

ECONOMICS: ASIAN PERSPECTIVES—FEBRUARY 12, 2010

Rest of Asia to Follow China's Lead on Domestic Demand Growth in 2010

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We expect total domestic demand growth in Asia excluding China to swing from -1.1% in 2009 to 5.3% this year, following the lead shown by China in 2009.

Asia's powerful export recovery has been the financial markets' main focus over the past year. In January, export performance across the region continued to show considerable vigor, with signs that the improvement in external demand was broadening from emerging markets into the developed markets.

Against this background of increased Asian shipments to the rest of the world, a question we are often asked is: What has been happening to the region's domestic demand trends?

We wrote frequently on this subject throughout 2009 and our view is that, while China has contributed to global rebalancing through sharply recovering domestic demand since the collapse of Lehman Brothers, the rest of Asia has done little to date. Here, we assess the outlook for 2010 by pulling together the export, import and domestic demand components of our GDP forecasts for each individual economy.

Export and Import Trends

Display 1 shows the real growth in Asia's aggregate exports and imports of goods

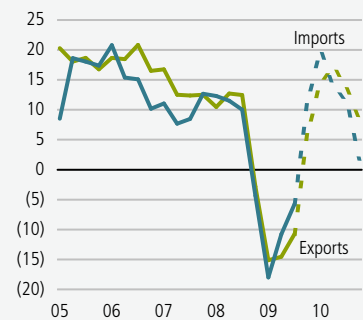
and services. It shows that, while the rebound in exports has been strong, the revival in imports occurred earlier and outpaced that of export growth in 2009—a situation that previously occurred only briefly, in early 2006. While Asia appears to have contributed reasonably to global rebalancing, the growth in imports is in fact entirely attributable to the surge in China's imports caused by its massive infrastructure investment boom.

In our forecast for 2010, we expect China's hefty import growth to normalize and drop quite noticeably in year-on-year terms during the second half as the exceptionally large high-base effect occurs. Asia's total export growth should start to outpace imports, however—again, thanks to China, as its export sector catches up further in the coming year.

Excluding China, the region's export and import trends actually look quite different (**Display 2**). Export growth has led and outpaced imports over the past year, but we think the relative relationship should reverse in 2010. Many Asian countries have already recouped most of their export losses caused by the global crisis a year

Display 1
China Dominates Asia's 2009 Imports Rebound...

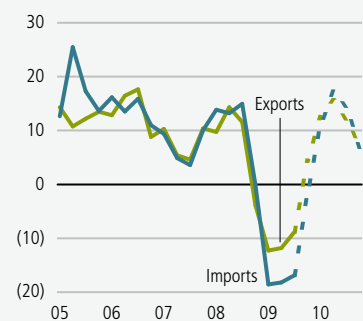
Asia's Exports and Imports of Goods & Services (Real Growth)*
 YoY % Change



*Dotted lines are forecasts for 4Q:09 to 4Q:10
 Source: CEIC Data and AllianceBernstein forecasts

Display 2
...While Rest of the Region Lags

Asia's (excl. China) Exports and Imports of Goods & Services (Real Growth)*
 YoY % Change



*Dotted lines are forecasts for 4Q:09 to 4Q:10
 Source: CEIC Data and AllianceBernstein forecasts

ago, and they need to expand capacity as export recovery continues. This bodes well for investment growth which, in fact, has remained relatively benign in most Asian countries over the past year.

Domestic Demand Growth

Display 3 shows aggregate domestic demand growth for Asia as a whole and excluding China. The former appears to be quite resilient and troughed at about +2.5% year on year in first quarter 2009, while the latter shows a year-on-year contraction of some 4% during the same quarter. We expect China's consumption and fixed investment will stay firm in 2010, although investment growth will ease from last year's frenetic pace. Outside China, improving corporate profits, plus strong industrial production and continued

de-stocking should bode well for capital expenditure growth, while consumption will improve as job growth regains momentum.

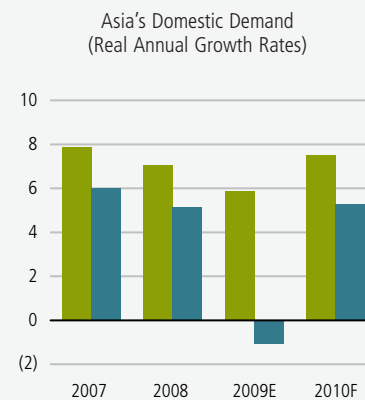
For Asia as a whole, we expect domestic demand growth will further improve and peak at around 9.5% year on year in first quarter 2010, but the speed of recovery should be more pronounced outside China as the rest of the region catches up. In annual terms, Asia's total domestic demand growth is expected to rebound to 7.5% in 2010—a faster pace than in 2008. Excluding China, we expect growth to swing from -1.1% in 2009 to 5.3% this year (**Display 4**). If our forecasts play out, this implies that the rest of the region will help sustain domestic demand growth following China's significant contribution last year. ■

Display 3
Overall Growth Remains Resilient



*Dotted lines are forecasts for 4Q:09 to 4Q:10
Source: CEIC Data and AllianceBernstein forecasts

Display 4
Big Swing in Domestic Demand Outside China



Source: CEIC Data and AllianceBernstein forecasts

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