



News

The Dragon's Slumber

How China's Slowdown Is Reverberating Across Emerging Markets



James Syme

12 Oct 2023

The World Bank's October 2023 economic outlook for East Asia¹ contains some stark views. Highlighting the weakness of the Chinese economy and an ongoing slowdown in Asian exports, the Bank forecasts that GDP in the region is set to grow at 4.5%. This would be relatively weak growth for the region compared to its history (other than short-term shocks such as the 1970s oil crisis, the 1990s Asian financial crisis and COVID).

To what extent is this view borne out in other data we see, and how is the portfolio positioned as a result?

We do see continued weak growth in China. The combination of tighter monetary and fiscal policy, intervention in the private sector, and the effects of COVID have slowed a number of key Chinese economic metrics. Notably, YTD property investment is -8.8% in the year to August, twelve-month trailing USD exports are -5.4% in the year to August and manufacturing PMIs sit just above 50. Retail sales and industrial production have been picking up, to +4.6% and +4.5% in the year to August, respectively. However, forward GDP growth forecasts for China, from both multilateral institutions like the World Bank and from the private sector, continue to be downgraded.

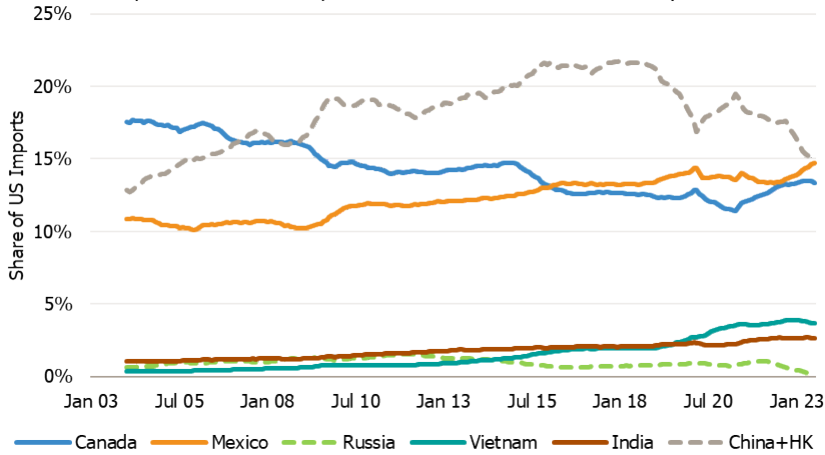
One of the drags on economic growth in China, and in Asia more widely, is what is happening to global trade (see page 2 of the World Bank's September 2023 global update²). International trade in goods has been growing more slowly than industrial production in recent quarters – an unusual pattern and one with significant implications in Asia. This is largely due to increased frictions on trade in

manufactured goods, such as tariffs and non-tariff barriers.

China is the world's largest exporter, and the US is the world's largest importer, but the trade between the two has been under stress since the Trump administration first put tariffs on Chinese exports of solar panels and washing machines in 2018. Since then, China's share of US imports has declined from 21.4% to 14.7% in the five years to July 2023; in absolute value, the decline is from \$47 billion/month to \$36 billion/month.

Friendshoring Hurts China, Boosts Mexico and India

Trump administration imposes first tariffs on China in January 2018



Source: US Census Bureau as at 30 June 2023.

This loss of market share comes against a backdrop of a lower intensity of trade in the US economy. Since July 2018, US imports have increased by 17.9% in USD terms, but the US economy is, in total, 31.5% larger. With a weaker Chinese economy and a lower intensity of trade in the US economy, major Asian exporters are showing stress. In the year to August 2023, Korean exports were down 8.4%; Taiwanese exports were down 7.3%; Singapore's non-oil exports were down 20.1% and Thailand's exports were down 1.8%.

Much of Asia's long-term economic success has been built on a manufacturing export-led model, and we largely see the traditional Asian export economies as more challenging from an equity investment viewpoint. We are underweight in China, Korea, Taiwan and Thailand, seeing weak growth in all four.

However, some Asian economies have pursued different growth paths. Indonesia is a major exporter of commodities, including nickel, coal, oil and gas, and foodstuffs, while India has been succeeding at services exports – Indian services exports were up 8.4% YoY in August 2023. Further, these large, sub-continental economies are more driven by domestic demand than exports, and domestic demand growth remains robust in both.

Whilst Asia's long-term growth model has largely been built on manufacturing exports, that is not the only path to growth. At present, we see other models as creating better growth opportunities, and Indonesia and India are our only overweight country positions in East and South Asia.

Source:

¹ <https://openknowledge.worldbank.org/server/api/core/bitstreams/5620cb1a-0b68-4a83-91c1-d8d701910a7f/content>

² <https://thedocs.worldbank.org/en/doc/abf6fab46b08d9edfcf1187e6a3e108e-0350012023/related/Global-Monthly-Sep23.pdf>

Disclaimer

Professional investors only. This is a marketing communication. Please refer to the fund prospectus and to the KIID / KID before making any final investment decisions. The investment promoted concerns the acquisition of shares in a fund or the investment strategy and not the underlying assets. Past performance is no guarantee of future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. The information contained herein including any expression of opinion is for information purposes only and is given on the understanding that it is not a recommendation. The information in this article does not constitute, or form part of, any offer to sell or issue, or any solicitation of an offer to purchase or subscribe for any funds or strategies described in this article; nor shall this article, or any part of it, or the fact of its distribution form the basis of, or be relied on, in connection with any contract.

Related Articles

What a Negative Inflation Print Means for China

China's Deflation Sparks Concerns Amidst Beijing's Cautious Policy Stance

[Read More](#)

06 September 2023

Echoes of Caution Amidst Emerging Market Tech Frenzy

Powerful surges in emerging market tech stocks raise flags amidst quality concerns

[Read More](#)

06 August 2023

Emerging Markets Ride Currency Waves

Favourable US dollar conditions, cautious central banks, and strong trade fundamentals contribute to positive EM outlook

[Read More](#)

07 July 2023

Sound Money Sounds Good

Decisive monetary policy has brought inflation under control in Mexico and Brazil, helping to lift the value of their currencies and support growth

[Read More](#)

13 June 2023

Thailand or Turkey?

As the dust settles after pivotal elections, what has kept us cautious, and what are the prospects for political change

[Read More](#)

13 May 2023

Legal

This website is issued and approved in the UK by J O Hambro Capital Management Limited, which is authorised and regulated by the Financial Conduct Authority. Registered office: Level 3, 1 St James's Market, London SW1Y 4AH. Registered in England and Wales under No: 2176004. Issued in the European Union by JOHCM Funds (Ireland) Limited which is authorised by the Central Bank of Ireland. Registered office: Riverside One, Sir John Rogerson's Quay, Dublin 2, Ireland. J O Hambro is a registered trademark owned by and used under licence from Barnham Broom Holdings Limited. JOHCM® is owned by J O Hambro Capital Management Limited. Telephone calls may be recorded.

© 2022 J O Hambro Capital Management Limited. All rights reserved.