

## **Asia's exporters suffer as global demand weakens**

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The 54-year-old chief executive of Kin Hip Metal Plastics had spent much of the past year grappling with rising labour and material costs in China and a strengthening yuan.

Now that the U.S. consumer juggernaut is slowing, he's throwing in the towel and relocating inland from coastal southern China.

"If we don't cut margins or even take small losses these days, we're just not able to get the same level of orders," said the former chairman of the Hong Kong Exporters' Association.

"We're facing a bitter, cold winter ahead."

Sun and others that collectively make up Asia's mighty export engine face a difficult second half with Asia's central banks now ready to sacrifice growth to combat food- and oil-based inflation and with Europe no longer taking up the slack amid downward-spiralling U.S. consumption.

The worst is yet to come. Net exports make up 10 percent of China's gross domestic product and up to 30 percent for externally vulnerable economies like Hong Kong and Singapore.

Asia -- much of which had remained resilient in the face of the U.S. downturn -- and China are expected to decelerate with interest rates on the rise, inflation mounting and oil at \$145 a barrel.

Toyota Motor <7203.T>, the world's top carmaker, said it could fall short of its U.S. sales target this year as high gasoline prices and a sluggish economy cut into demand.

Deutsche Bank estimates some 20 percent of China's low-end exporters will go belly-up this year.

Foxconn <2038.HK>, the world's top contract manufacturer of cellphones for Motorola and Nokia, lost two-fifths of its value in the past two months on fears that slowing global demand will hit its earnings.

And Japanese exports to the United States fell for a ninth straight month in May, while shipments to the European Union -- which had been holding up well -- recorded their first annual drop in more than two years.

"The Euro area and Japan are decelerating and that's really bad news for Asian exporters," said David Fernandez, Head of Economic and Sovereign Research at JP Morgan.

Hong Kong's exports to the United States -- much of which originates in China, the world's workshop -- fell 1.5 percent year on year in the first 5 months. Exports to the United States from South Korea shrank 0.3 percent in January to May.

"By the year's end and early next year, Asian demand should start to slow," said Daiwa economist Kevin Lai.

## WHAT TO BUY?

Analysts and fund managers reckon firms with established brands, which own technology higher up the value chain or enjoy large cash balances -- such as Samsung Electronics <005930.KS> or Taiwan Semiconductor Manufacturing Corp <2330.TW> -- will fare better in this environment.

"Slowdowns are sometimes a double-edged sword that can benefit outsourcing. So for Taiwan tech this year, export growth is still in the double digits and the fundamentals remain quite solid," said Kevin Chang, an analyst at Yuantai Securities.

Old-economy exporters that need intensive labour, energy or raw materials, such as garment, car and cellphone makers, are more vulnerable to inflating costs and shrinking demand.

Other firms, far from fighting a holding action, might spot an opportunity to expand through acquisitions in a down market.

"If the company has net cash or low debt, they've got flexibility and will not be forced into making any foolish business decisions," said Hugh Young, Managing Director at Aberdeen Asset Management, which has \$40 billion in Asian equities.

They "might have a golden opportunity to buy one of its competitors at rock-bottom price."

Energy-saving devices maker Computime Group Ltd <0320.HK>, which ships about half its goods U.S.-ward, has stepped up efforts to enhance technology with automation and by slashing staff.

"We'll focus on our brand and outsource to Vietnam, Mexico and east Europe," said chief executive Bernard Auyang.

## SHARES

Weak U.S. sentiment has knocked down many top Asian exporters in the past three months with U.S.-focused trading firm Li & Fung <0494.HK> plunging 23 percent. LG Electronics <066570.KS> dropped 16 percent and TSMC fell 8 percent in the same period.

But there's hope yet. Some economists say Asian countries are still posting good growth, surprising the market on the upside.

China, which became the top exporter to the United States alongside Canada in 2007, accounts for 8.8 percent of world exports. Its total exports rose 28 percent in May, beating forecasts of 20 percent.

But the question is how bad it will get.

Toyota expects U.S. vehicle sales, which plunged to a 15-year low in June, to bottom and foresees a modest recovery in 2009.

JP Morgan sees Euro zone growth sliding to under 1 percent by mid-year from 3.2 percent in the first quarter and Japan easing to 1 percent, with downside risk, in the second half.

And China, whose appetite for everything from oil to electronics has bolstered many Asian exporters, could hike rates several times more to curb inflation at a decade's high.

"I believe one-third or even half of the manufacturers in Guangdong will either close or relocate in the next few years to lower cost areas," said Kin Hip's Sun, who claims his "Kinnox" brand can be found on 70 percent of U.S. coffee containers.

**Source: Guardian**

<http://www.guardian.co.uk/business/feedarticle/7632886>