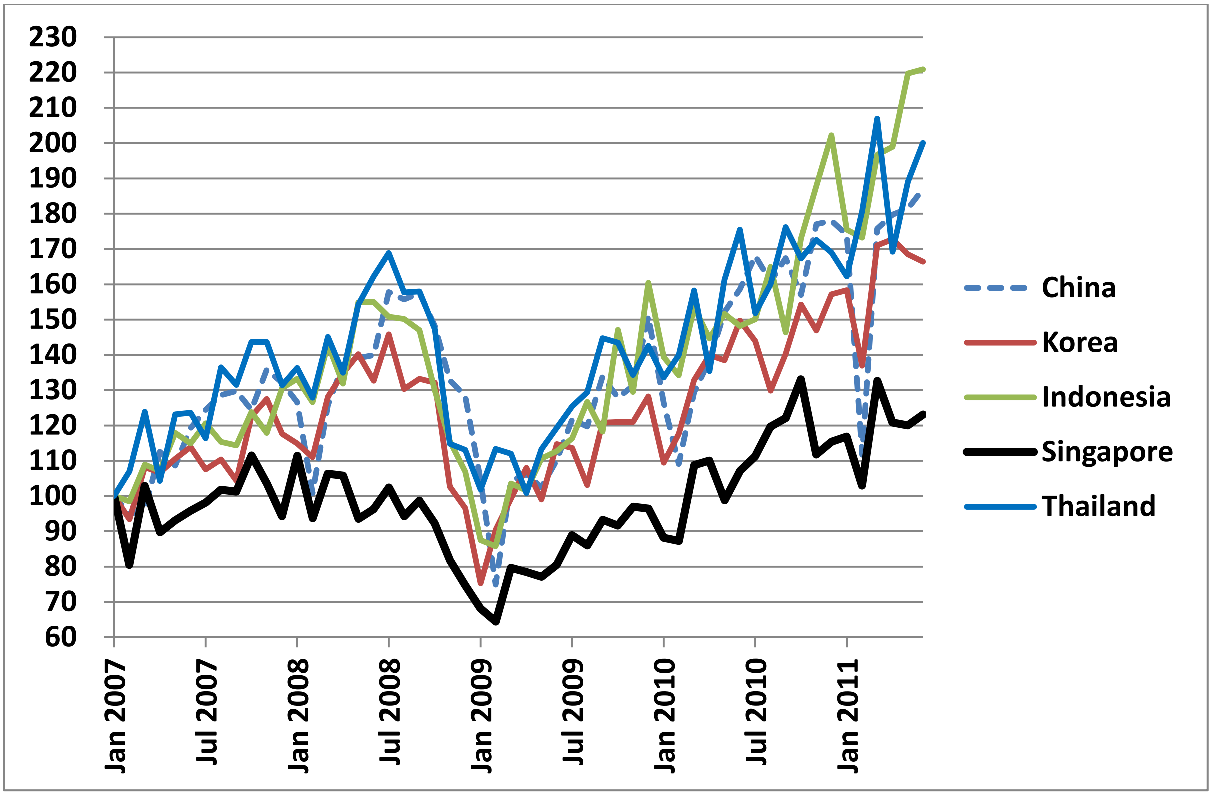
Who In The Far East Is Positioned For The "New Normal"?

It has been almost 5 years since the Global Financial Crisis began to unfold in 2007. We are supposedly now living in the "New Normal", whatever that means. There remains much gnashing of teeth and wringing of hands about the stuck-in-the-mud Western economies compared to the the much celebrated recovery of the Asian economies post-crisis.

However, on closer examination, I fear that the dynamism of the Asian economies may be over-generalised.

First, let's examine exports, which is what Asia is largely about. The attached chart shows monthly exports in US$, indexed to 100 in Jan 2007.



All 5 countries in the chart are exporting well above pre-crisis levels now. This could be another way of saying that they remain vibrantly relevant to the global economy in the "New Normal".

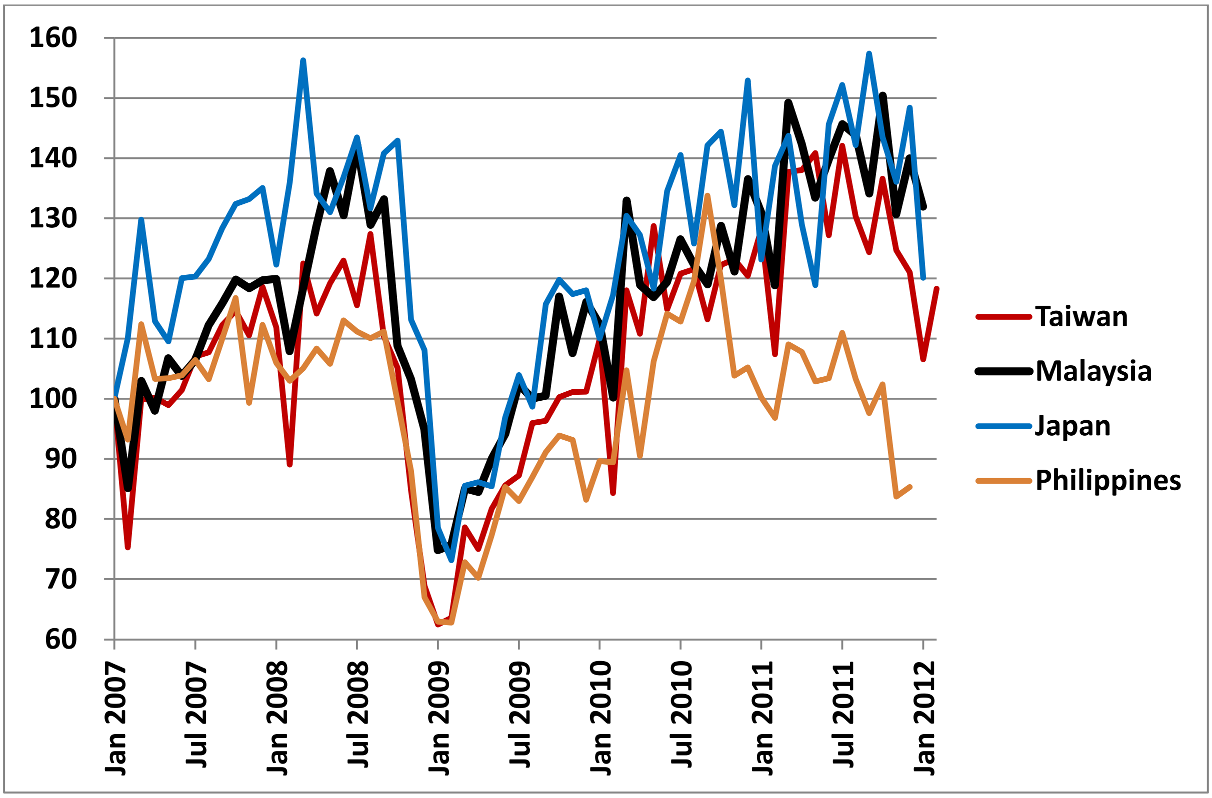
Of the 5, it seems like Singapore is rather an underperformer. However, it may be that Singapore's economic dynamism in recent years has a lot more to do with financial services and tourism than manufactured exports.

The GDP growth of the 5 (table on next page) seem to tell the same story although there are some unusual features. Thailand's GDP in 2011 suffered because of the floods while South Korea's 2011 GDP seems inexplicably low given its strong export performance.

GDP growth %	China	South Korea	Indonesia	Singapore	Thailand
2008	9.6	2.3	6.0	1.9	2.5
2009	9.2	0.3	4.6	-0.8	-2.3
2010	10.4	6.2	6.2	14.9	7.8
2011	9.2	3.6	6.5	5.0	0.1
Source : Bloomberg					

But what about Japan, Taiwan, Malaysia and the Philippines? The next chart shows that these nations' exports do not seem to have recovered strongly from the crisis as they are either still below pre-crisis levels or just barely achieving their previous highs.

This situation begs the question – are these 4 nations in danger of becoming irrelevant to the global economy in the "New Normal"?



We can also cross-check their GDP growth rates pre and post-crisis.

GDP growth %	Taiwan	Malaysia	Japan	Philippines
2008	0.7	4.8	-1.0	4.2
2009	-1.8	-1.6	-5.5	1.1
2010	10.7	7.2	4.5	7.7
2011	4.0	5.1	-0.8	3.8
Source : Bloomberg				

Japan is already well known as the sick man of Asia and has been for quite a number of years already. However, Taiwan is a surprisingly laggard given the prominence of its companies. Growth in Malaysia and the Philippines's seems respectable but clearly lag behind Indonesia.

There could be another twist to this story i.e. that domestic consumption has taken root in some countries as the primary engine of growth rather than exports.

Measuring domestic consumption is rather problematic as the data across countries isn't really comparable. For simplicity, I decided to study automobile sales in the various countries. With the exception of Singapore, where the car population is artificially managed, the growth in automobile sales should be a good indicator of the strength of domestic consumption.

First, let's consider the countries with strong exports and correspondingly strong GDP growth.

Car sales growth %	China	South Korea	Indonesia	Thailand
2008	7	-5	40	-3
2009	45	21	-20	-11
2010	32	5	57	46
2011	3	1	17	-1
Source : Bloomberg				

The data suggests that domestic consumption post-crisis rebounded at different times for the different countries – China/Korea experienced the rebound in 2009 while Indonesia/Thailand saw it mainly in 2010.

However, car sales growth in China/Korea was lacklustre in 2011, suggesting that the GDP growth in that year was more a reflection of continued export growth. Only in Indonesia is there clear evidence that domestic consumption really kicked in to complement export growth.

What about the countries where exports post-crisis has been lacklustre?

Car sales growth %	Taiwan	Malaysia	Japan	Philippines
2008	-34	12	-5	12
2009	28	-4	-9	-3
2010	10	1	8	13
2011	13	1	-15	12
Source : Bloomberg				

Japan clearly experienced a major setback from the earthquake and nuclear accident in 2011. What is interesting to me is the stubborn weakness in Malaysia, which not only did not see a sharp rebound post-crisis but seems to be stuck in a rut.

The Philippines, on the other hand, saw very steady car sales in both 2010/2011 in spite of lacklustre exports and a sharp deceleration in GDP growth in 2011 – suggesting that domestic consumption as an engine may be taking root. The same can be said for Taiwan.

Conclusions :

China and Korea are still very much the same export powerhouses that they were pre-crisis. There doesn't appear to be a new paradigm in these economies, at least not yet. In these 2 countries, domestic consumption is strong but nowhere near enough to take over the driver's seat from their massive export sector.

In Indonesia, export success looks like it is triggering domestic consumption as a new economic engine. The same may be true for Thailand but the disruption from the floods is distorting the data trends.

Taiwan and the Philippines, despite lacklustre exports and not particularly impressive GDP growth, are definitely relying on their domestic consumption engine. Something structural may have changed in these 2 countries.

Of all the countries, I find Malaysia to be the most disappointing – exports are bad, GDP growth is unimpressive and domestic consumption is stuck in a rut.

If one defines the New Normal as being more reliant on domestic consumption than exports, than it appears that Indonesia, Taiwan, the Philippines and possibly, Thailand, are leading the way.

If one defines the New Normal as being still relevant as an exporter to the new economic structure (whatever that may be!) then it's still back to China and Korea.

Either way, Japan is relegated to being rather rich, but irrelevant. Unfortunately, so is Malaysia, except its GDP per capita is a mere one eighth that of Japan's. Being irrelevant but rich may seem ok, but being irrelevant and poor definitely spells trouble!