

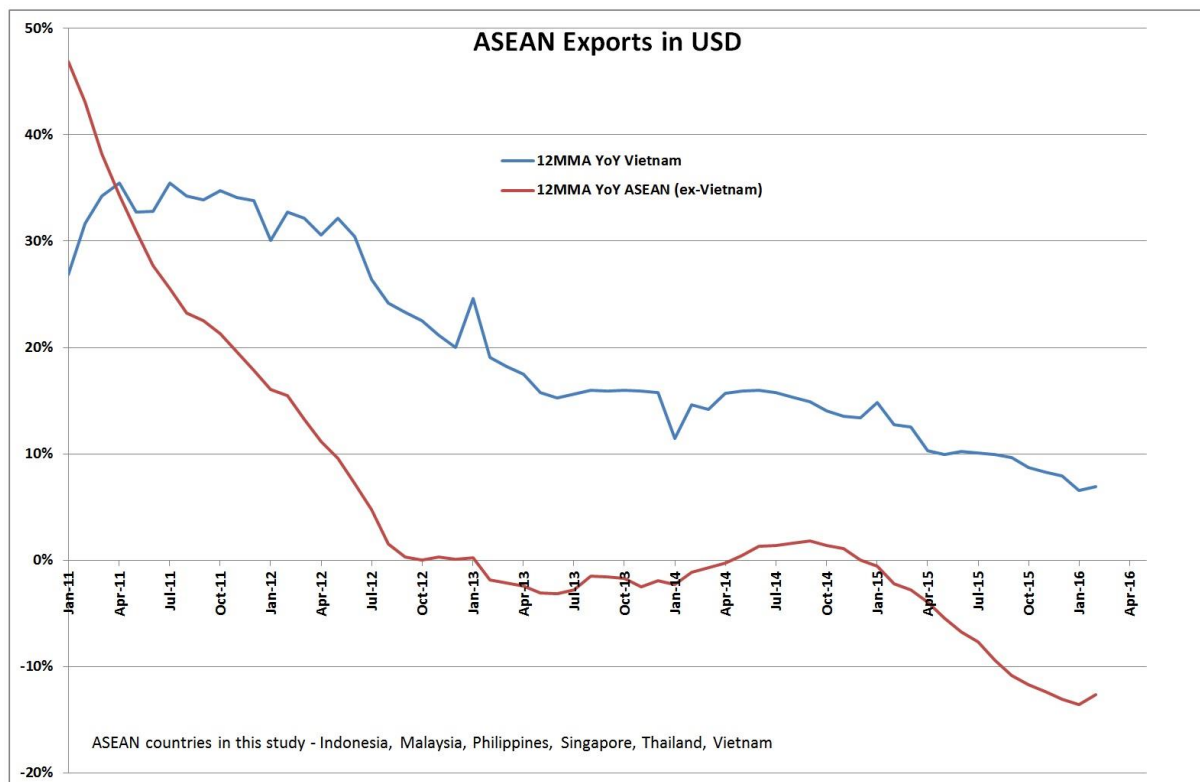
ASIAN CRISIS – AGAIN AND AGAIN

In May 2013, I wrote an essay “ASIAN CRISIS AGAIN”. I was mainly referring to ASEAN, not so much North Asia. As I continued to follow the theme, it became clear that it would not be a sudden shock event like in 1998 but a long period of protracted economic malaise.

I already discussed some the factors in my essay “ASEAN Enters Its Lost Decade. Maybe Two” in Aug 2015. Since then, many of the numbers I follow have become worse and the more I read, the more I am convinced that ASEAN is at a dead end.

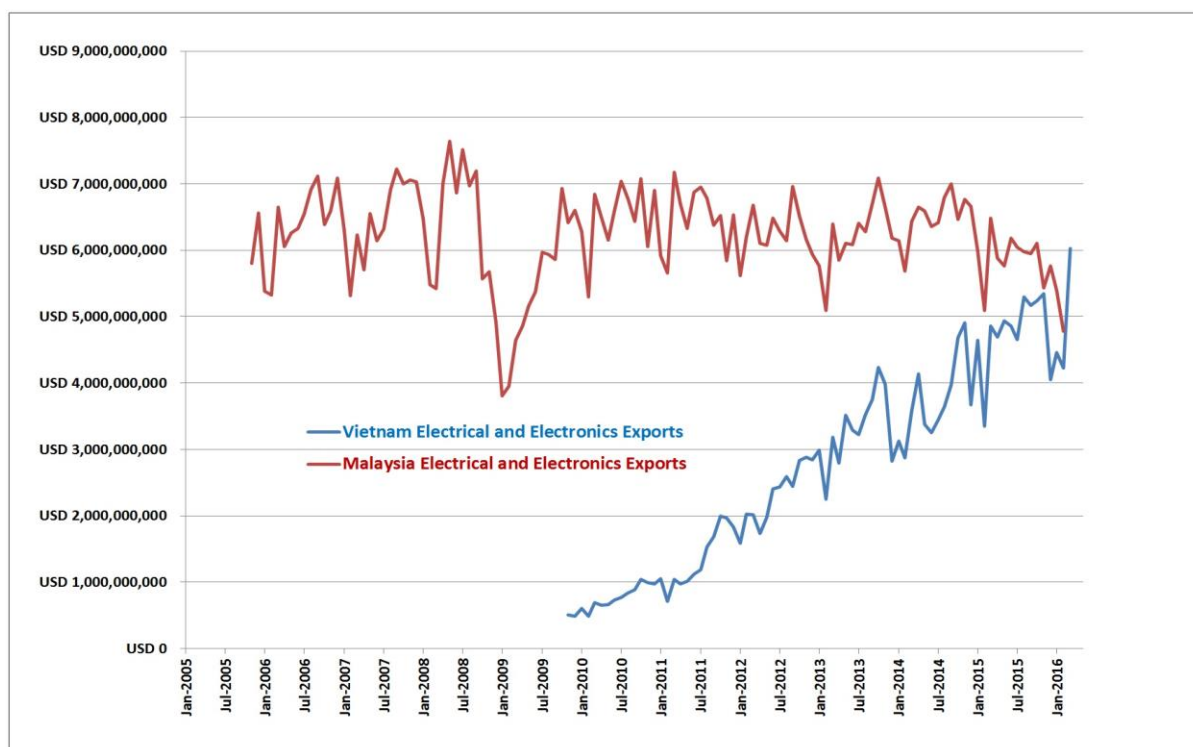
The bureaucracy of ASEAN is talking about AEC and TPP as if it is going to solve our problems. It’s a classic situation of using the same formula again and again, even when the circumstances have changed. AEC and TPP won’t matter. ASEAN’s problems go far deeper.

ASEAN exports have struggled with a NEGATIVE growth bias since 2013 and the magnitude of the decline has accelerated in the past 12 months.



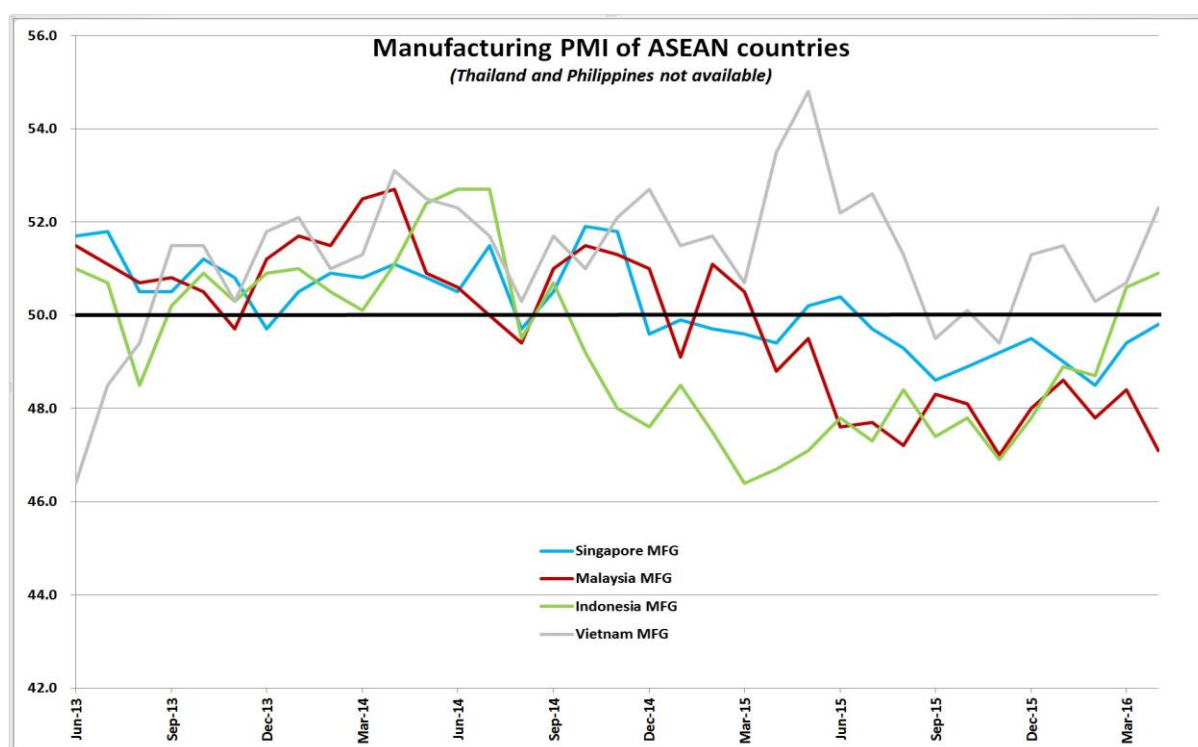
Only Vietnam is doing well on the export front. A lot of people have the perception that it is from a small base but their export boom has been ongoing for long enough that the base is no longer small.

For example, Vietnam’s export of electrical & electronic products has just overtaken that of Malaysia.



From the above chart, you can see that Malaysia’s export of “high tech” goods has stagnated since the mid-2000s.

The overall economic malaise is borne out by the Manufacturing PMI, which has been mostly below 50 i.e. contraction mode, since 2014.



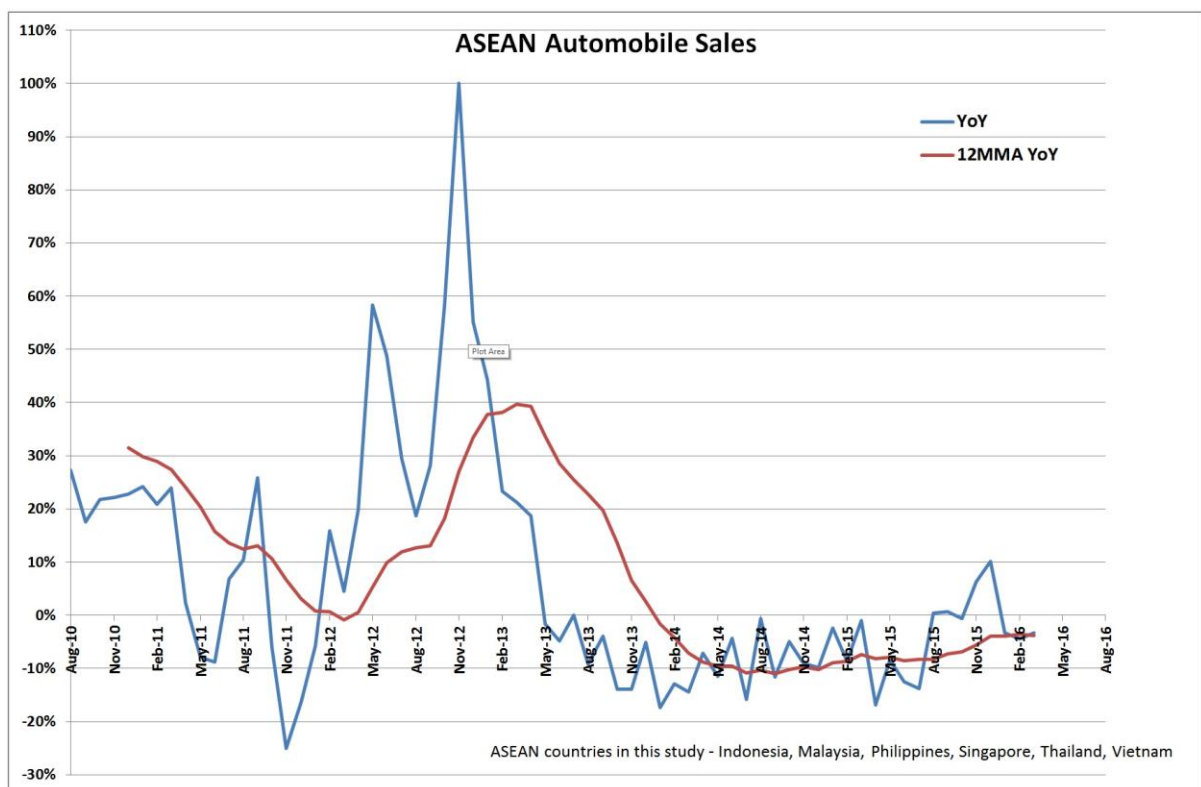
Of course, there is the “consumption boom that will come from the burgeoning young population of ASEAN”. How many times have you heard this argument? In my opinion, it is hogwash.

Here is the logic without the jargon.

You can't consume more if you don't have rising income. You won't have rising income unless you have the ability to keep producing ever higher value goods and services (to domestic and overseas markets). And you can't do that unless you keep investing heavily in the education of your population.

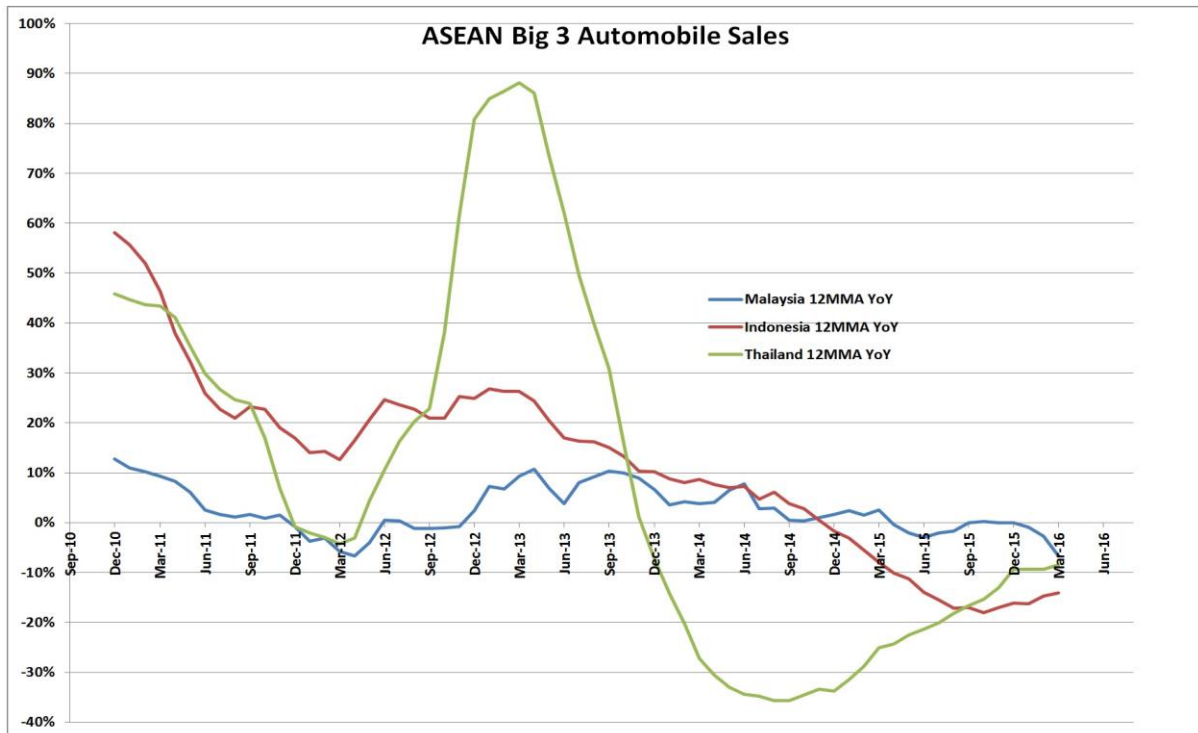
Even if you do make the investment in education, you can't benefit fully unless you have your own indigenous companies that are built on the intellectual property you have created or if your best trained people keep leaving the country in large numbers for greener pastures. The former situation limits your benefits as a nation to only the remuneration portion of the value-added while the latter puts you on an endless treadmill just to keep your position.

One of the metrics I like to follow is automobile sales. This is a big ticket item that is essentially a necessity except for those who live in a large city with comprehensive and effective mass transportation - nothing in ASEAN fits this description except Singapore.



The above chart shows that automobile sales in ASEAN have been in DECLINE since early 2014. And this is occurring when ASEAN is not in recession, just slow economic growth. What would it look like if we did have an economic recession?

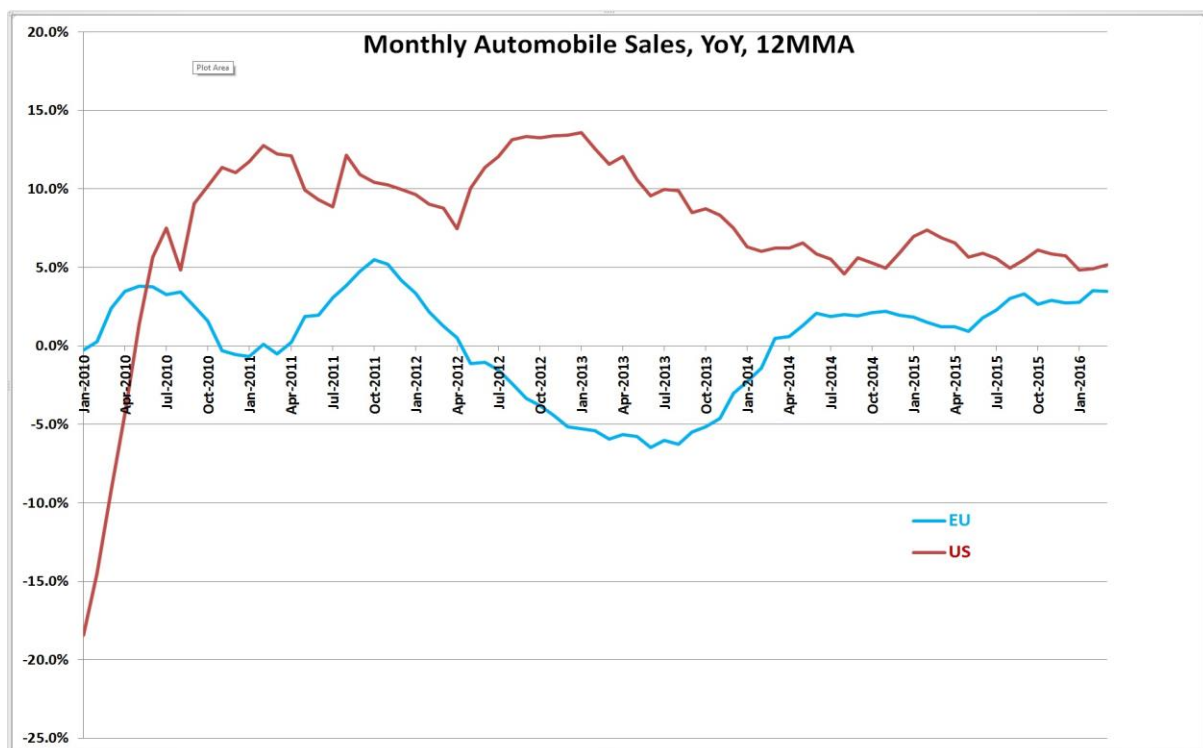
The Big 3 car markets are Malaysia, Indonesia and Thailand, accounting for more than 80% of ASEAN automobile sales. The next chart shows automobile sales in each of these countries.



Clearly, they're in the doghouse and in Malaysia's case, it is deteriorating.

Ask the typical ASEAN man in the street about Europe and they will think that Europe is in crisis. In fact, many still believe that the US is a struggling economy. Meanwhile, they all believe in the Asian century and the mantra that "ASEAN's rising middle class and young population will keep the region a major centre for economic growth".

Well, here is automobile sales in Europe and the US during the same time period.



This malaise has nothing to do with AEC or TPP. The ASEAN economic model has hit a wall for reasons I have already mentioned in my previous essays.

In Mar 2016, I wrote about slowing container shipping speeds causing a rise in supply chain inventory - “Why Slow Steaming May Have Killed The World Economy”

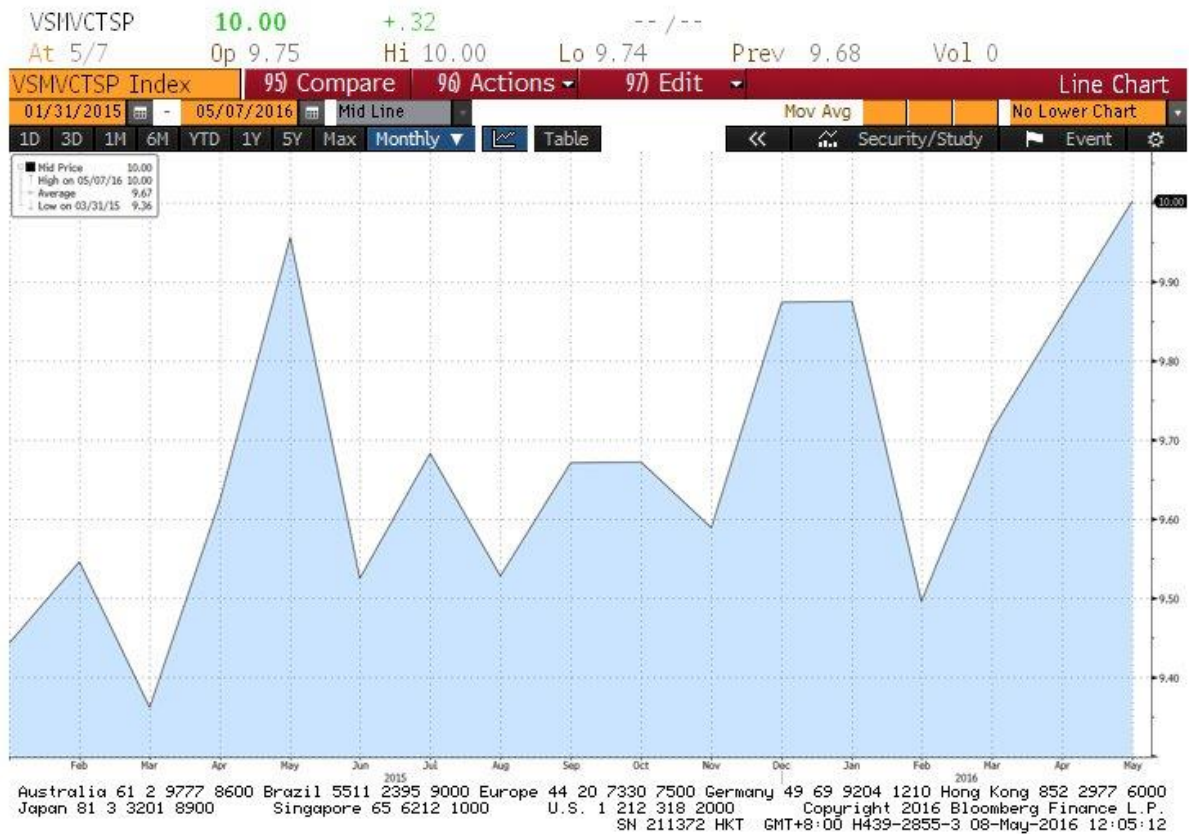
I am alarmed now by what I have recently noticed.



Container shipping rates may have bottomed and appear to be rising, especially for shipments to Europe.

A rise in shipping rates may give shipping companies the breathing room to cruise their ships faster – the increased cost of fuel offset by revenue increase from more trips.

At the same time the fall in oil prices throughout 2015 would by now, have worked its way down to the actual fuel costs and contract terms of shipping. There are signs that containership travelling speeds may have begun to rise. (chart below shows average containership travelling speeds over the past 18 months)



The tragedy with rising travelling speeds is that the inventory kept on the sea will decrease. During this period of decrease, production orders to manufacturers (inevitably in Asia) will drop unless there is a surge in end demand to offset the inventory effect.

Unfortunately, there is no surge of end demand in sight in any major economy in the world.

Therefore, I have a nagging suspicion that the export outlook for ASEAN and hence, its economy, may be about to get a whole lot worse.

