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# PANORAMA

SEPTEMBER 2015

## Asia challenged by China's slowdown

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By Coface Group Economists



**T**he Chinese economy has been in the spotlight for several months: devaluation of the yuan, stock market collapse, falling property prices, fears of an excessive economic slowdown, doubts about the reliability of published data and, more generally speaking, uncertainties about the rebalancing process the authorities have launched. In this anxiety-provoking environment, other Asian countries seem to be the first potential victims in the event of a hard landing for the Chinese economy. While they have benefited from their geographical proximity and sectoral specialisations to trade massively and grow in China's footsteps since the early 2000s, their integration now seems to be a risk

factor, as China has contributed close to 32% to global growth and 72% to growth in emerging Asia since 2000. In this overview we first look at the state of the Chinese slowdown and then identify in what way Asian countries are being affected by the competitiveness losses that have accompanied this reduced vigour of activity. We then identify the countries that are most vulnerable to this development, by mainly focusing on three transmission channels: trade, commodity prices and financing.

We can draw several conclusions from this study. First, the two financial markets and trade hubs Hong Kong and Singapore are particularly vulnerable to the Chinese slowdown, through the trade channel as well as

the financial channel. Other countries, first and foremost Mongolia, are also likely to be negatively affected by the fall in commodity prices but also by the reduction in Chinese investment in the related sectors. At the other end of the scale, two countries in the region currently seem more immune than the others, i.e. India and the Philippines. Between these two groups, Thailand, Malaysia and Indonesia are in an intermediate position: while their exposure to the Chinese slowdown through trade and financial flows is significant, it is not sufficient to derail their growth in the event of a soft landing for the economy, which remains Coface's main scenario (we expect Chinese growth to reach 6.7% in 2015 and 6.2% in 2016).

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