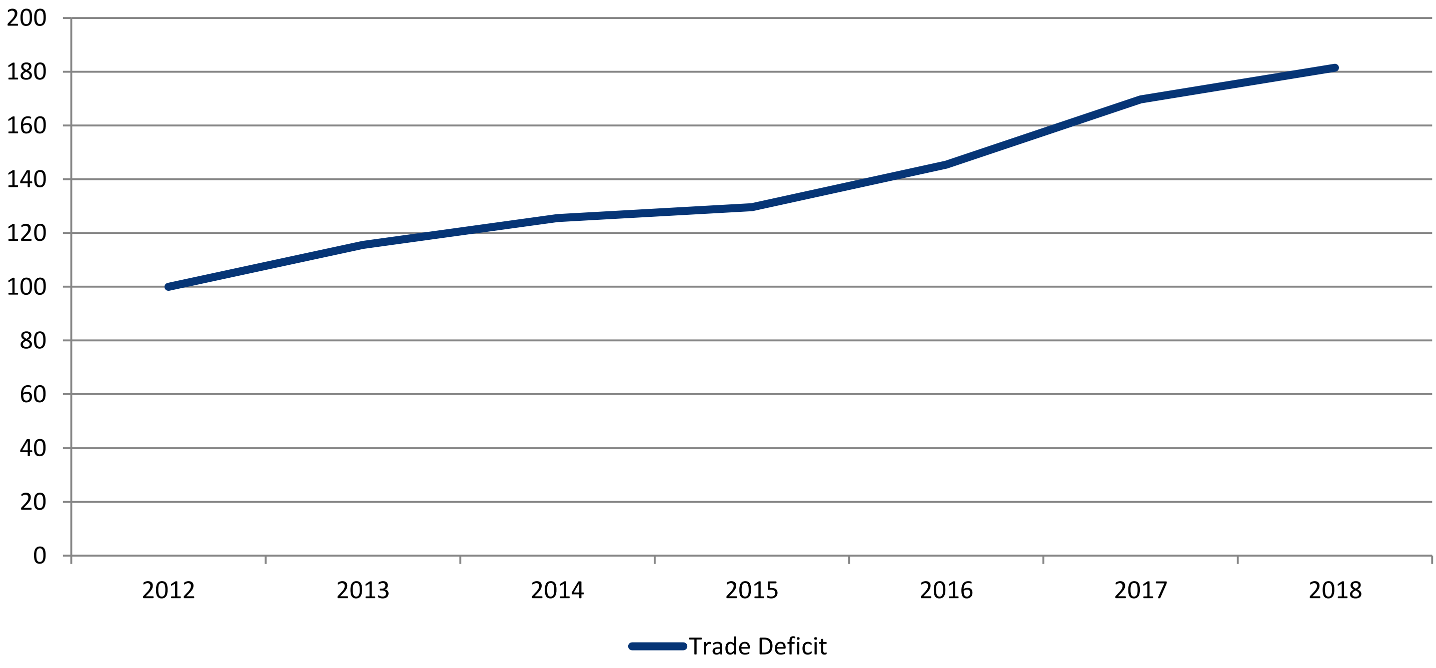
Japan

We expect Japan to exhibit weak total trade growth of just 1% in 2013; 0.3% lower than last forecast. A slowdown in automotives, Japan's largest export sector, has dampened trade growth. The weak yen has also hurt their trade picture, although providing a much-needed export boost it has also driven the cost of imports up and we expect Japan's trade deficit to continue to widen over the next few years.

We forecast a dip in trade with a number of Japan's top partners, for example just 1.9% export growth with China, although this is unsurprising given their turbulent political relationship of late. However, the 4.8% year-on-year increase in exports to Panama is significant.

Panama plays a vital role as trade hub to the rest of the world and stronger growth is an indication of the world's demand for Japanese goods; we may well see a spike in Japanese exports, particularly to Latin America, in the near future. This increase is likely to be led by oil, gold, and electronics with forecast year-on-year export growth rates of 9.1% in non-crude oil, 9.7% in gold and 9% in printing machinery.

Graph 2 | Weak Yen to force further widening of trade deficit



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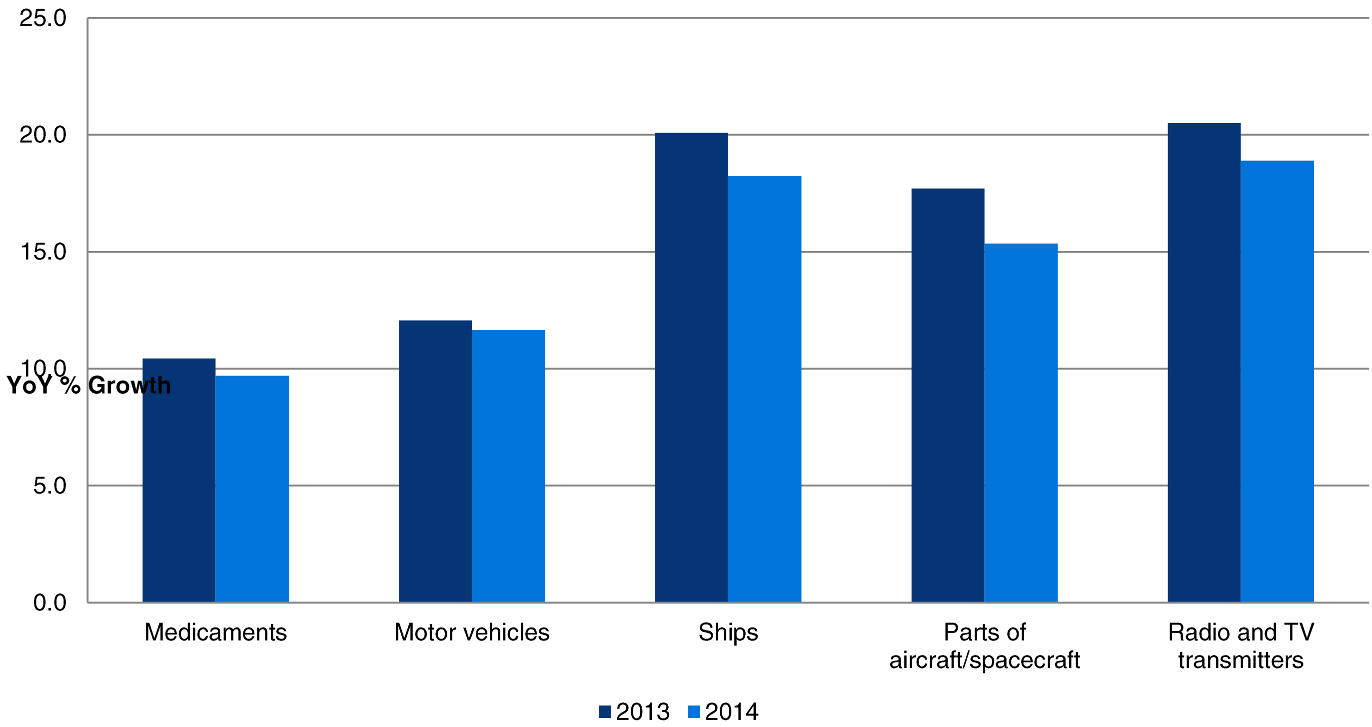
Asia | Top 5 Economies

India

India's economic growth has hit the lowest level for a decade at 5% and our forecast is 0.2% lower than last quarter as a dip in manufacturing and services takes its toll on the economy. However, it is possible that high rates of exports will provide a much-needed boost. India's export growth rates are among the highest in the world and our own forecast reflects this with forecast growth of 10% in 2013.

A number of their top-ten export sectors are forecast to show double figure annualised growth to 2018 and, interestingly, some of the largest levels of growth are in high-end manufacturing. We forecast exports of special purpose ships, parts of aircraft and spacecraft and motor vehicles to see growth of 20.1%, 17.7% and 12.1%, respectively. This suggests India is moving towards building a reputation as a manufacturer at the high-value, high-quality end. It could also be seen as evidence that the slowdown in manufacturing is temporary. Trade links with the UK are being encouraged by both sets of governments and we see bilateral trade between these nations growing at 5.6% in 2013 and 6.3% over the next five years. Trade with Iran is also being encouraged and we see bilateral trade increasing by 11.2% in 2013.

Graph 3 | India's specialisation into high-end manufacturing



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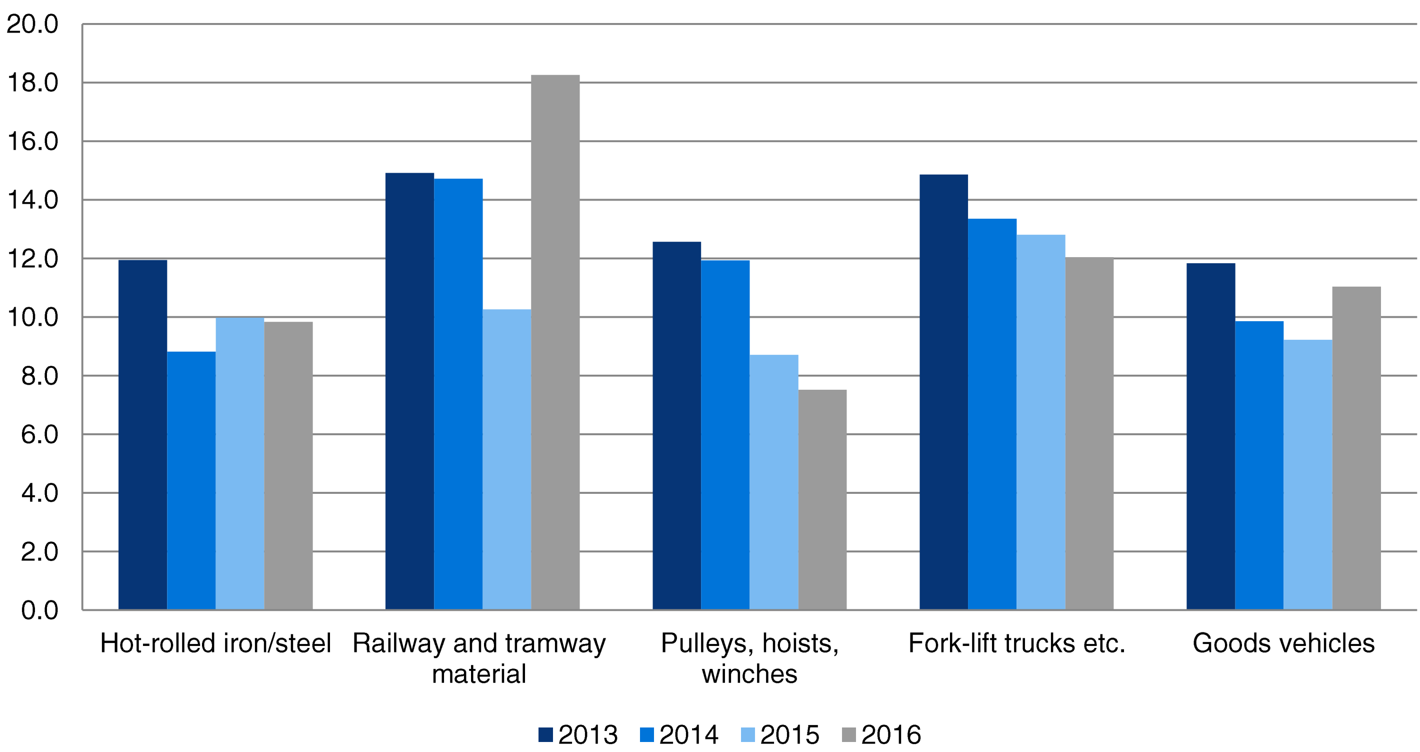
Asia | Top 5 Economies

Indonesia

We forecast 10.5% growth in trade in 2013. This is the same as last forecast and is a sign that Indonesia's high growth rates may be levelling out. A major concern is that levels of growth could be stifled by a poor standard of infrastructure; something that may deter investment. Indonesia is a large mass of islands and therefore the standards of infrastructure vary from region to region. Collaboration and connectivity between regions is paramount to their ability to maintain high growth rates.

We are forecasting increases in imports of a number of goods directly related to construction and manufacturing; a sign that Indonesia is prioritising an infrastructure drive in order to capitalise on the economic benefits in the future. As such, however, we may see a period of slightly slower growth as imports outpace exports and the country focuses on ensuring their economy is less vulnerable to external shocks; we expect total trade growth to drop to 8.8% in 2014 brought about by a large slide in Indonesian exports.

Graph 4 | High growth in infrastructure-related goods indicate Indonesia's priorities



2.

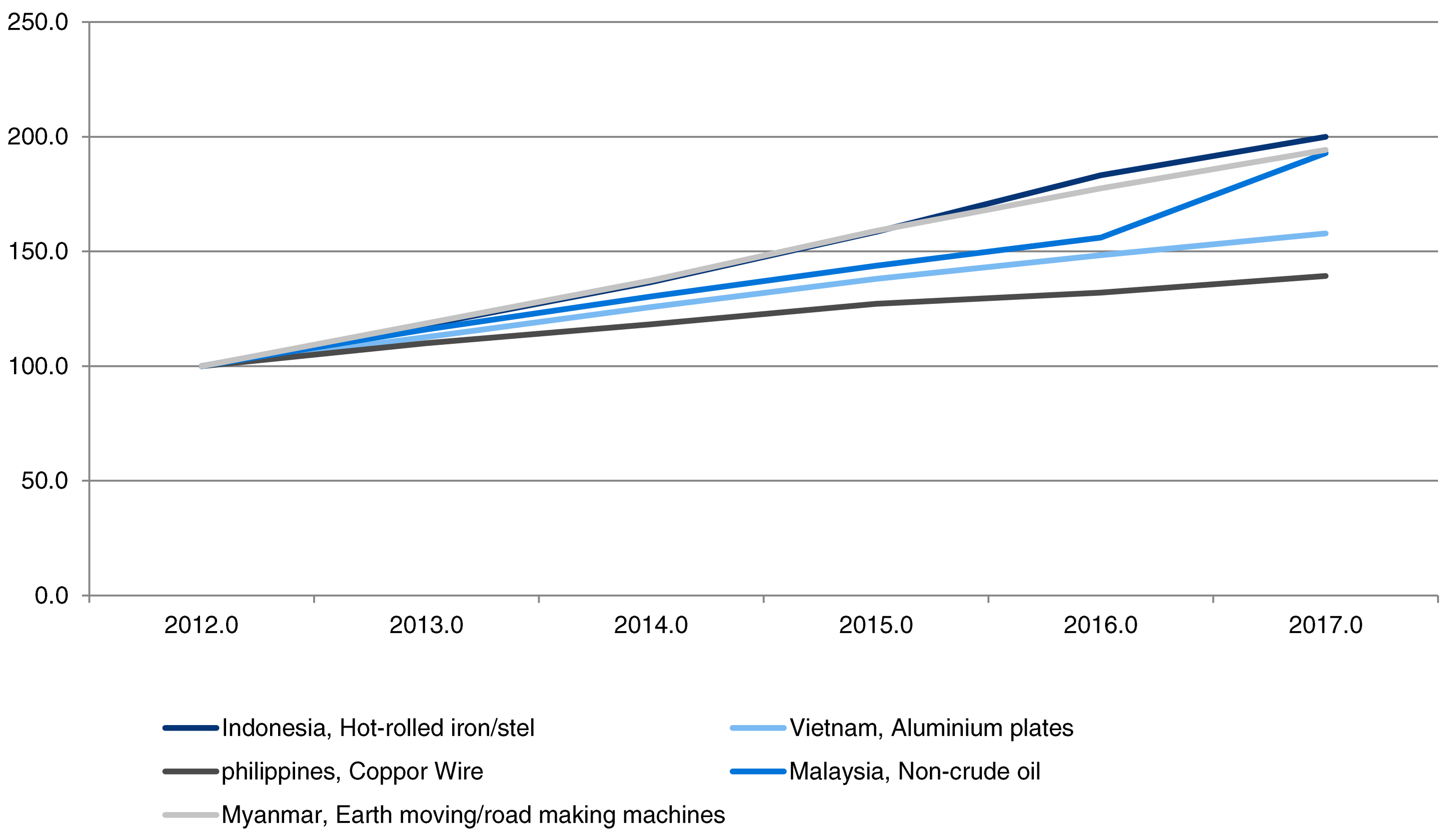
Asia | Top 5 Economies

Republic of Korea

All of the signs indicate that the Republic of Korea will continue to grow at a steady, but unspectacular, rate in 2013. Our forecast for total trade growth has edged up to 6.7% from 6.6% last quarter; the only country in the top-five Asian economies to have improved over our last forecast. This increase is largely a result of a high growth with Southeast Asian economies such as Indonesia, Vietnam and Singapore, but levelled out by slower growth with European partners, for example just 1% growth in exports with Germany in 2013 and 2.5% with the UK

A potential stumbling block for trade in Asia's fourth-largest economy will be the value of the Japanese yen; given South Korea's open economy if the yen's value remains as low as it is their export competitiveness could take a hit. It is for this reason that they have been focusing on pushing through Free Trade Agreements with the high-growth Southeast Asian economies. We expect significant growth in sectors related to infrastructure to these countries.

Graph 5 | South Korean Exports to Southeast Asia's developing economies



3.

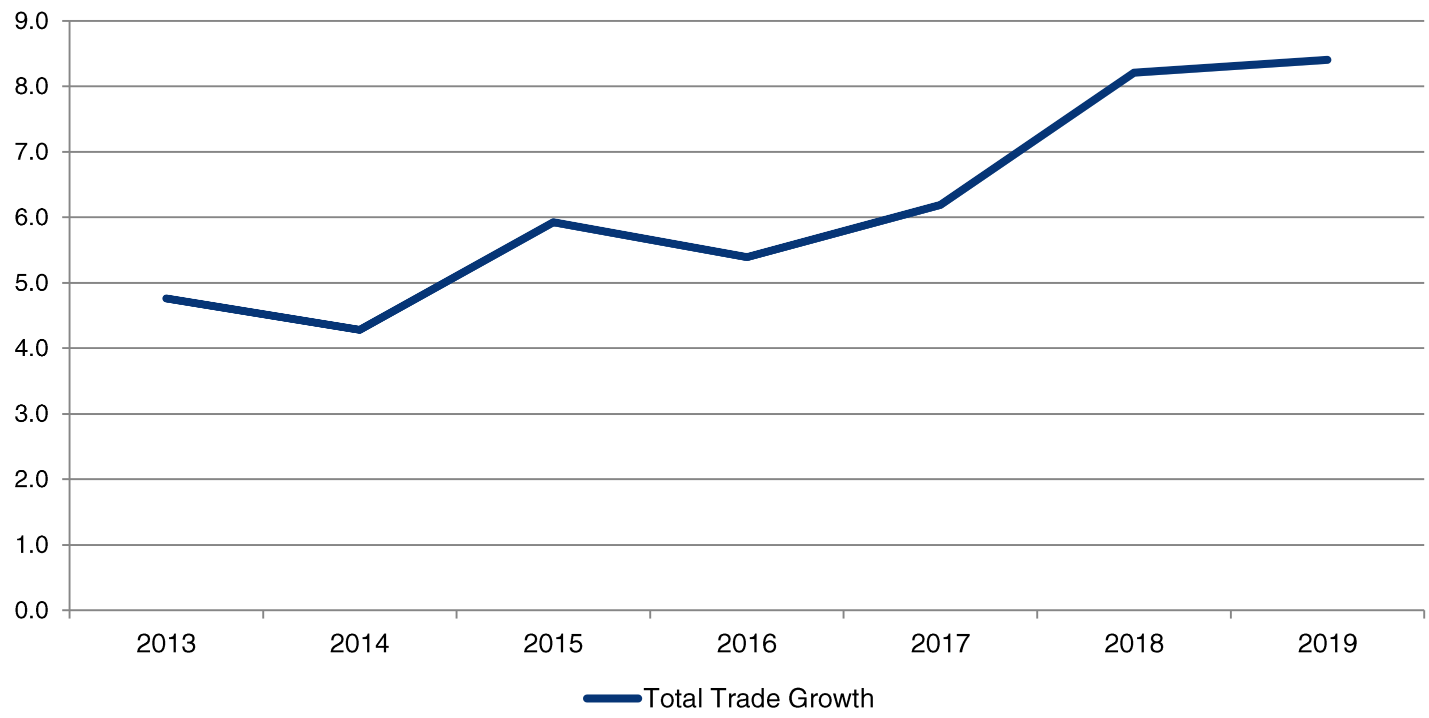
Asia | One to Watch | Malaysia

Despite the well-documented global economic slowdown, countries from the Asia-Pacific still boast some of the highest country growth rates and the majority of these are from the developing economies in Southeast Asia. Malaysia in particular has been performing well and at the current rate of progress their Prime Minister believes they will be a fully developed nation by 2020.

We believe this target is certainly achievable given that Malaysia's infrastructure is robust, particularly when compared with many other of the region's developing economies. It has strong shipping connections with the rest of the world and boasts two of the world's largest ports, not insignificant given that around 95% of their trade is seaborne[1]. The standard of roads is also good, this allows for the efficient transport of goods across the country as well as communication.

We forecast solid growth of 4.8% in 2013, before a slight slip to 4.2% in 2014; however, thereafter growth remains relatively steady reaching a high of 8.4% (year-on-year) by the end of 2019.

Graph 6 | Malaysia total trade growth (year-on-year 2013-2019)



[1] http://www.ebm.my/Infrastructure_In_Malaysia.html

4.

Asia | Sector Watch

We see the majority of Asia's top-5 import and export sectors slowing in 2013. The slowdown in exports can be attributed almost solely to flat demand from key trade partners. For example, we expect just 0.4% growth in exports of computers to the US in 2013. The exceptions to this forecast slowdown are in Asia's exports of computers, which we forecast to see static growth of 1.5% in 2013, and motor vehicles, which we see growing slightly by 0.1%, although this still puts their motor vehicles exports in negative territory at -1.1% in 2013.

The poorer growth in top-5 import sectors is largely due to a refocusing of imports. A large number of developing countries are importing more goods specific to developing their infrastructure, for example we forecast a 6.1% increase in imports of cement and a 5.8% increase in cranes and pulleys. The 0.2% slowdown in imports of iron ore this forecast is most likely due to a drop in demand for iron from outside Asia; in keeping with the recent infrastructure drive, countries such as China have been increasing production of iron ore in order to capitalise on demand for iron and steel from other Asian economies.

Table 3 | Asia's top 5 export sectors

Top-5 Export Sectors	2012 Value (bn)	last forecast	this forecast	% Change
Electronics (circuits)	282	2.7	2.6	↓ 0.1
Computers	254	1.5	1.5	--
Non-Crude Oil	218	9.3	9.2	↓ 0.1
Apparatus for Telephony	144	12.5	12.4	↓ 0.1
Motor Vehicles	142	-1.2	-1.1	↑ 0.1

Table 4 | Asia's top 5 import partners

Top-5 Import Sectors	2012 Value (bn)	last forecast	this forecast	% Change
Crude Oil	662	7.9	7.8	↓ 0.1
Electronics (circuits)	346	1.3	1.2	↓ 0.1
Non-Crude Oil	241	7.8	7.7	↓ 0.1
Iron Ores	117	13.5	13.3	↓ 0.2
Petroleum Gases	112	9.5	9.4	↓ 0.1

5.

Asia | The Smart Money

Southeast Asia

Southeast Asia has seen some of the fastest rates of economic growth in recent years. Abundant opportunities for businesses, burgeoning middle classes, and low labour and production costs have prompted high levels of Foreign Direct Investment.

In recent months, however, investors have been spooked by falling growth rates. Indeed, our own trade forecast expects growth to fall further in 2014. The largely export-led economies of Southeast Asia are heavily reliant on trade with the US, China, and Europe, but waning demand from these key partners has dampened their growth. However we do not feel as though businesses and investors should be overly perturbed as the region still has enormous potential.

The issue of demand can be rectified by promoting intra-regional trade. The ASEAN Free Trade Area already goes a long way towards protecting its members' economic interests and either extending this area or encouraging additional Free Trade Agreements will ensure trade between nations is not stifled.

The countries with poorer infrastructure are working hard to address the issue; Delta Economics has seen evidence of an increasing rate of imports to the sub-region. For example, we expect Cambodia's imports to grow at 10.3% in 2013 compared with 8% growth in exports. Their import growth will largely be accounted for by road making machinery, which we forecast to grow at 14.1%. This marked refocusing of imports is also evident in the Philippines; we forecast growth in road making machinery of 10.2% compared with imports of parts for office machinery, historically their fifth-largest import sector, which we forecast to slow by 6% in 2013. It is clear therefore that infrastructure development is a priority while their respective economies remain vulnerable. In the short term this may result in slower rates of growth, but their economic foundations will be more stable as a consequence.

The majority of the Southeast Asian economies are already well integrated into global supply chains; Malaysia, Thailand, Indonesia, Vietnam, Singapore and the Philippines all have at least one port in the world's top-50 largest container ports[2]. This accessibility to trade stands their economies in good stead for growth in the future. Even the less assimilated nations such as Cambodia and Myanmar are trying to push forward with construction projects, such as Cambodia's recent US$11.2 billion deal to build a port, a railway, and a steel factory.

With enough support and investment, we feel that in the near future many of the region's developing economies have the potential to emerge fully.

[2] http://www.worldshipping.org/about-the-industry/global-trade/top-50-world-container-ports