

**EUROMONEY  
SEMINARS**

**TRADE FINANCE**

**8th Annual**

# **Structured Trade and Export Finance Asia-Pacific Conference**



## **The Ongoing Crisis and Asia's Trade: What to Expect?**

**Alicia García-Herrero, BBVA**

**Chief Economist for Emerging Markets**

**BBVA**

February 2009

# 8th Annual **Structured Trade and Export Finance Asia-Pacific** conference

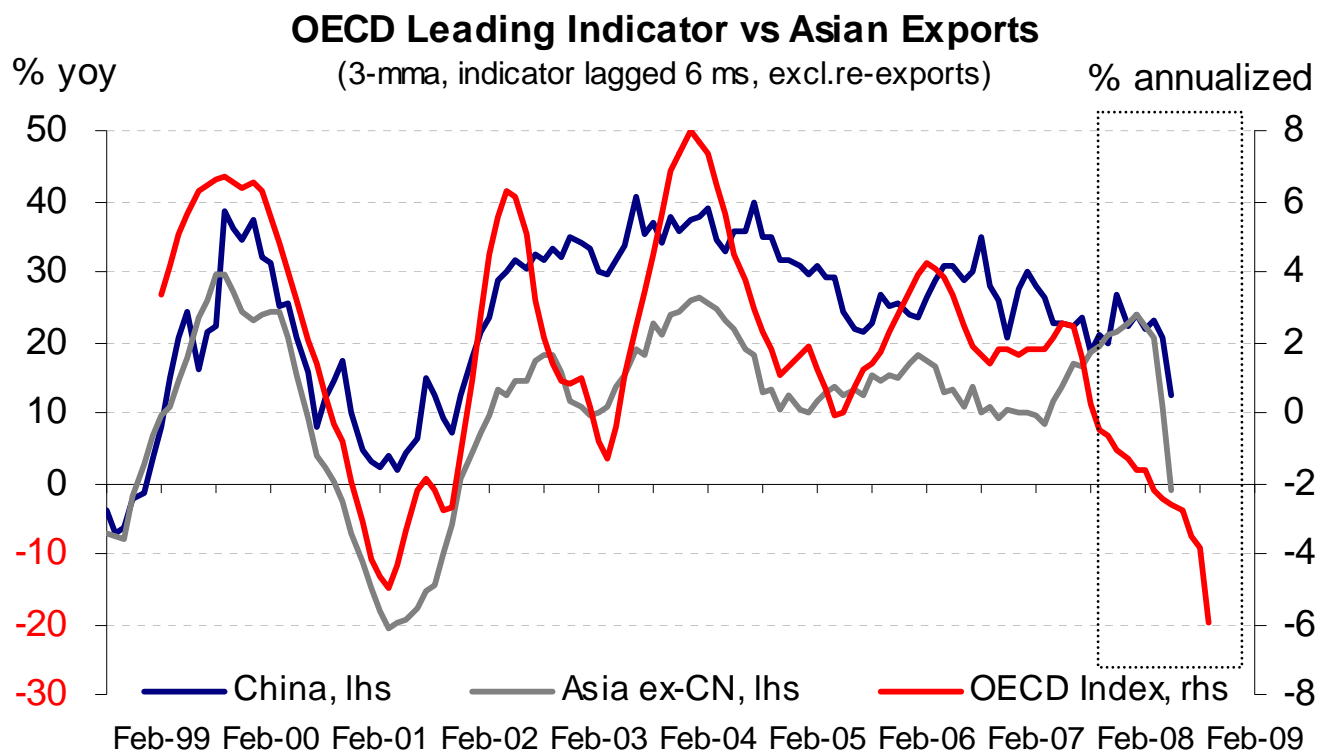
## Contents

---

- *What is happening with Asian exports?*
- Is it due to lack of external demand or to financing constraints?
- Consequences for intraregional trade
- Biggest players' situation: China and India

# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

## ■ *What is happening with Asian exports?*



Source: Thomson Financial, ERD BBVA

**Nominal exports plunged in the last quarter of 2008, while leading indicators in developed countries point to a deterioration at least as sharp as in the 2001 tech bubble crisis**

**BBVA**

# 8th Annual **Structured Trade and Export Finance Asia-Pacific** conference

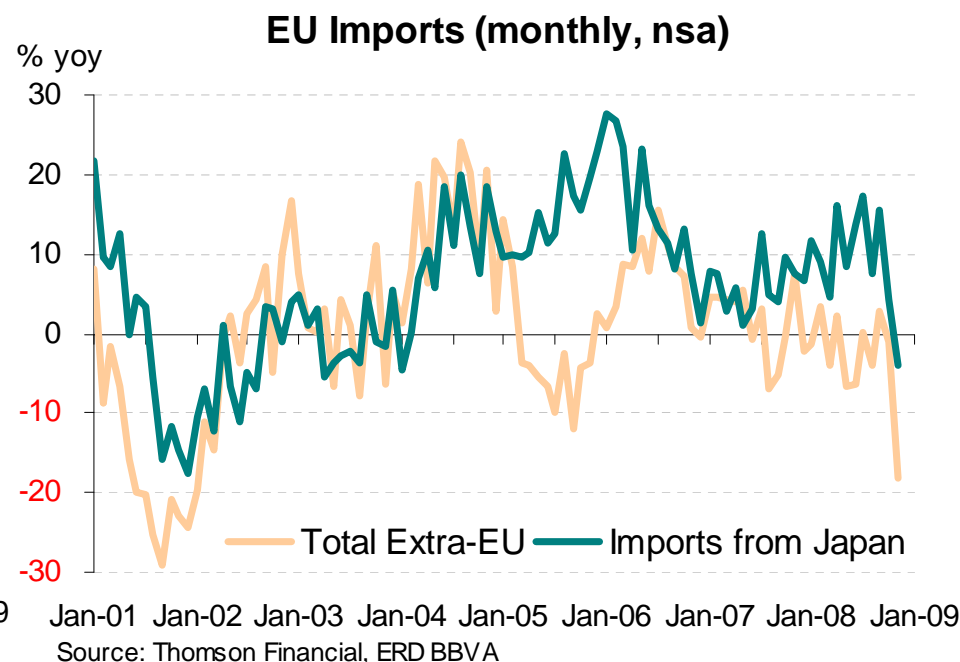
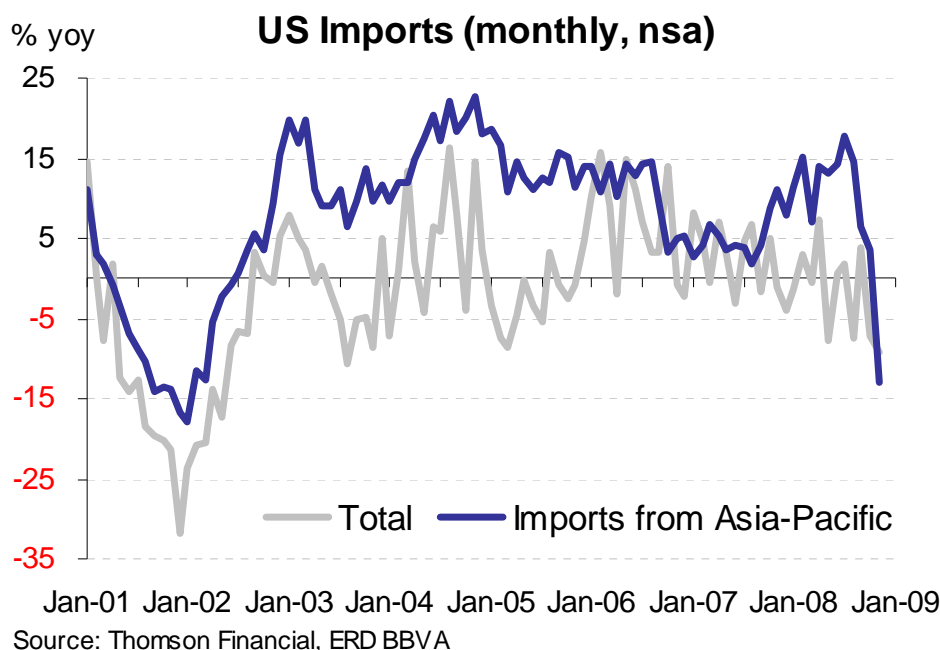
## Contents

---

- What is happening with Asian exports?
- *Is it due to lack of external demand or to financing constraints?*
- Consequences for intraregional trade
- Biggest players' situation: China and India

# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

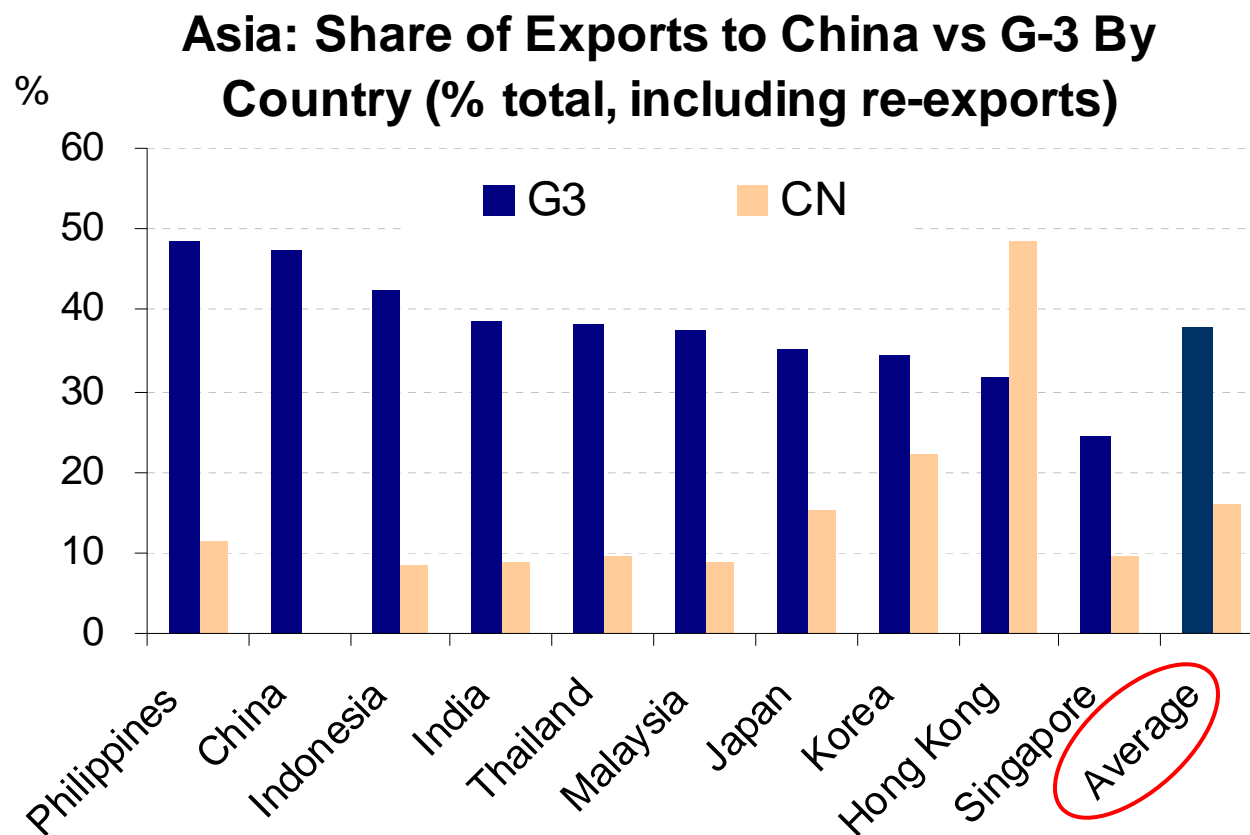
## Lack of external demand?



**Demand from the developed economies contracted, in some cases as in the US, the decline of imports from Asia-Pacific outpaced overall imports**

# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

Which country is most exposed in Asia?



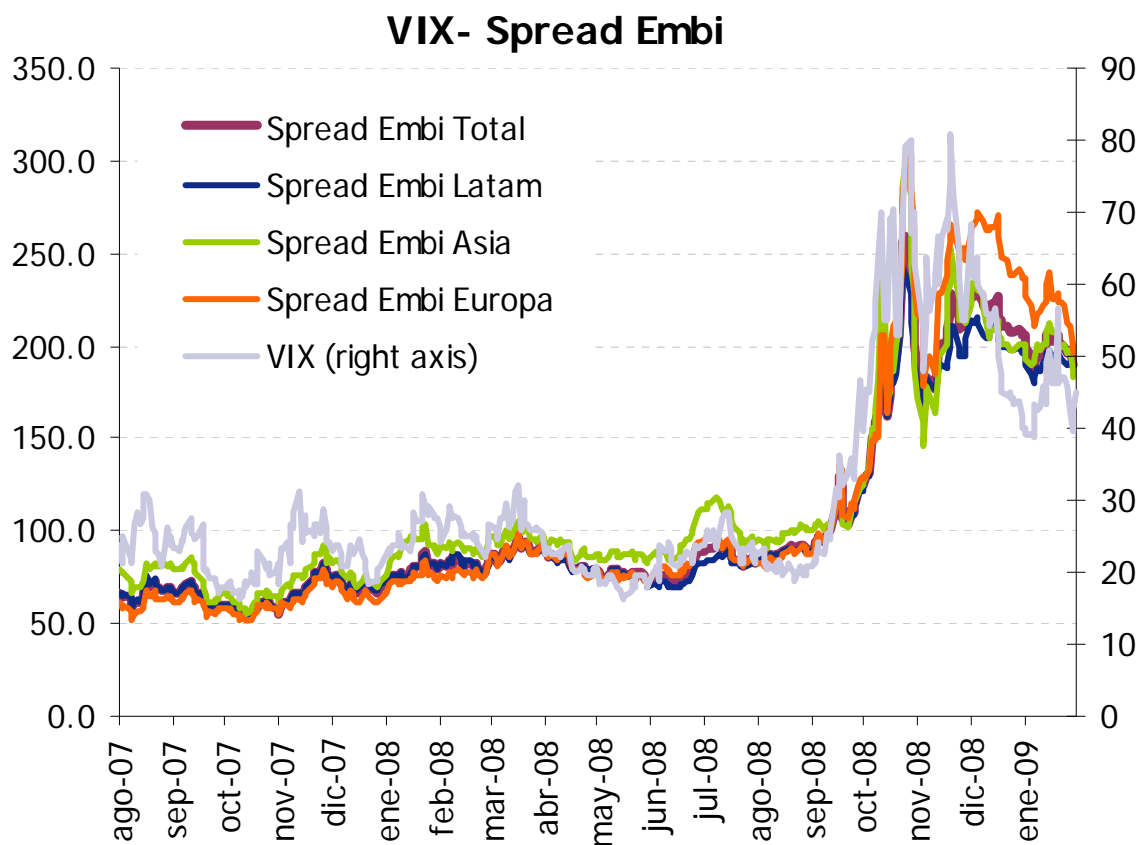
Source: IMF DOTS (2007), ERD BBVA

China has been gaining share in Asian exports but direct exports to the G-3 economies still represents, in average, 40% of total exports



# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

## Financing constraints: from the decoupling dream to contagion



Source: Datastream

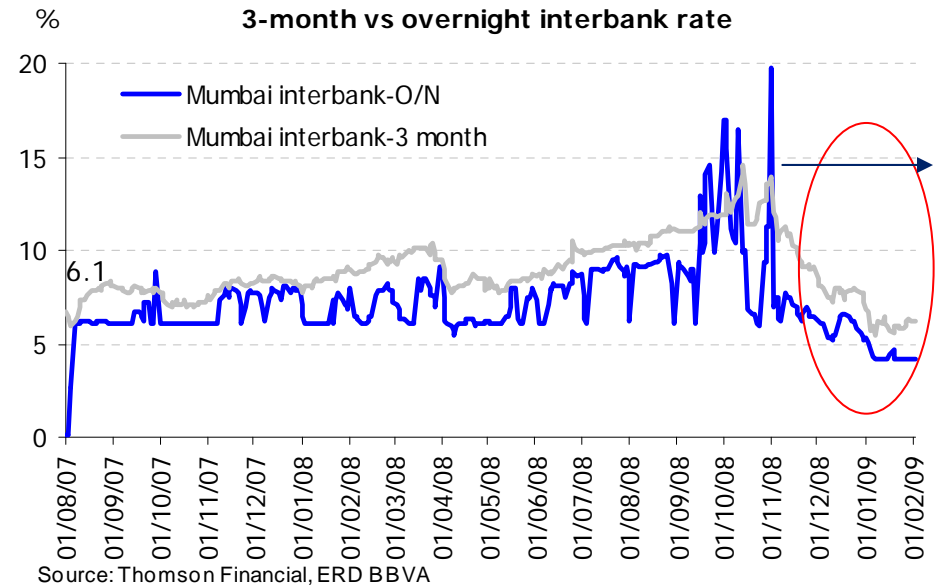
# 8th Annual **Structured Trade and Export Finance Asia-Pacific** conference

## Credit crunch in Asia?

**HONG KONG:**  
3-months vs 1 month interbank rate



**INDIA:**  
3-month vs overnight interbank rate



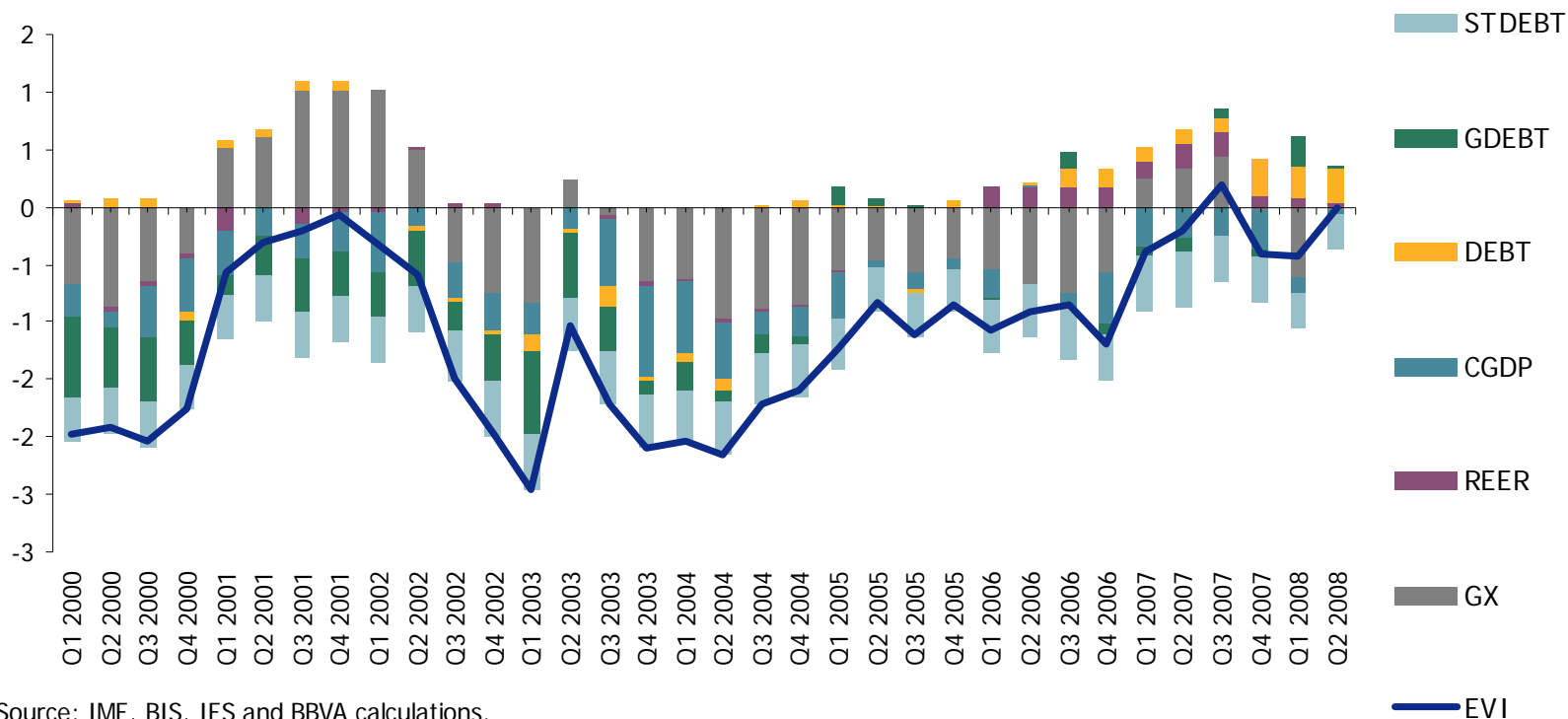
Sharp increases in the spreads in September-October. In most cases they have come down but dollar liquidity remains tight.



# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

## External financing constraints?

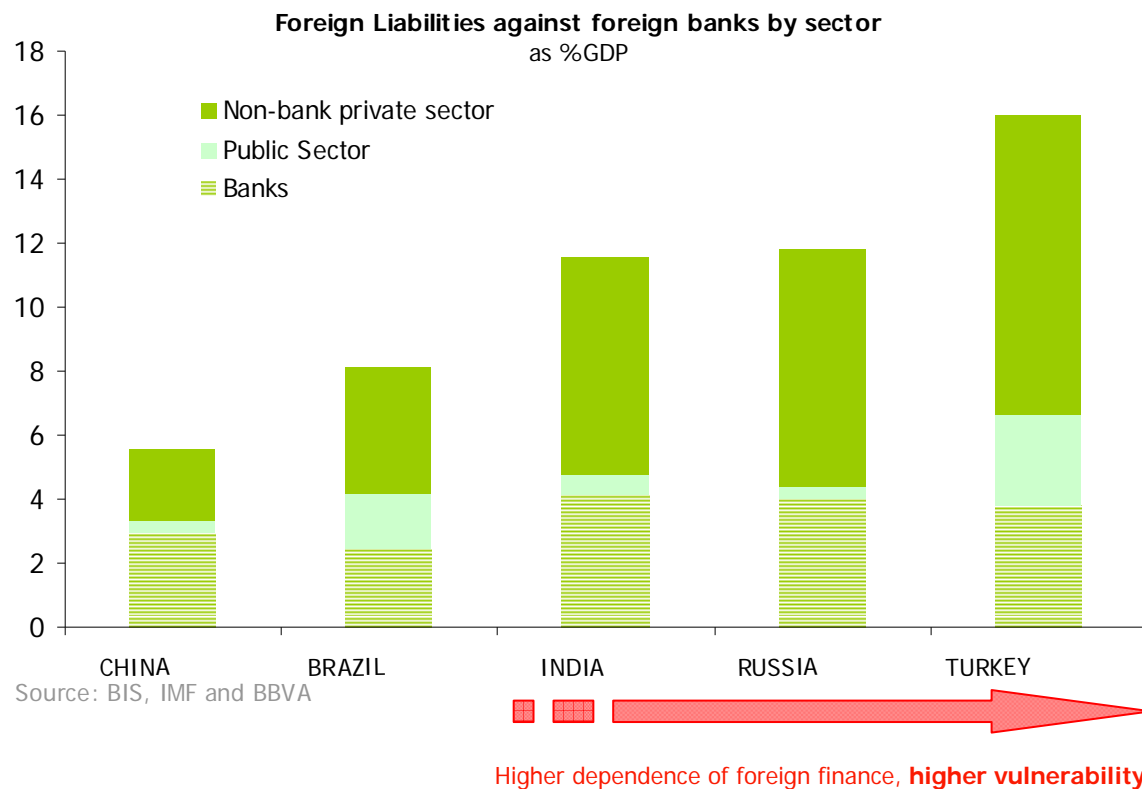
ASIA: External vulnerability Index (variable contribution)



Source: IMF, BIS, IFS and BBVA calculations.

# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

## What to expect?



Not only the banking system, but higher levels of external corporate funding is a growing source of concern in some emerging markets.

# 8th Annual **Structured Trade and Export Finance Asia-Pacific** conference

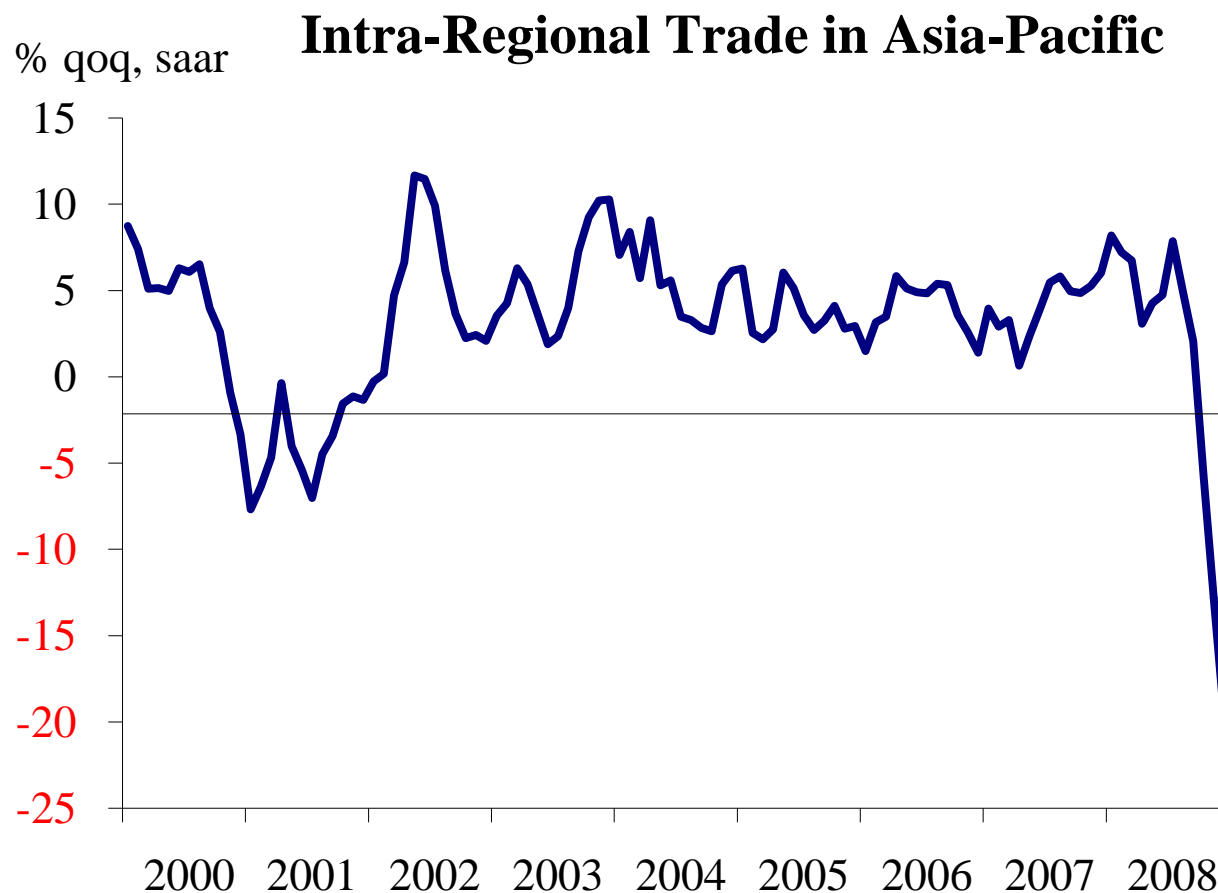
## Contents

---

- What is happening with Asian exports?
- Is it due to lack of external demand or to financing constraints?
- **Consequences for intraregional trade**
- Biggest players' situation: China and India

# 8th Annual **Structured Trade and Export Finance Asia-Pacific** conference

## Intra-regional trade is plummeting



Source: ERD BBVA estimates

# 8th Annual **Structured Trade and Export Finance Asia-Pacific** conference

## Contents

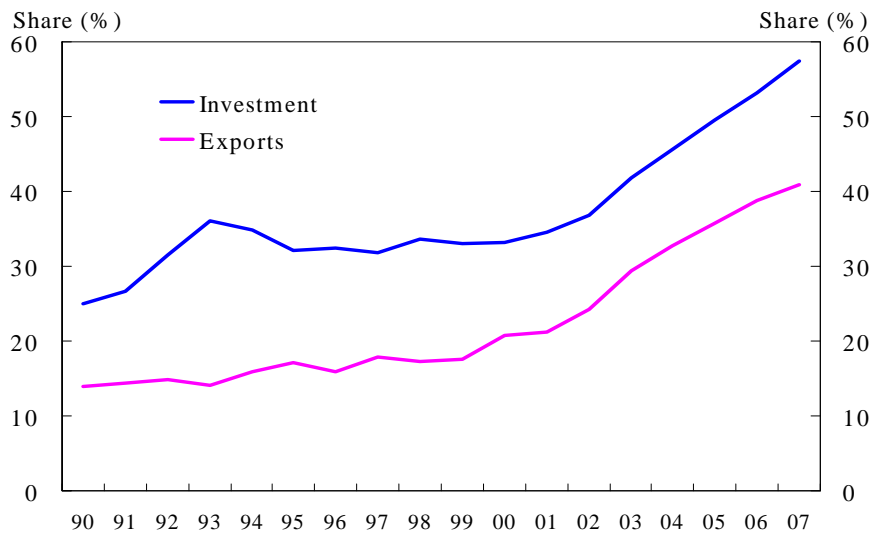
---

- What is happening with Asian exports?
- Is it due to lack of external demand or to financing constraints?
- Consequences for intraregional trade
- ***Biggest players' situation: China and India***

# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

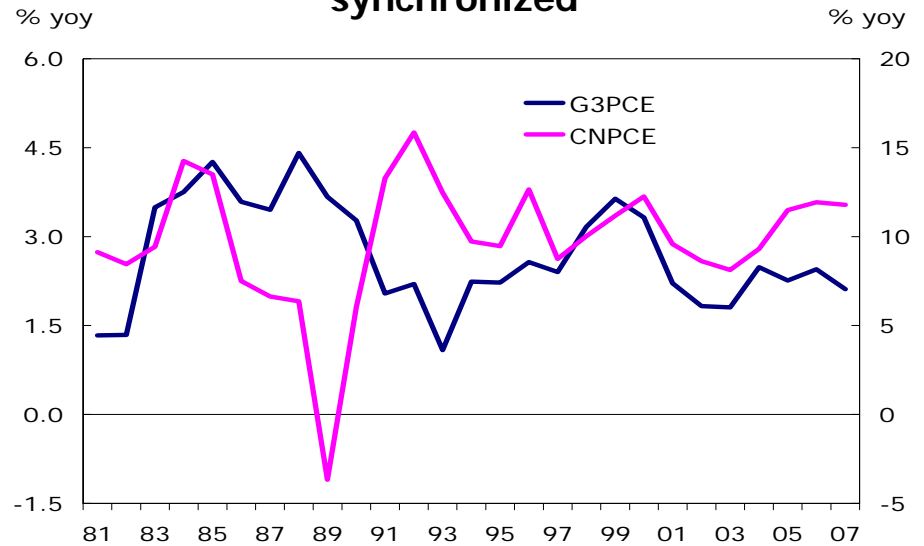
## China: External Demand Dependence

China's investment and export share



Source: ERD BBVA

Growth in private consumption more synchronized





# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

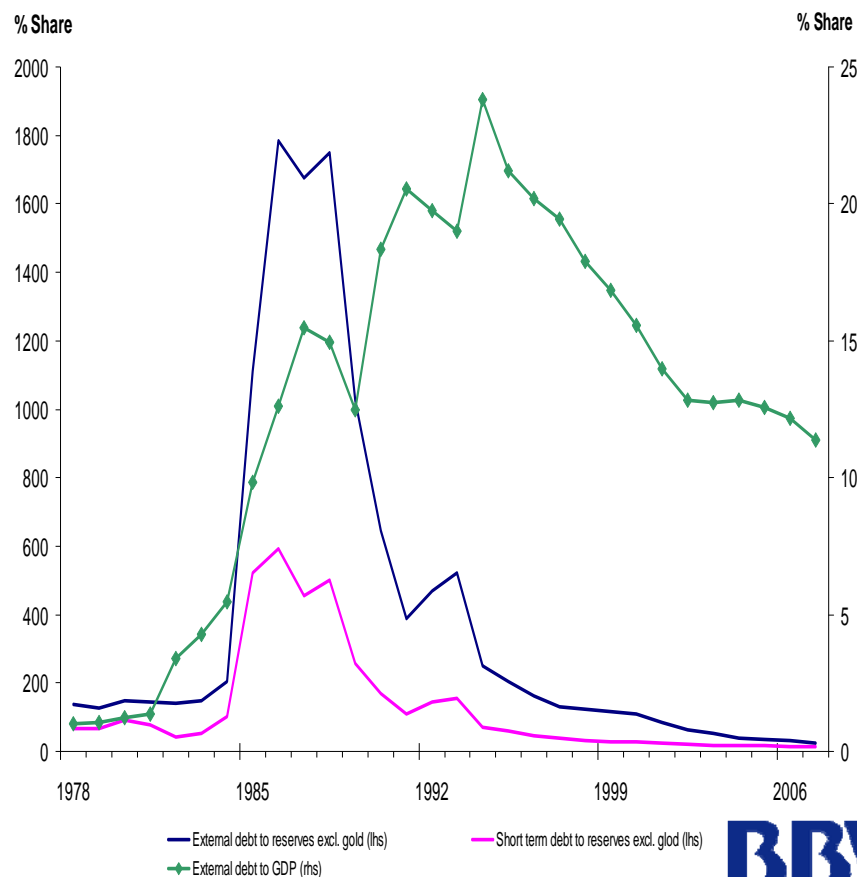
## China: but not dependent on external finance

China is clearly the soundest of all countries studied given its massive reserves and the very low levels of internal and external debt.

The latest IMF figures suggest total external debt and short term debt as shares of FX reserves is at 24% and 13%, respectively.

Cross-border liabilities from international banks are also very low. The BIS statistics show that China's short-term cross-border bank loans (maturity within one year) are less than 9% of its FX reserves in June 2008.

China: External Indebtedness

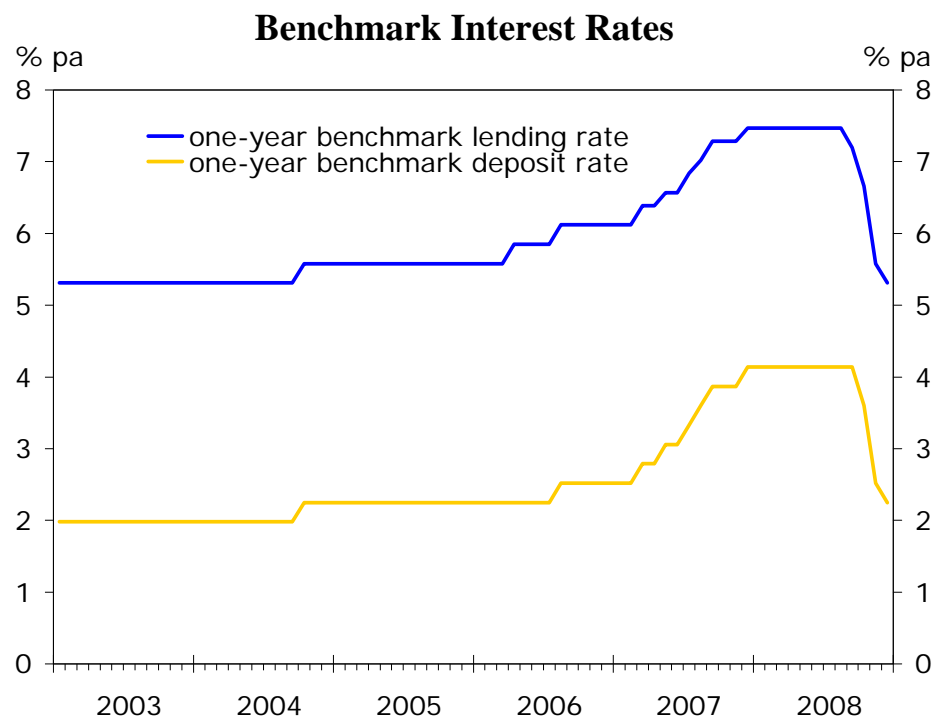


# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

## China: Ample room for monetary stimulus

The monetary policy has become aggressively accommodative. The PBOC has cut the one-year benchmark lending and deposit rate by 135 basis points (27bps\*5) and the required reserve ratio (RRR) to 14% for 6 largest banks was lowered to 14%, from peak at 17.5% (0.5 p.p. for smaller banks)

**More room exists to cut rates/RRR further**



Source: ERD BBVA

# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

## China: Huge fiscal stimulus

**Table B4.1: The RMB 4 trillion fiscal stimulus package (USD 586 billion)**

|  | RMB billion  | Percentage    |
|--|--------------|---------------|
| Affordable housing for low income population                       | 280          | (7%)          |
| Rural infrastructure facilities and programs to boost rural income | 370          | (9%)          |
| Investment in transportation network                               | 1,800        | (45%)         |
| Investment on medical services, culture and education              | 40           | (1%)          |
| Spending on ecology protection                                     | 350          | (9%)          |
| Technical innovation and economic restructure                      | 160          | (4%)          |
| Sichuan post-earthquake reconstruction                             | 1,000        | (25%)         |
| <b>Total</b>   | <b>4,000</b> | <b>(100%)</b> |

*Source: State council, China.*

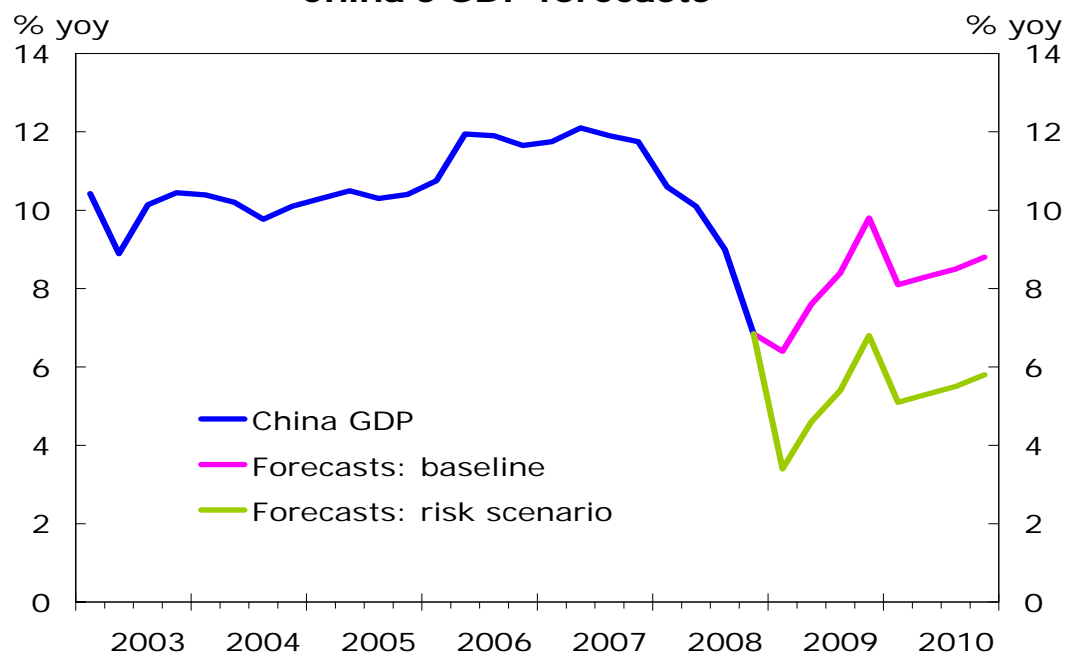
The fiscal program (16% of GDP, to be distributed between 2009 & 2010) entails a comprehensive and, a priori, effective package: it is timely, generous, and sustainable. We estimate an elasticity of 0.6%.

It is designed to improve the transport network and to rebuild the areas hit by the recent earthquake (about 70% of the funds). Thus, part of the program also aims to improve income distribution.

# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

Growth will be maintained at a good 8%

China's GDP forecasts



Source: ERD BBVA

Very favorable fiscal and monetary condition, strong external positions and the still relatively controlled economy will help China achieve 8.1 % growth in 2009.

# 8th Annual **Structured Trade and Export Finance Asia-Pacific** conference

However there are important risks to such benign scenario

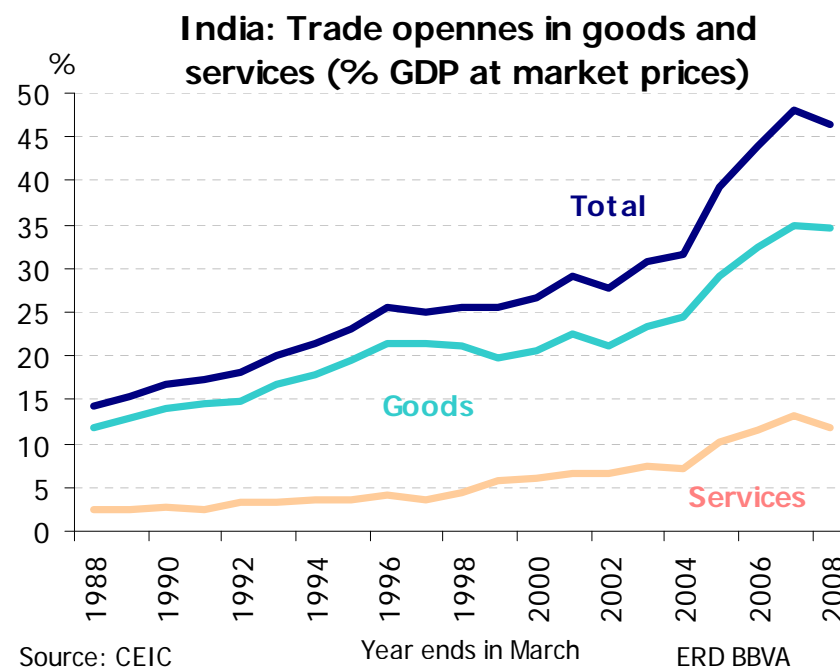
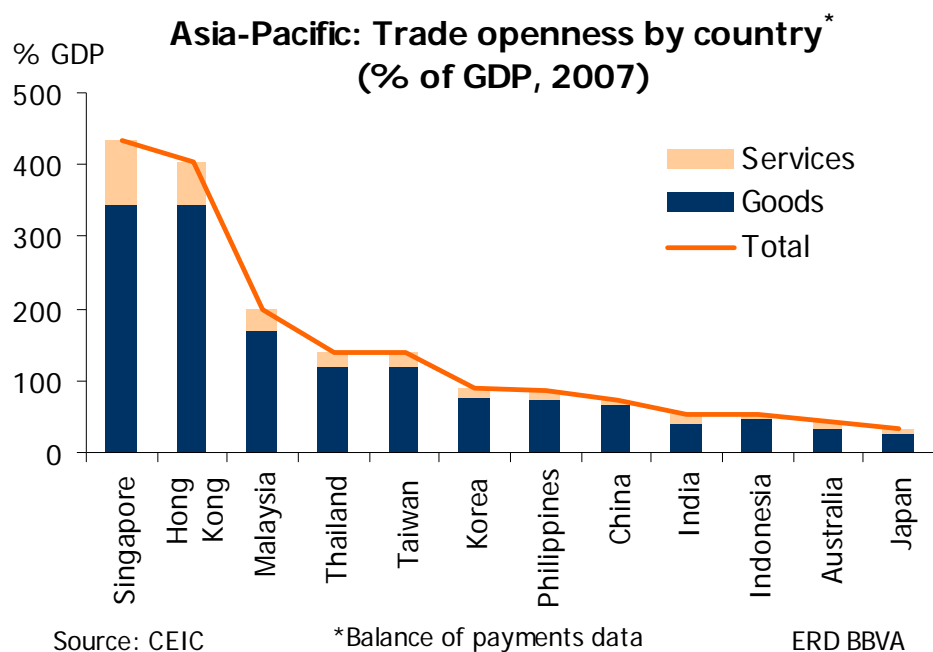
---

Growth could be as low as 5 - 5,5% in 2009 and 2010 in the case of:

- ineffective and poorly executed fiscal stimulus
- sharper contraction in G3 activity
- Worsening of the financial crisis worldwide

# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

## India: More external demand dependence than generally thought

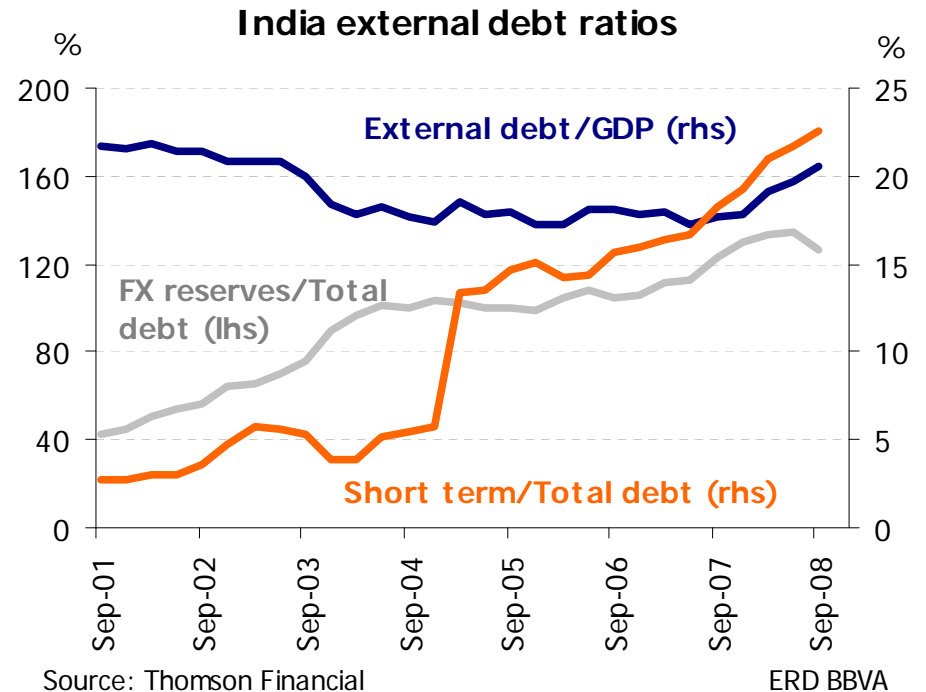
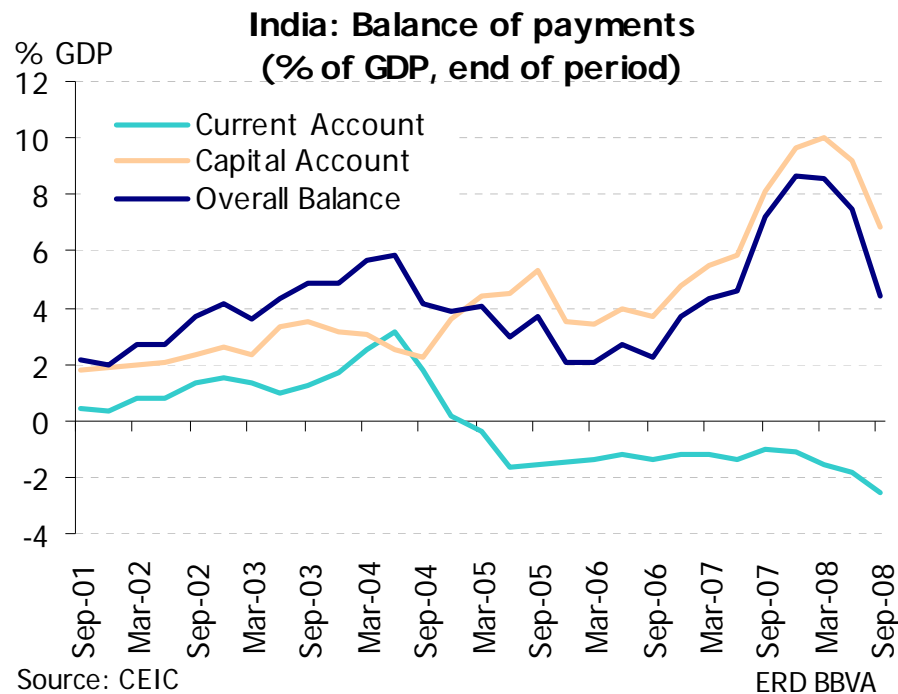


In view of the external orientation of the global crisis, India is relatively closed and thus, in better position than China (or MX) to cope with the external slowdown. However, India's trade openness has been progressively gaining higher importance, particularly, in recent years.



# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

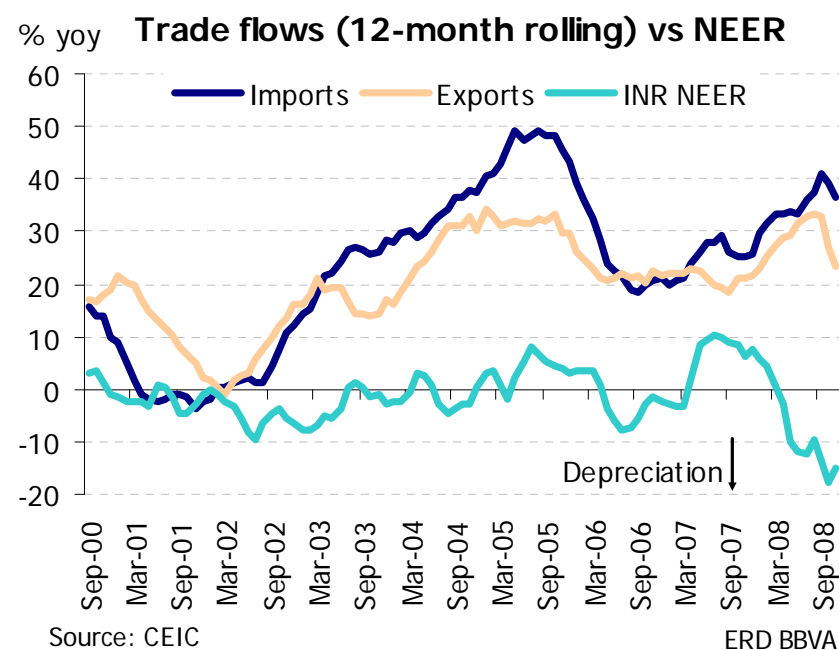
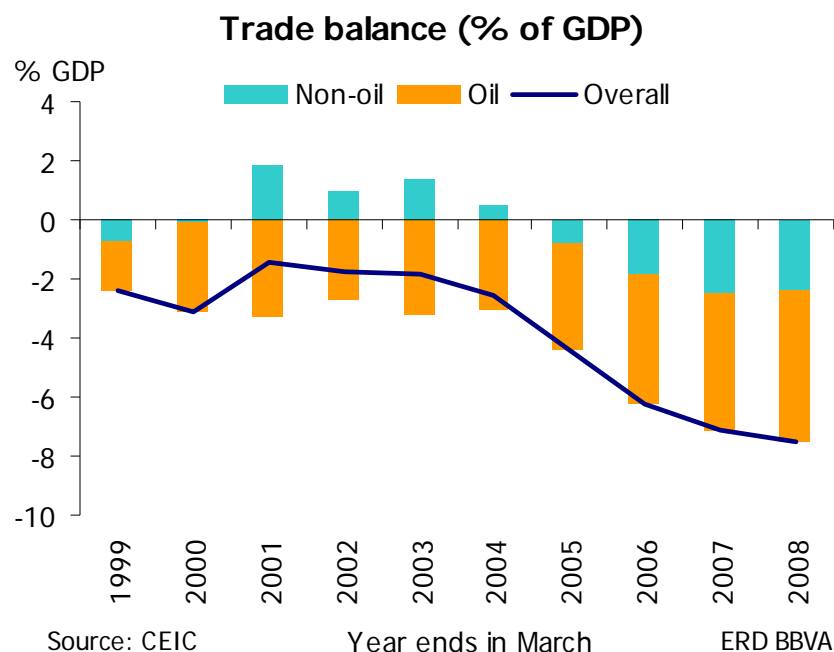
## India: Weak external Position



India's external position remains weak. Notwithstanding US\$242 bn in FX reserves, India is still a net international debtor (IIP) that owes the world ~US\$50 bn (end-June 2008). In addition, India's build up of reserves mainly stems from portfolio flows instead of from current account surpluses.

# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

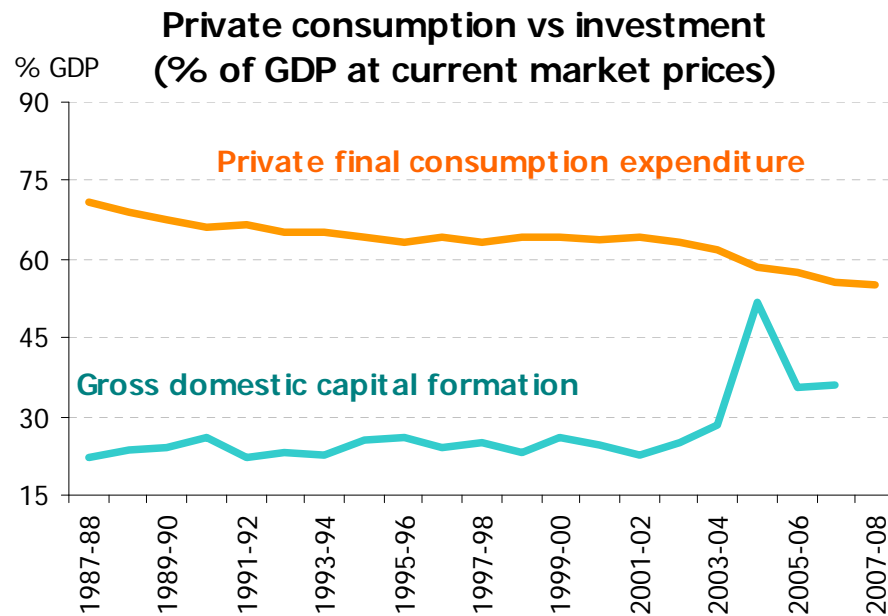
## India: Worsening trade balance to worrisome levels



Exports momentum is slowing down at a higher pace than imports. This is at odds with the sharp fall in oil prices. Going forward, there is a risk of trade deficit ballooning and increasing pressures on the current account in case the weakening of the rupee vis-à-vis other currencies fails to lift up exports due to lack of external demand while imported good prices rise.

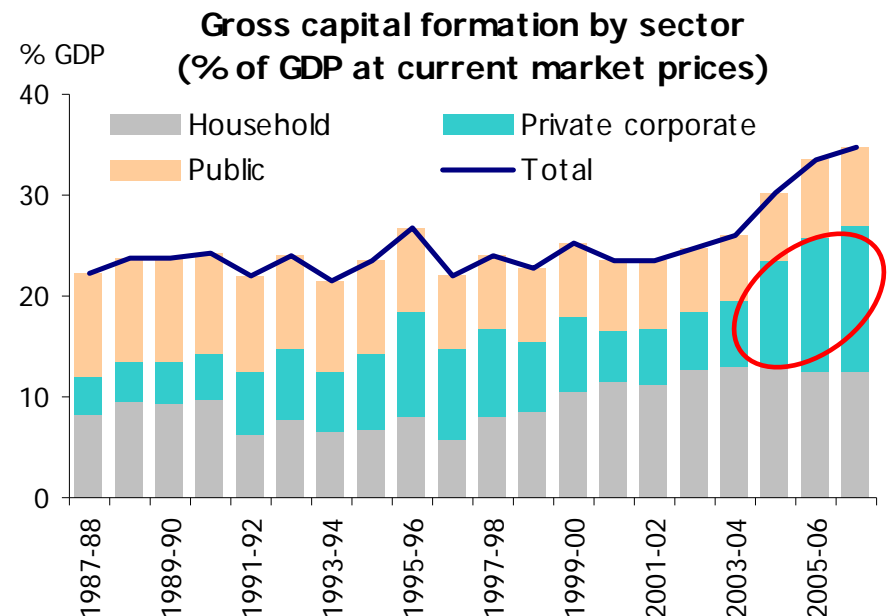
# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

## India: Investment may have a financing problem



Source: Reserve Bank of India

ERD BBVA

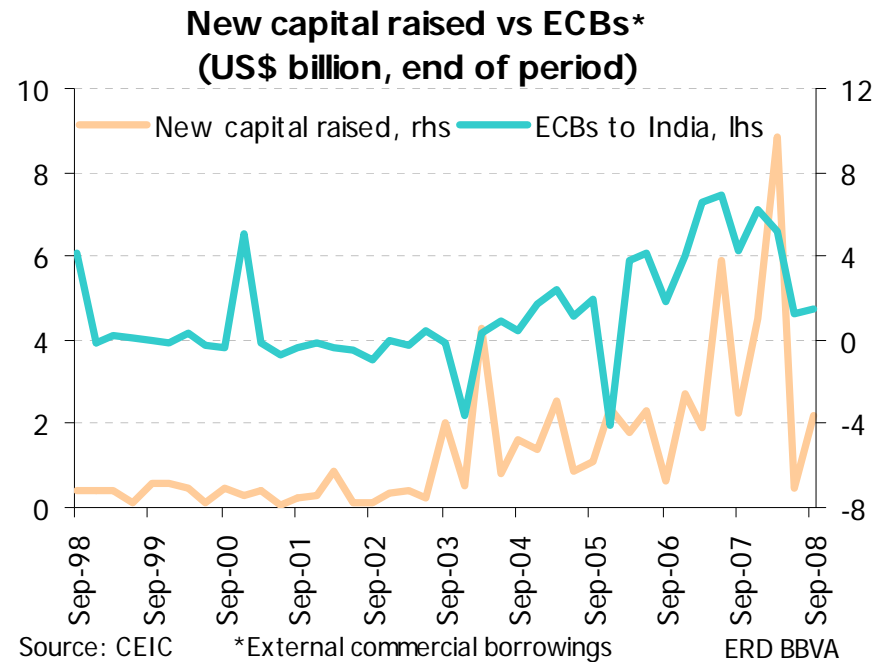
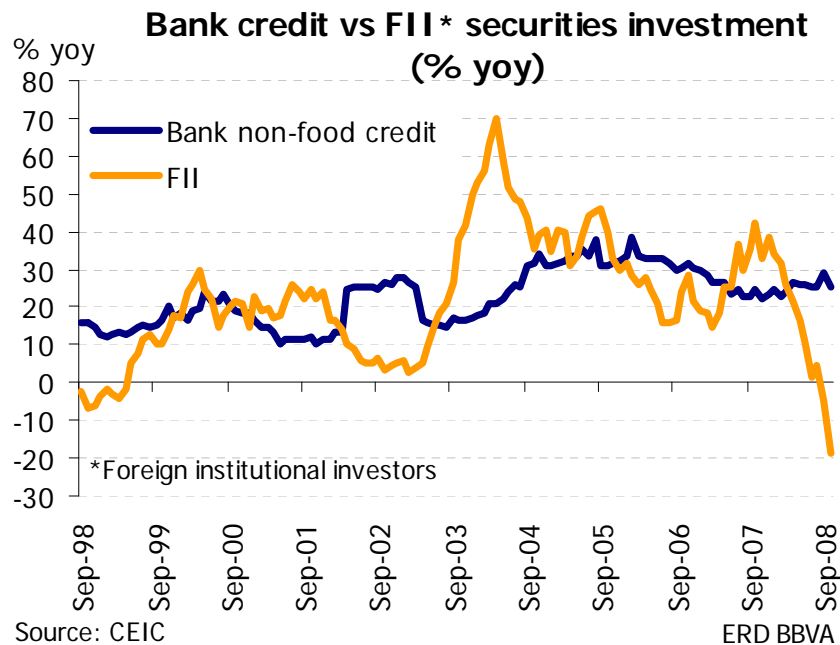


Source: National statistics

ERD BBVA

India's industry will bear the brunt of the slowdown. Corporate investments such as capex and infrastructure projects are dependent on international finance due to lack of domestic sources of long-tenor funding (non-significant corporate debt market and no development finance institution).

# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

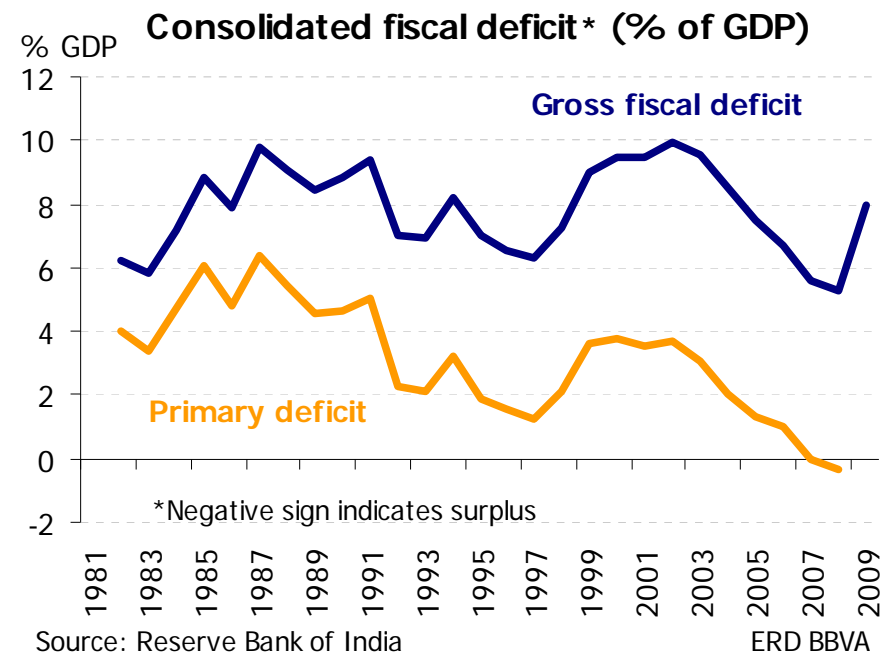
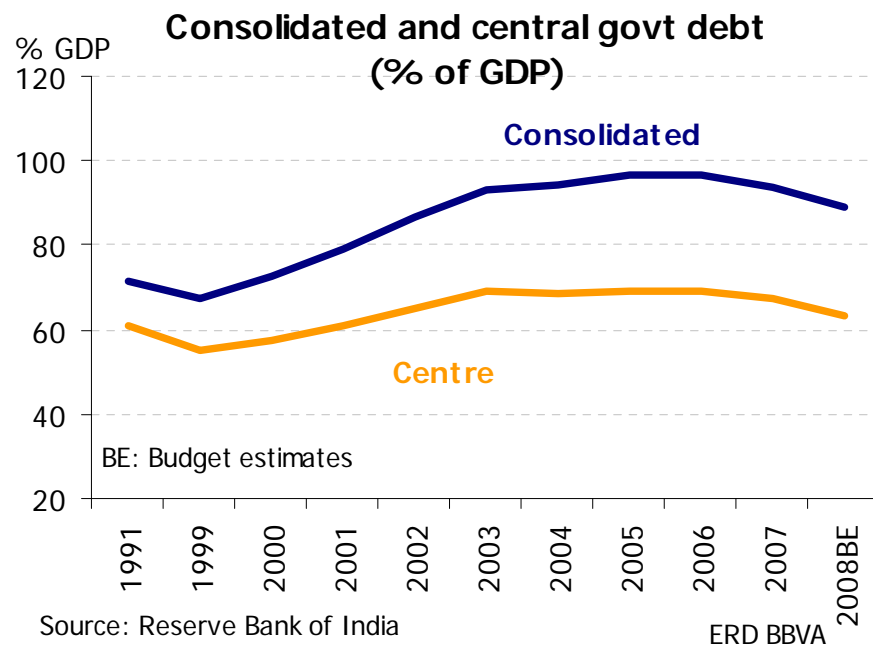


Apart from bank loans, major sources of funding for Indian corporates (foreign institutional investments in IPOs, external commercial borrowings and equity issuances) have now dried up and are unlikely to return in the near term.



# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

## India: Public Finances are worsening

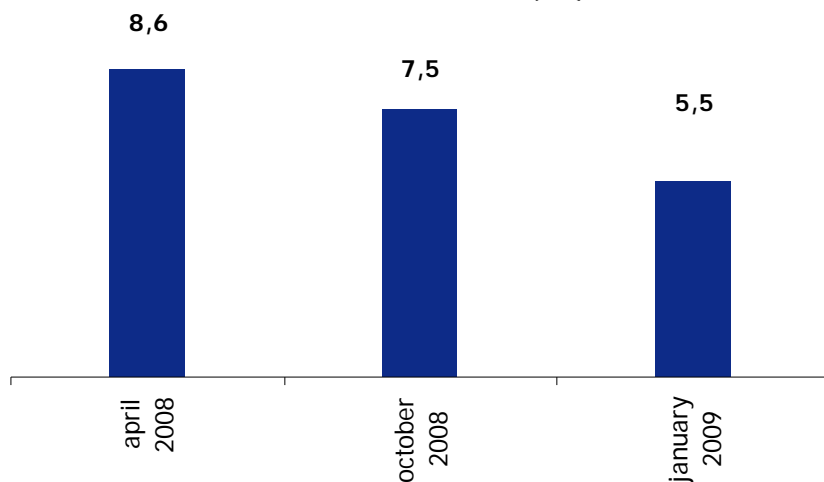


Despite the deficit reduction in the last few years, the progress is unwinding and with high levels of public debt, they leave no fiscal room to maneuver. Budget deficit, including issuances of oil and fertiliser bonds, has been revised up to 8% GDP from 4.6% in FY2009.

# 8th Annual Structured Trade and Export Finance Asia-Pacific conference

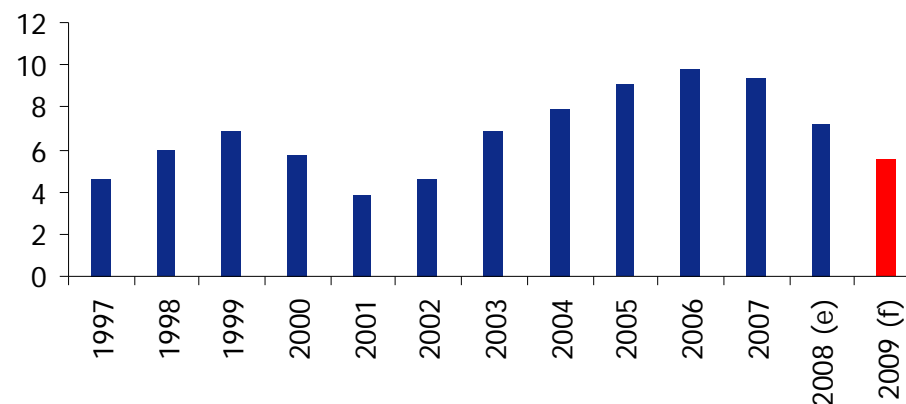
Our projections are gloomier but still good performance

INDIA: Evolution of BBVA 2009 GDP  
Growth Forecast (%)



Source: BBVA

INDIA: GDP growth (%)



Source: WEO and BBVA

All things considered, we have revised downward our GDP growth forecast for 2009 (5.5% baseline/4% risk), with the balance of risks on the downside

**BBVA**



# 8th Annual **Structured Trade and Export Finance Asia-Pacific** conference

## What to expect for China and India?

**A closer view on the dimensions of the crisis and perspectives in :**

➤ **China** is the least vulnerable country in Asia due to strong international reserves, high current account surpluses, very low external indebtedness and ample room for fiscal and monetary policies. The slowdown in the yuan appreciation should help to support the export activities but protectionism in developed economies is a risk.

➤ **India** is more vulnerable. The credit squeeze is affecting the corporate sector investment plans, mostly funded with external credit. Unlike Furthermore, there no room for fiscal or monetary action. Although will remain clearly above world average (even that of the emerging world), a real risk in India is that of a sovereign rating downgrade due to the country's rising fiscal and trade deficits



**EUROMONEY  
SEMINARS**

**TRADE FINANCE**

8th Annual **Structured Trade and Export  
Finance Asia-Pacific** conference

---

Thank you for your attention

**BBVA**

**BBVA**

---