The 10-second briefing

QE uncertainty, China's import shortfall and other crosswinds

Regional Economy

- Regional FX reserves resumed their uptrend in 2H12, but have struggled to grow into 2013, pointing to weaker liquidity inflows
- Positive spillover of China's recovery to the region appears to be fading, as China maintains sizeable regional trade surpluses
- Revising down our 2013 import growth forecast for China and GDP growth forecasts for Hong Kong, Korea and Singapore

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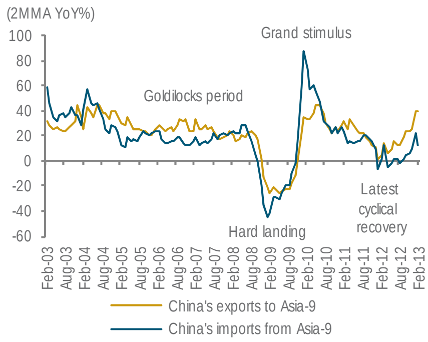
■ **Summary**
In our outlook for 2013, *All roads lead to China*, published on 4 January 2013, we expected much of the developed world to continue to struggle and that because of this, Asia ex-Japan would have to rely on China once more to provide much-needed support for a recovery. Given the apparent weakness in China's imports from Asia, this assumption is now being tested and our 2013 forecast for China's imports is revised down from 11% YoY to 9.5% YoY. At the same time, the region's export recovery seems more uneven compared with previous occasions. China has done better than many others, and as a result it continues to absorb sizeable trade surpluses from the region. We see several important implications here.

China's more inclusive growth model is having a profound impact on its Asia neighbours. More of China's investment growth is now coming from the tertiary sector (research, education, health care, etc.) and less from the secondary sector (mining, manufacturing, construction, etc.). This new growth model will require more soft skills and technology, and less physical capital or commodity input.

■ China's exports to Asia have been growing much faster than its imports



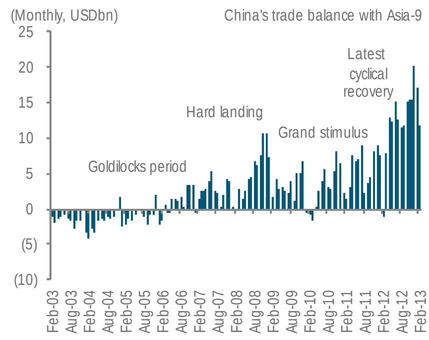
Source: CEIC, Daiwa

China's new frugal and anti-graft campaign restricts its appetite for Asian products. This stands to hurt a few of Asia's economies more specifically. Top of our list is Hong Kong, as more than half of its exports go to China and many of them are premium consumer items. Many gift items are also bought in the city, which means the impact of this policy could be broader than just on exports.

Fed's policy jitters add more uncertainty to liquidity flows. The Fed views QE as a short- or intermediate-term measure. If the first rate hike occurs in 2015, we believe asset purchases would end well before that, probably before the middle of 2014. On top of this, we look for China to embark on another round of tightening from 4Q13 (revised from 3Q13). As a result, we now forecast GDP growth to peak in 3Q13 rather than 2Q13.

Reducing our forecasts for economies more exposed to these crosswinds. We are revising down our 2013 real GDP YoY growth forecasts as follows: to 2.0% from 2.3% for Hong Kong, to 2.9% from 3.3% for Korea, and to 2.7% from 3.0% for Singapore. We look for China to stay relatively robust and maintain our 8.4% YoY forecast for 2013. Nonetheless, the Fed is the biggest wild card, in our view. If an early exit for QE3 happens, there would be additional downside risks to our regional forecasts for 2014, as well as 2013.

■ China has been extracting more surpluses from Asia



Source: CEIC, Daiwa

QE uncertainty, China's import shortfall and other crosswinds

Stalling regional FX reserves, China's import demand shortfall and many other regional macro indicators point us to several important implications. Our GDP growth forecasts are revised down for economies that are more exposed to China. Also, we expect further setbacks to money inflows into the region, on QE policy uncertainty.

Asia ex-China's FX reserves have struggled to grow

The regional macro data year-to-date shows some interesting trends. China's exports have outperformed those for many locations, such as Korea and Singapore. At the same time, China's import demand has been much weaker than its exports and has disappointed us and the market, undermining many Asian economies that have been relying on China to kick-start or bolster an economic recovery in 2013. This trend has resulted in China retaining many of its trade surpluses with the region, and fewer being generated for the rest of the region.

On top of this, money inflows into Asia have started to fizzle, following the onset of the Fed's QE3 and the Bank of Japan's (BOJ) similar QE policy. Asia's FX reserves, excluding China, rose significantly in 2H12 but struggled to increase for the first two months of 2013. We see several important implications here and advise our clients to watch closely how these forces could unfold going forward.

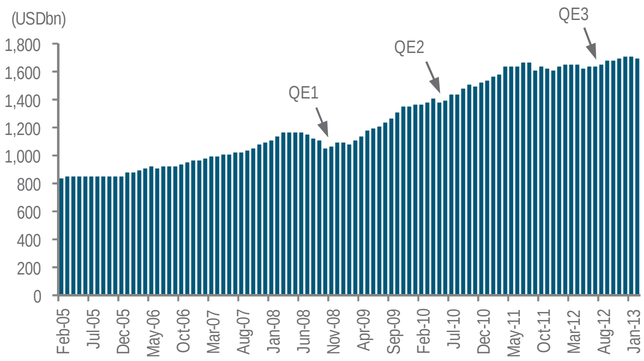
In this report, we look at Asia-7 (Hong Kong, Taiwan, Korea, Singapore, Indonesia, Thailand and Malaysia). FX reserve data for this group is available up to the end of February 2013. We do not include China, India and the Philippines, because the data only goes up to the end of December or January. We single out China, as we believe it has been absorbing more surpluses from the rest of the region (meaning that the rest of Asia is running a larger trade deficit with China).

QE3 and other factors pushed FX reserves up in 2H12…

FX reserves in Asia-7 were hit significantly during the Lehman crisis (2008-09). QE1 and QE2 were game-changers. Between the start of QE1 in November 2008 and the end of QE2 in June 2011, reserves increased sharply by USD578bn to reach USD1,635bn. In other words, Asia-7 generated about USD18.6bn in inflows/month through its current and capital accounts during QE1 and QE2. Reserves continued to grow for another two months to reach a peak of USD1,659bn in August 2011.

Over the subsequent nine months (ie, between August 2011 and May 2012), these reserves declined by USD40bn for Asia-7, representing a fall of about USD4.4bn/month, still moderate compared with the rises seen during QE1 and QE2.

■ FX reserves: Asia-7



Source: CEIC, Daiwa

So what has happened since the onset of QE3? Reserves hit a trough in May 2012. They increased once more, by USD90bn (USD12.6bn/month) to reach USD1,710bn in December 2012, considerably weaker than the rises during QE1 and QE2. In other words, QE3 has generated additional inflows for the region, but lower than those that occurred during QE1 and QE2.

…but the same reserves have stalled into 2013

More importantly, going into 2013, these inflows appear to have stalled or started to decline. For the January-February period, FX reserves fell by USD20bn, which is not a significant decline but was certainly not what many expected. We go on to assess the reasons for this decline.

China's demand recovery has been lacklustre for the region

In our view, there are several factors that explain the year-to-date decline in Asia-7's FX reserves.

In the case of Hong Kong, the decline in FX reserves was USD12.5bn for the first two months of 2013. We believe there was a substantial outflow through its capital account. (See also our report, *Is money flowing out again? Part II*, published on 3 March 2013.)

In the case of Indonesia, the drop was USD7.5bn, which can be explained largely by its current-account deficit.

The FX reserves for Korea, Taiwan and Singapore were relatively flat over January and February, after sharp rises in the preceding six months. Their current accounts should have remained well in surplus over this period, implying some capital-account outflows.

At the onset of QE3 in September 2012, the general market assumption was that Asia would see another influx of liquidity inflows over the entire course of the QE3. We have not been of this view and have argued that neither Asia's fundamentals nor the US Dollar trend supported the assumption that QE3 would bring significant inflows on a sustainable basis.

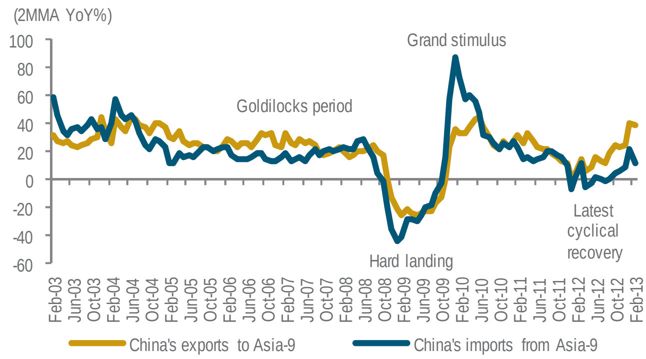
China's imports from Asia have been much weaker than its exports to the region

What has surprised us, however, is that China's cyclical recovery, which also started around the middle of 2012, has not had a powerful impact on import creation for many of its Asian neighbours. Here, we look at Asia-9 (Asia-7 plus India and the Philippines) because the regional trade data vis-a-vis China is available up to end-February this year.

China's imports from Asia-9 were up just 4.3% YoY for 2H12 and 11.8% YoY for 2M13. We consider these levels of growth as still too low, given that China's total exports were up by much stronger levels of 6.9% YoY and 23.6% YoY for the two respective periods. For the same periods, China's exports to Asia-9 accelerated sharply, up 20.5% YoY for 2H12 and 39.2% YoY for 2M13.

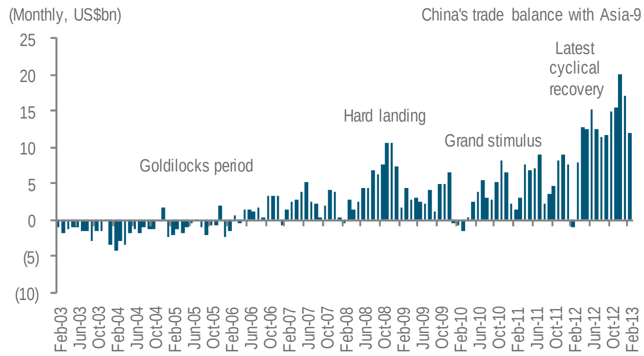
This data shows that China's recovery has been quite encouraging if we consider only China, but more disappointing for the rest of the region. One would have expected China to run a bigger trade deficit or at least a much lower surplus with its neighbours in this improved environment. However, China's trade surplus with Asia-9 has remained very high. For 1H12, this surplus was USD9.2bn/month, but it rose to USD14.4bn/month for 2H12 and USD14.5bn/month for 2M13.

■ China's exports to Asia have been outperforming imports from Asia by a significant margin



Source: CEIC, Daiwa

■ As a result, China has been absorbing more surpluses from the region



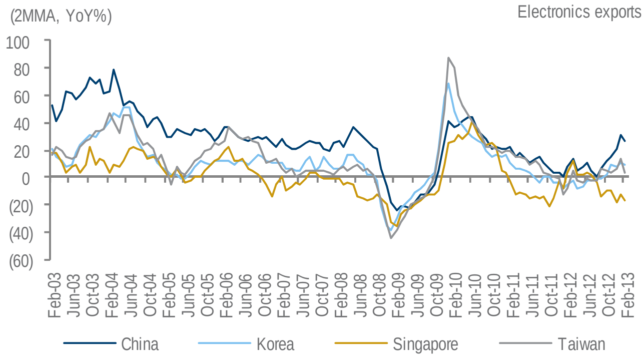
Source: CEIC, Daiwa

In other words, China has required less import demand from its neighbours to support its recovery, in terms of both domestic and external demand. This is by far the most interesting macro development for the region this year, in our opinion. We see three important implications here.

Not everyone can benefit from the surge in smartphone demand

First, we have pointed out previously (in *Asia Trade Watcher: Dissecting disappointing trade*, of 17 December 2012) that China's export recovery was led by shipments of smartphones and similar electronics. China is the final destination in the smartphone production chain. Handset exports were up by 18.9% YoY for 2H12 and 15.9% YoY for 2M13. Suppliers of smartphone components are concentrated in a few centres, most notably Taiwan. Singapore, for example, does not benefit from the smartphone boom because it is more specialised in other types of electronics, such as PCs and ICs. Singapore's electronics exports fell by 16.8% YoY for 2M13. Moreover, since smartphone production is not commodity-intensive, many ASEAN countries do not benefit from the surge in demand for these items.

■ **China's electronics exports have been outperforming other countries**



Source: CEIC, Daiwa (China: hi-tech and electronics in USD; Singapore: in SGD; China, Korea and Taiwan: in USD)

China's investment drive is becoming less extractive and more inclusive

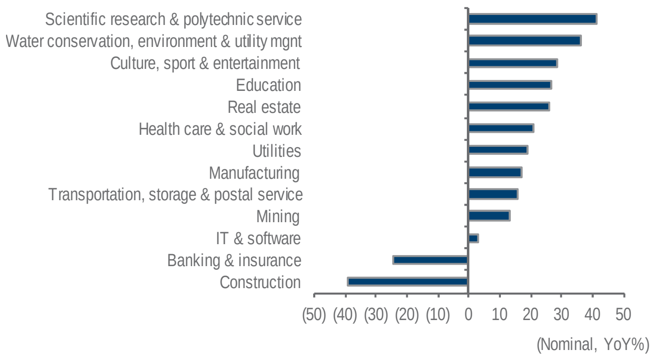
Second, according to the PRC Government's budget for 2013, China will continue to invest heavily to support GDP growth this year. The government's FAI target has been set at 18% YoY for 2013, a little higher than the 16% YoY target but lower than the 20.3% YoY actual growth for 2012. In contrast with the past, however, China's FAI is increasingly being delivered by the tertiary sector (transportation, software, media, banking, scientific research, water conservation, environmental protection, education, healthcare, leisure and culture, etc.), rather than the secondary industry (mining, manufacturing, utilities, construction, etc.).

For 2012, FAI in the secondary industry was up 20.2% YoY, whereas in the tertiary industry it was up 20.6% YoY, more or less the same. For 2M13, the former decelerated sharply to 15.6% YoY, but the latter accelerated to 25.0% YoY. In 2012, tertiary FAI was 24% greater than secondary FAI. For 2M13, the percentage has risen to 46%.

■ **China's tertiary FAI growth has been much faster this year**

Source: CEIC, Daiwa

■ **China's FAI growth by key sector, 2M13**



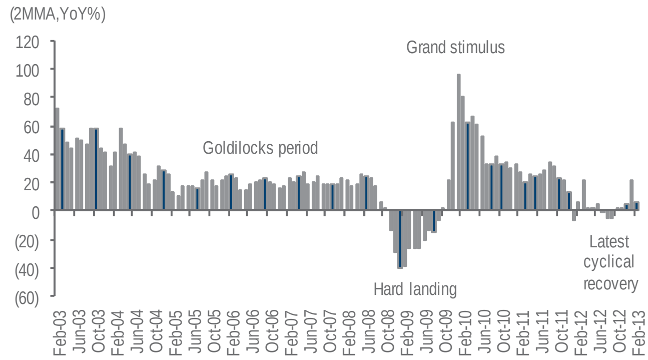
Source: CEIC, Daiwa

This drive is fully in line with the government's new inclusive growth methodology, according to [World Bank's definition](). Inclusive basically means, 'broad based growth, shared growth, and pro-poor growth'. It decreases the rapid growth rate of poverty in a country and increases the involvement of people into the growth process of the country. By its very definition, inclusive growth implies an equitable allocation of resources with benefits incurred to every section of the society. However, the allocation of resources must be focused on the intended short- and long-term benefits of the society such as availability of consumer goods, people access, employment, standard of living, etc. It sets a direct relationship between macro and micro determinant of the economy and its growth.

In a nutshell, inclusive growth encompasses: 1) less quantity and more quality of growth, 2) less waste and more efficiency, and 3) more sustainable and equitable growth path. In the past, Asia has provided mostly capital goods, energy and commodities to support China's pursuit of high-GDP growth.

When China adopts a speed-driven growth model, as it did in the past, it tends to create more surpluses/liquidity for the rest of Asia. When China adopts a more inclusive growth model, as it does now, it tends to absorb more surpluses/liquidity from the rest of Asia.

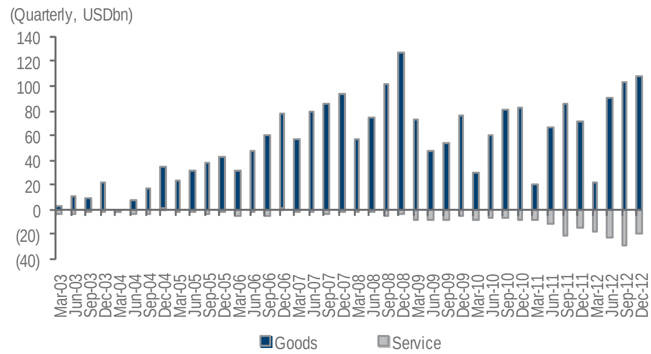
▪ **China's imports from ASEAN (mostly commodities) remain sluggish**



Source: CEIC, Daiwa

As China is now quickly adjusting its growth strategy, the rest of Asia will have to go through various levels of adjustment too, in our view. Going forward, we believe China's future investment drive will require more transferring of soft skills, expertise and technology, and less physical capital or commodity inputs. China's service account has been growing more rapidly in recent years compared with in the past decade, but in net terms, its goods account is five times larger than its service account. It will be several more years before China runs a substantial service deficit to offset its goods trade surplus with its Asian neighbours, in our view.

▪ **China's current-account balances**



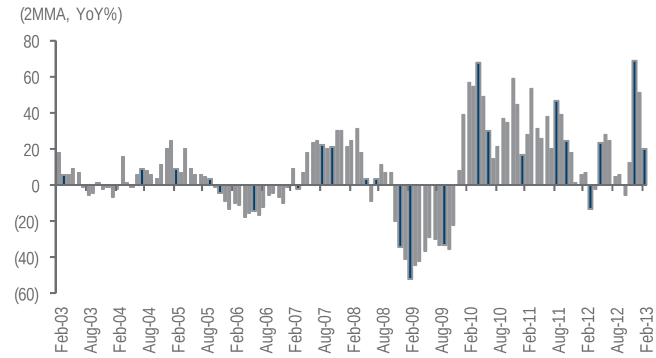
Source: CEIC, Daiwa

China's frugal and anti-graft campaign is restricting its appetite for Asian products

Finally, China's latest frugal and anti-graft campaign implemented from October 2012 has restricted its imports from Asia. This stands to hurt some Asian economies more specifically. Top on our list is Hong Kong, as 54% of its exports go to China. Hong Kong imports a wide range of goods for China, especially fine wines, tobacco, and fresh and dried seafood. In 2012, its exports to China were worth USD238bn, 2.8 times the combined size of its exports to the US and EU.

We estimate that about 20% of these exports will be affected by the latest frugal and anti-graft campaign. They are, in order of magnitude: 1) gold, 2) fruit and vegetables, 3) travel goods and handbags, 4) meat, 5) beverages, 6) tobacco, 7) road vehicles and 8) fish and aquatic products. This percentage, however, does not include items such as jewellery and luxury watches, which are included in other large categories that we cannot filter. Many premium items, such as lobsters, are shipped into China illegally.

▪ **China's imports from Hong Kong**

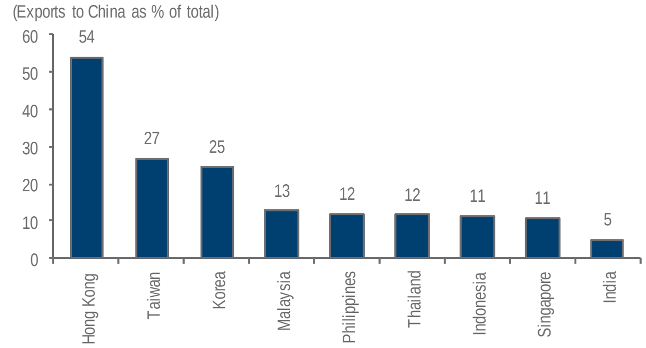


Source: CEIC, Daiwa

China's cyclical window likely to last until 3Q13

In our outlook for 2013 (*All roads lead to China* of 4 January 2013), we assumed that China's cyclical recovery would last until the middle of 2013, before slowing down again due to another round of policy tightening. The tightening would encompass two 25bps rate hikes by the PBOC to manage renewed inflation pressures and guide overall GDP growth lower again. Until then, however, we had assumed this cyclical demand recovery in China would offer many of Asia's economies much-needed help. But given the weaknesses of China's imports from Asia and other macro changes in the country, we see the need to modify these assumptions.

■ **North Asia is more sensitive to China's demand**



Source: CEIC, Daiwa

First, we are cutting our 2013 import forecast for China, from 11.0% YoY to 9.5% YoY. Second, we now expect the tightening to be pushed back by a quarter, from 3Q13 to 4Q13, as we expect overall inflation pressure to remain manageable over the next six months. Our rationale for our revised outlook is that consumption demand is being dampened by the current frugal campaign. As a result, price pressure on food (especially pork) and other consumer items is likely to be milder than we expected previously. These factors would reduce the urgency for monetary tightening.

In this sense, the cyclical peak for China's GDP growth would be 3Q13 instead of 2Q13. We now look for GDP growth to continue to accelerate to 8.7% YoY for 3Q13 before easing to 8.3% YoY for 4Q13 (as against our prior growth forecasts for 8.5% YoY for 1Q13, 8.7% YoY for 2Q13, 8.5% YoY for 3Q13 and 7.9% for 4Q13). In terms of tightening, we believe the two 25bp policy rate hikes from the PBOC will both be implemented in 4Q13.

The window for China's cyclical recovery should therefore last for an extra six months before another round of policy tightening – albeit mild in our view – sets in later this year. Since North Asia (Hong Kong, Taiwan and Korea) is more sensitive to China demand in general, these economies would be more directly affected by a new round of tightening in China.

■ **China economic indicators: trend and Daiwa forecasts**

	Unit	1Q12	2Q12	3Q12	4Q12	1Q13E	2Q13E	3Q13E	4Q13E	2012	*2013E*	*2014E*
Real GDP	YoY %	8.1	7.6	7.4	7.9	8.1	8.5	8.7	8.3	7.8	*8.4*	*7.5*
CPI	YoY %	3.8	2.8	1.9	2.1	2.5	2.9	3.4	4.4	2.7	*3.3*	*4.3*
PPI	YoY %	0.1	(1.4)	(3.3)	(2.3)	(1.7)	(0.8)	1.7	2.6	(1.7)	*0.5*	*3.9*
Fixed assets investment (nominal, YTD)	YoY %	20.9	20.4	20.5	20.6	20.8	20.5	20.0	18.0	20.6	*18.0*	*16.0*
Retail sales (nominal)	YoY %	15.8	13.9	13.5	14.9	12.7	14.1	15.3	16.1	14.3	*14.5*	*14.8*
Industrial production	YoY %	11.5	9.5	9.1	10.0	10.1	11.1	11.7	10.9	10.0	*11.0*	*9.0*
Exports	YoY %	7.6	10.4	4.4	9.4	14.9	5.9	8.6	9.6	7.9	*9.5*	*11.0*
Imports	YoY %	6.9	6.4	1.4	2.9	2.9	9.3	11.9	13.3	4.3	*9.5*	*13.0*
Trade balance	USDbn	0.2	68.4	79.2	82.8	52.8	57.2	71.0	74.3	231	*255*	*244*
Exchange rate	CNY/USD	6.29	6.32	6.28	6.23	6.20	6.15	6.12	6.10	6.23	*6.10*	*6.00*
M2	YoY %	13.4	13.6	14.8	13.8	14.8	13.5	12.8	12.0	13.8	*12.0*	*10.0*
1-year base lending rate	% pa	6.56	6.31	6.00	6.00	6.00	6.00	6.00	6.50	6.00	*6.50*	*6.50*
1-year deposit rate	% pa	3.50	3.25	3.00	3.00	3.00	3.00	3.00	3.50	3.00	*3.50*	*3.50*
Required reserve ratio	%	20.0	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	*19.5*	*19.5*
Current account balance	% of GDP									2.6	*2.2*	*1.9*
Foreign reserves	USDtn	3.3	3.2	3.3	3.3	3.4	3.5	3.5	3.5	3.3	*3.5*	*3.5*
Fiscal balance	% of GDP									(1.5)	*(1.8)*	*(2.0)*

Source: CEIC, Daiwa forecasts

Fed's policy jitters add more uncertainty to liquidity direction

Given the decline in FX reserves in Asia-7 over January and February, there is evidence enough to show that global investors have become less excited about what QE3 or BOJ's new policy may bring to Asia. Money inflows into the region are affected by global risk appetite, which in turn is very sensitive to the region's growth or recovery outlook. If regional growth disappoints, we believe investors will be more reluctant to bring in new money regardless of how much new money is being printed every day.

More importantly, the excitement about QE3 appears to be fading, in no small part due to the uncertainty of the Fed's current policy stance. The minutes from the two FOMC meetings in December and January indicated a wide range of views on the Fed's QE3, with the FOMC agreeing only on the general nature of the effort – purchasing securities until the labour market improves substantially while taking account of the program's effectiveness and costs.

QE3 exit door may open before mid-2014

According to our US economist Mike Moran, a closely related issue involves the eventual exit from the unconventional stance now in place. Although the unwinding of the current degree of accommodation is unlikely to begin for a considerable time, public statements from some Fed officials have indicated that they are considering a change in the exit strategy agreed to in June 2011. That plan involved a gradual selling of agency and mortgage-backed securities shortly after the Fed started to raise short-term interest rates. However, recent comments suggest that the FOMC might forego sales of assets and allow a more gradual reduction in the Fed's portfolio by running off securities as they mature. A more gradual approach might limit market disruptions and lessen the probability of the Fed realising losses on its portfolio if it were to sell assets in an environment of rising interest rates.

At the FOMC's meeting in March, while the Chairman remained imprecise on the Fed's plans for quantitative easing, he made one comment we found interesting; he noted that he expected a considerable period between the end of QE and the first rate hike. The economic projections of Fed officials continued to suggest that the first rate hike would occur in 2015, and thus that the asset purchase programme would end well before that. 'Considerable period' leaves open a wide range for interpretation, but it clearly suggests that the FOMC views QE as a short- or intermediate-term programme. We would be surprised if it went beyond mid-2014.

Hong Kong and India are most vulnerable to Fed's policy changes

This policy backdrop is not conducive for further money inflows into Asia, in our view. Asian markets have not been prepared for an early exit of QE3. Now that inflows into via both current and capital accounts Asia have started to struggle into 2013, we believe an extended period of policy uncertainty from the Fed would continue to stem further money inflows, if not raising the odds of a reversal of flows. In this respect, we see Hong Kong and India as the locations that are most vulnerable to a potential change in the Fed's QE3 policy. These two economies have seen substantial levels of inflows on the back of three QE programmes.

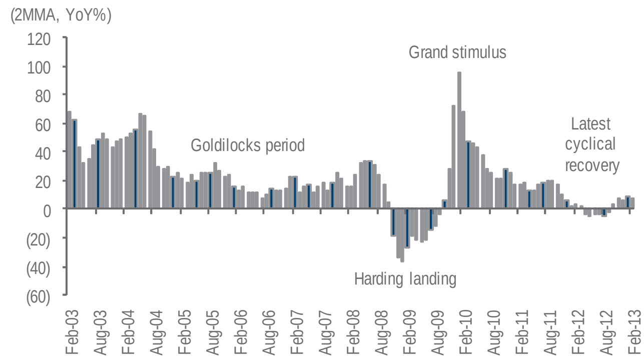
Regional forecast revisions

In view of these new factors, we are reviewing our regional forecasts. As we believe have been quite cautious with our numbers, assuming only a mildly positive impact from QE3 and a very feeble growth backdrop in the G3 economies, we do not see the need to reduce our forecasts significantly. Our key downward revisions are for Hong Kong, Korea and Singapore.

In our 2013 Outlook report, we forecast 2.3% YoY GDP growth for Hong Kong (up from 2.0% before), which is already close to the low end of the FocusEconomics consensus. To reflect the new factors discussed above, as well as additional factors such as higher mortgage rates and a sharp decline in property transactions, we are revising down our forecast back to 2.0% YoY.

For Korea, our GDP growth forecast for 2013 in our report was 3.3% YoY (down from 3.5% YoY previously), slightly higher than the consensus forecast of 3.1% YoY. Without a strong boost from China, we now see further weakness stemming from Korea exports, which have been weighed down by ongoing Yen depreciation. We had assumed that the BOK would make one more 25bps interest-rate cut in January or February, but this has been delayed. All in all for 2013, we find it necessary to cut our export growth forecast from 6.0% YoY to 4.0% YoY and our GDP growth forecast from 3.3% YoY to 2.9% YoY.

■ **Korea: exports to China remain sluggish**



Source: CEIC, Daiwa

For Taiwan, we are not changing our forecasts, although the economy there is also very sensitive to demand from China. Nonetheless, we expect Taiwan to continue to benefit from strong demand globally for smartphones and similar electronics. In addition, we expect it to be cushioned by further liberalisation of service trade with China. Our 2013 GDP growth forecast is 3.0% YoY, which is slightly lower than consensus forecast of a 3.4% YoY.

For India, also, our GDP growth forecasts are unchanged at 6.0% YoY for FY13/14 and 6.5% YoY for FY14/15. We are mindful, however, of the knock-on effects of potential policy changes by the Fed on the directions of money flow and hence GDP growth in India. Our FY13/14 forecast remains slightly lower than the consensus's 6.2% YoY.

For ASEAN, we are revising down our forecasts for Singapore only, due to its inability to benefit from the current wave of smartphone shipments. Non-electronics exports including pharmaceuticals have also been quite discouraging. Likewise, local retail sales have continued to drop in year-on-year terms. We now see considerable downside risk to our forecasts. For 2013, our export growth forecast is reduced from 5.0% YoY to 3.0% YoY, and our GDP growth forecast is revised down from 3.0% YoY to 2.7% YoY.

We are leaving our 2014 forecasts broadly unchanged, as we believe the challenges we have identified represent crosswinds rather than headwinds for the region. Nonetheless, the Fed's potential policy flip-flop remains the biggest wild card in our outlook. This factor could easily turn itself into a significant headwind for Asia from the latter part of 2013 onwards. We will be watching closely any slight change of the Fed's rhetoric going forward, especially the messages coming from each of the FOMC meeting minutes.

■ **Revisions to our GDP growth forecasts (YoY)**

	2013E			2014E		
	New	Previous	Consensus	New	Previous	Consensus
Asia ex-Japan	6.8	6.8	6.8	6.6	6.6	7.0
China	8.4	8.4	8.2	7.5	7.5	8.0
Hong Kong	2.0	2.3	3.4	3.0	3.0	4.1
Taiwan	3.0	3.0	3.4	4.0	4.0	4.0
Korea	2.9	3.3	3.1	4.0	4.0	4.0
India	6.0	6.0	6.2	6.5	6.5	7.0
Singapore	2.7	3.0	2.7	4.5	4.5	3.9
Indonesia	6.2	6.2	6.2	6.4	6.4	6.3
Malaysia	5.3	5.3	4.9	5.5	5.5	5.2
Philippine	5.8	5.8	5.8	6.5	6.5	5.7
Thailand	4.8	4.8	4.7	5.0	5.0	4.9

Source: FocusEconomics, Daiwa forecasts
Note: FY13/14 and FY14/15 for India

■ Real GDP

(% YoY)	2004	2005	2006	2007	2008	2009	2010	2011	2012	*2013E*	*2014E*
Asia ex Japan	8.4	9.2	10.2	11.1	7.3	6.5	9.3	7.3	6.2	*6.8*	*6.6*
China	10.1	11.3	12.7	14.2	9.6	9.2	10.4	9.2	7.8	*8.4*	*7.5*
Hong Kong	8.5	7.1	7.0	6.4	2.3	(2.6)	7.1	5.0	1.4	*2.0*	*3.0*
Taiwan	6.2	4.7	5.4	6.0	0.7	(1.8)	10.7	4.0	1.3	*3.0*	*4.0*
Korea	4.6	4.0	5.2	5.1	2.3	0.3	6.3	3.6	2.0	*2.9*	*4.0*
India	7.0	9.5	9.6	9.3	6.7	8.6	9.3	6.5	5.2	*6.0*	*6.5*
Singapore	9.2	7.4	8.8	8.9	1.7	(1.0)	14.8	4.9	1.3	*2.7*	*4.5*
Indonesia	5.0	5.7	5.5	6.3	6.0	4.6	6.2	6.5	6.2	*6.2*	*6.4*
Malaysia	6.8	5.3	5.8	6.5	4.8	(1.6)	7.2	5.1	5.6	*5.3*	*5.5*
Philippines	6.7	4.8	5.2	6.6	4.2	1.1	7.6	3.9	6.6	*5.8*	*6.5*
Thailand	6.3	4.6	5.1	5.0	2.5	(2.3)	7.8	0.1	6.4	*4.8*	*5.0*

Source: CEIC, Daiwa forecasts
Note: Fiscal year for India and forecast figures for 2012

■ CPI

(% YoY)	2004	2005	2006	2007	2008	2009	2010	2011	2012	*2013E*	*2014E*
Asia ex Japan	4.2	3.0	3.2	4.3	6.3	0.7	4.1	5.6	3.5	*3.8*	
China	3.9	1.8	1.5	4.8	5.9	(0.7)	3.3	5.4	2.7	*3.3*	*4.3*
Hong Kong	(0.4)	0.9	2.0	2.0	4.3	0.5	2.4	5.3	4.1	*3.5*	*2.5*
Taiwan	1.6	2.3	0.6	1.8	3.5	(0.9)	1.0	1.4	1.9	*1.5*	*1.9*
Korea	3.6	2.8	2.2	2.5	4.7	2.8	2.9	4.0	2.2	*2.8*	*2.5*
India	n.a.	4.4	6.6	4.7	8.1	3.9	9.6	9.0	7.5	*6.5*	*6.0*
Singapore	1.7	0.4	1.0	2.1	6.5	0.6	2.8	5.3	4.6	*3.8*	*3.0*
Indonesia	6.2	10.5	13.1	6.4	9.8	4.9	5.1	5.4	4.3	*6.0*	*5.0*
Malaysia	1.5	3.0	3.6	2.0	5.4	0.6	1.7	3.2	1.7	*2.8*	*3.5*
Philippines	6.0	7.6	6.2	2.8	9.3	3.2	3.8	4.7	3.1	*4.0*	*4.5*
Thailand	2.0	4.5	4.7	2.2	5.5	(0.8)	3.3	3.8	3.0	*3.5*	*4.0*

Source: CEIC, Daiwa forecasts
Note: Fiscal year for India and forecast figures for 2012

■ Exports

(% YoY)	2004	2005	2006	2007	2008	2009	2010	2011	2012	*2013E*	*2014E*
China	35.4	28.4	27.2	26.0	17.2	(16.0)	31.3	20.3	7.9	*9.0*	*11.0*
Hong Kong	15.9	11.6	9.5	8.7	5.3	(12.2)	22.5	9.9	3.3	*5.0*	*10.0*
Taiwan	21.1	8.8	12.9	10.1	3.6	(20.3)	34.8	12.3	(2.3)	*6.0*	*7.0*
Korea	31.0	12.0	14.4	14.1	13.6	(13.9)	28.3	19.0	(1.3)	*4.0*	*12.0*
India	30.9	23.0	22.7	29.0	13.7	(3.5)	40.5	21.4	(4.0)	*9.0*	*14.0*
Singapore	24.2	15.8	18.2	10.1	12.6	(20.2)	30.6	16.5	(0.2)	*3.0*	*8.0*
Indonesia	10.4	19.7	17.7	13.2	20.2	(15.0)	35.5	28.9	(6.6)	*12.0*	*20.0*
Malaysia	26.5	11.8	13.6	9.5	13.4	(21.2)	26.3	14.9	(0.3)	*7.0*	*12.0*
Philippines	9.5	4.0	14.9	6.4	(2.8)	(21.7)	34.0	(6.2)	7.6	*9.0*	*15.0*
Thailand	94.5	15.0	16.9	18.6	15.5	(14.3)	26.8	15.1	3.1	*8.0*	*12.0*

Source: CEIC, Daiwa forecasts
Note: Fiscal year for India and forecast figures for 2012

■ Imports

(% YoY)	2004	2005	2006	2007	2008	2009	2010	2011	2012	*2013E*	*2014E*
China	36.0	17.6	19.9	20.8	18.5	(11.2)	38.7	24.9	4.3	*11.0*	*13.0*
Hong Kong	16.9	10.5	11.7	9.8	5.7	(10.6)	24.7	11.7	4.3	*5.0*	*9.0*
Taiwan	31.8	8.2	11.0	8.2	9.7	(27.5)	44.1	12.0	(3.8)	*6.5*	*8.5*
Korea	25.5	16.4	18.4	15.3	22.0	(25.8)	31.6	23.3	(0.9)	*5.9*	*11.0*
India	42.8	32.3	25.6	34.9	21.2	(5.0)	28.2	32.2	(3.0)	*4.0*	*9.0*
Singapore	27.4	15.4	19.1	10.2	21.2	(23.1)	26.8	17.7	3.9	*5.5*	*8.0*
Indonesia	32.3	37.7	6.5	15.4	37.0	(24.9)	40.1	30.8	8.0	*12.0*	*18.0*
Malaysia	28.5	8.7	14.2	12.1	7.0	(20.9)	33.0	13.9	4.9	*8.0*	*10.0*
Philippines	8.8	7.7	9.2	7.2	2.2	(24.1)	27.5	10.1	2.0	*7.0*	*10.0*
Thailand	20.6	25.7	9.0	8.7	28.1	(25.4)	36.8	25.1	8.2	*9.0*	*10.0*

Source: CEIC, Daiwa forecasts
Note: Fiscal year for India and forecast figures for 2012

Trade balance

(USDbn)	2004	2005	2006	2007	2008	2009	2010	2011	2012	***2013E***	***2014E***
China	32.1	102.0	177.5	264.3	298.1	195.7	183.1	154.9	245.0	*230.0*	*215*
Hong Kong	(11.8)	(10.2)	(17.9)	(23.1)	(25.8)	(28.8)	(43.0)	(54.9)	(61.6)	*(64.7)*	*(65.9)*
Taiwan	13.6	15.8	21.3	27.4	15.2	29.3	23.4	26.8	30.4	*30.9*	*28.7*
Korea	29.4	23.2	16.1	14.6	(13.3)	40.4	41.2	30.8	28.3	*19.6*	*27.4*
India	(28.0)	(44.9)	(59.3)	(87.5)	(118.4)	(109.6)	(118.6)	(184.2)	(181.7)	*(174.3)*	*(174.1)*
Singapore	25.0	29.6	33.1	36.3	18.3	23.9	40.8	43.8	28.6	*20.0*	*21.6*
Indonesia	15.8	11.3	22.9	24.9	12.1	25.8	22.2	26.1	(1.6)	*(1.8)*	*2.2*
Malaysia	21.5	27.3	30.3	29.7	42.9	33.4	34.1	40.6	30.7	*30.9*	*40.3*
Philippines	(4.4)	(6.2)	(4.4)	(5.0)	(7.7)	(4.7)	(3.4)	(12.2)	(9.7)	*(9.4)*	*(7.5)*
Thailand	1.8	(7.8)	(0.1)	12.5	(3.3)	17.3	8.1	(9.0)	(21.0)	*(25.1)*	*(22.7)*

Source: CEIC, Daiwa forecasts

Note: Fiscal year for India and forecast figures for 2012

Policy rate

(%, end of period)	2004	2005	2006	2007	2008	2009	2010	2011	2012	***2013E***	***2014E***
China	5.58	5.58	6.12	7.47	5.31	5.31	5.81	6.56	6.00	*6.50*	*6.50*
Taiwan	1.75	2.25	2.75	3.38	2.00	1.25	1.63	1.88	1.88	*2.25*	*2.75*
Korea	3.25	3.75	4.50	5.00	3.00	2.00	2.50	3.25	2.75	*2.50*	*3.00*
India	6.00	6.50	7.75	7.75	5.00	5.00	6.75	8.50	7.50	*7.00*	*6.75*
Indonesia	#N/A	12.75	9.75	8.00	9.25	6.50	6.50	6.00	5.75	*6.25*	*7.00*
Malaysia	2.70	3.00	3.50	3.50	3.25	2.00	2.75	3.00	3.00	*3.25*	*3.75*
Philippines	6.75	7.50	7.50	5.25	5.50	4.00	4.00	4.50	3.50	*4.00*	*4.50*
Thailand	2.00	4.00	5.00	3.25	2.75	1.25	2.00	3.25	2.75	*3.25*	*3.75*

Source: CEIC, Daiwa forecasts

Note: Fiscal year for India and forecast figures for 2012

Fiscal balance

(% of GDP)	2004	2005	2006	2007	2008	2009	2010	2011	2012	***2013E***	***2014E***
China	(1.3)	(1.2)	(1.0)	0.2	(0.8)	(2.8)	(1.7)	(1.1)	(1.5)	*(1.8)*	*(2.0)*
Hong Kong	1.7	1.0	4.0	7.7	0.1	1.6	4.3	3.9	(0.5)	*(1.0)*	*(0.9)*
Taiwan	(2.8)	(0.6)	(0.3)	(0.4)	(0.9)	(4.5)	(3.3)	(2.2)	(2.0)	*(1.8)*	*(1.6)*
Korea	0.7	0.6	0.7	3.8	1.5	(1.7)	1.4	1.5	(0.5)	*(0.6)*	*0.0*
India	3.9	(4.0)	(3.3)	(2.5)	(6.0)	(6.4)	(4.8)	(5.7)	(5.2)	*(4.8)*	*(4.5)*
Singapore	2.9	(0.3)	0.5	3.1	1.4	(1.0)	0.2	1.3	2.0	*1.2*	*1.3*
Indonesia	(0.6)	(0.5)	(0.9)	(1.3)	(0.1)	(1.6)	(0.7)	(1.1)	(2.0)	*(1.5)*	*(1.2)*
Malaysia	(3.7)	(3.6)	(3.3)	(3.2)	(4.8)	(7.0)	(5.6)	(5.0)	(5.0)	*(4.2)*	*(4.0)*
Philippines	(3.8)	(2.6)	(1.0)	(0.2)	(0.9)	(3.7)	(3.5)	(2.0)	(2.6)	*(2.2)*	*(2.0)*
Thailand	0.0	0.7	2.1	(0.4)	(1.3)	(3.5)	(1.1)	(1.4)	(4.3)	*(3.0)*	*(2.5)*

Source: CEIC, Daiwa forecasts

Note: Fiscal year for India and forecast figures for 2012

Current-account balance

(% of GDP)	2004	2005	2006	2007	2008	2009	2010	2011	2012E	***2013E***	***2014E***
China	3.6	5.9	8.6	10.1	9.1	5.2	5.1	2.8	2.6	*2.2*	*1.9*
Hong Kong	9.9	11.9	12.7	13.0	15.0	9.5	6.6	4.8	(2.3)	*1.4*	*(3.4)*
Taiwan	5.8	4.8	7.0	8.9	6.9	11.4	9.3	8.9	10.5	*9.3*	*7.8*
Korea	4.5	2.2	1.5	2.1	0.3	3.9	2.9	2.3	2.2	*2.1*	*2.6*
India	(0.3)	(1.2)	(1.0)	(1.3)	(2.3)	(2.8)	(2.7)	(4.2)	(4.9)	*(3.8)*	*(2.8)*
Singapore	17.1	21.4	24.8	26.1	15.1	17.7	26.8	24.6	18.6	*16.0*	*18.0*
Indonesia	0.6	0.1	3.0	2.4	0.0	2.0	0.7	0.2	(2.8)	*(1.8)*	*(0.7)*
Malaysia	12.1	14.4	16.1	15.4	17.1	15.5	11.1	11.0	6.4	*12.7*	*12.7*
Philippines	1.8	1.9	4.4	4.8	2.1	5.6	4.5	3.2	2.6	*2.5*	*2.4*
Thailand	3.1	(4.3)	1.1	6.3	0.7	8.3	3.1	1.7	0.8	*0.5*	*1.0*

Source: CEIC, Daiwa forecasts

Note: Fiscal year for India and forecast figures for 2012

■ Exchange rates (local currencies to USD)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	***2013E***	***2014E***
China	8.28	8.08	7.82	7.30	6.82	6.83	6.59	6.30	6.23	*6.10*	*6.00*
Hong Kong	7.77	7.75	7.77	7.80	7.75	7.76	7.77	7.77	7.75	*7.76*	*7.8*
Taiwan	32.2	33.3	32.5	32.4	33.1	32.3	30.5	30.3	29.0	*29.1*	*28.7*
Korea	1,035	1,012	930	936	1,260	1,165	1,135	1,152	1,071	*1,020*	*1,000*
India	43.6	44.3	43.8	40.1	51.1	45.5	44.9	50.4	56.0	*58.0*	*58*
Singapore	1.63	1.66	1.53	1.44	1.44	1.40	1.29	1.30	1.22	*1.20*	*1.17*
Indonesia	9,290	9,830	9,020	9,419	10,950	9,400	8,991	9,068	9,637	*9,600*	*9,400*
Malaysia	3.80	3.78	3.53	3.31	3.46	3.42	3.08	3.18	3.06	*2.98*	*2.91*
Philippines	56.3	53.1	49.1	41.4	47.5	46.4	43.9	43.9	41.1	*39.0*	*38.0*
Thailand	39.1	41.0	36.0	33.7	34.9	33.3	30.2	31.7	30.6	*29.5*	*29.0*

Source: CEIC, Daiwa forecasts
Note: Fiscal year for India and forecast figures for 2012

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