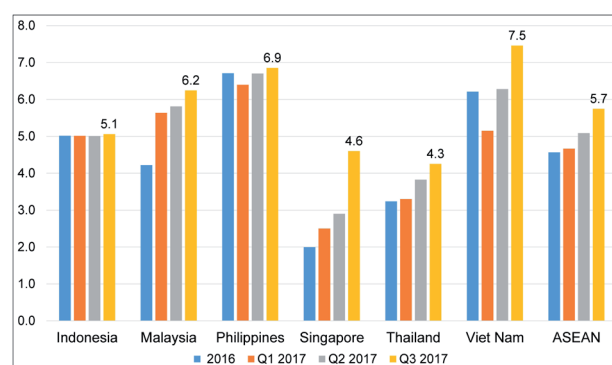


## Southeast Asia Grows by 5.7% in Q3 2017

Jaysa Prana and Lili Yan Ing

The Southeast Asian economy expanded by 5.7% in Q3 2017 (Figure 1), mainly driven by rising exports due to the global economic recovery. However, lower than expected consumption and manufacturing sector growth rates in Indonesia, of 4.9% and 4.8%, respectively, were still a drag on the biggest economy in the region's gross domestic product (GDP) growth, despite robust 7.1% fixed investment growth (Table 1). On the monetary system front, the average inflation rate of Southeast Asia was 2.7% in September 2017, with stable price increases in the region. Growth is likely to continue to be supported by favourable development of exports and continuous growth of domestic demand.

Figure 1. Southeast Asia's Economic Growth (%)



yoy = year-on-year; ASEAN = Association of Southeast Asian Nations.

Note: The Southeast Asian Countries are Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.

Source: Bureau of Statistics of each country, 2017.

Table 1. Southeast Asia's Q3 2017 Economic Indicators

Economic Indicators	Indonesia	Malaysia	Singapore	Philippines	Thailand	Viet Nam
Gross Domestic Product (% change, yoy)	5.1	6.2	4.6	6.9	4.3	7.5
Private Consumption (% change, yoy)	4.9	7.2		4.5	3.1	
Government Consumption (% change, yoy)	3.5	4.2		8.3	2.8	
Fixed Investment (% change, yoy)	7.1	6.7		7.1	1.2	
AFF (% change, yoy)	2.9	4.0		2.5	10.1	2.8
Mining and Quarrying (% change, yoy)	1.8	3.1		4.6	-8.4	-7.1
Manufacturing Industry (% change, yoy)	4.8	7.0	15.5	9.4	4.3	12.7
Exports (% change, yoy)	24.1	16.0	9.5	8.2	12.0	22.6
Imports (% change, yoy)	22.9	13.8	13.5	3.0	14.3	20.8
Exchange Rates (LCY/US\$, end of period)	13,303	4.2	1.4	51	33	22,730
Inflation (% end of period)	3.7	4.3	0.4	3.3	0.9	3.4

yoy = year-on-year; AFF = Agriculture, Forestry and Fisheries; ER = Exchange Rates; LCY = local currency; US\$ = United States dollar.

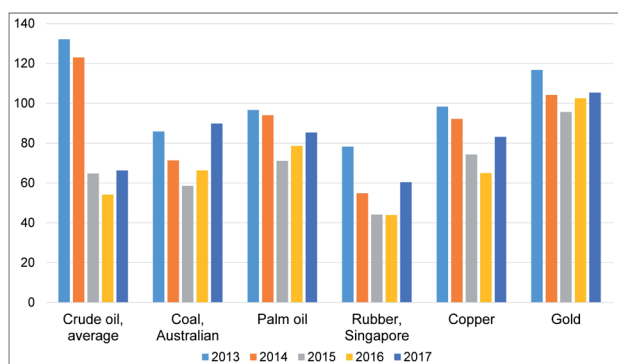
Source: Bureau of Statistics of each country, 2017.

# Higher Commodity Prices on the Horizon

Until the end of October 2017, prices of key commodities had shown improvements compared to the previous 2 years (Figure 2). Solid economic performance in China, India, the United States, Japan, and the European Union, and an improving situation in Russia and Brazil acted as the drivers of the commodity prices rebound in 2017. The trend is likely to continue in 2018, as, according to the November 2017 US Energy Information Administration's short-term energy outlook, world oil demand is expected to reach 100.5 million barrels per day by Q4 2018 compared to 98.8 million barrels per day in Q4 2017 (Figure 3).

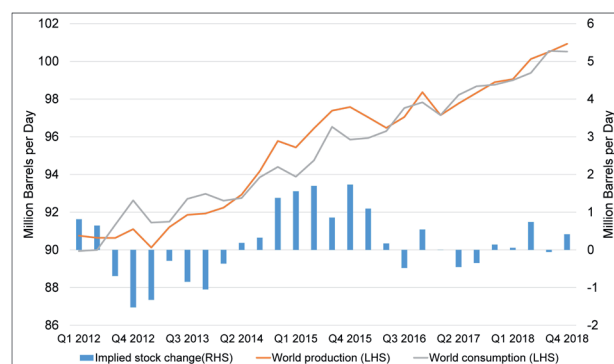
The trend of increasing commodity prices is both good and bad news for Southeast Asian countries. For natural resource-intensive product exporters, such as Brunei Darussalam, Indonesia, and Malaysia, this is a favourable development as recovering commodity prices will have a positive effect on tax receipts and export value, and as in the end it will induce more capital expenditure for future production. However, the increase in commodity prices has the potential to burden net commodity importers in the region as it makes it more expensive for them to buy the materials and energy required for their economies to function.

**Figure 2. Selected Commodities Price Movements, 2010 = 100**



Note: The price is the average yearly price of each commodity; the 2017 price is the average price until October 2017.  
Source: The World Bank, 2017.

**Figure 3. World Oil Production and Consumption Balance, in million barrels per day**



RHS = right-hand side; LHS = left-hand side.  
Source: US Energy Information Administration, 2017.

## Asia: Forging ahead with multilateralism and the globalisation agenda



November 2017 was an important month for the Association of Southeast Asian Nations (ASEAN) and East Asian countries as they hosted three important leader summits: the Asia-Pacific Economic Partnership (APEC) Summit, the ASEAN Summit, and the East Asia Summit. Although these events are held every year, this year's summits are particularly important due to the changed global landscape following the election of United States President Donald Trump.

As an organisation established to push for open regionalism and multilateralism, APEC is facing a unique challenge this

year now that the United States is withdrawing its support for multilateralism in favour of bilateralism. In his speech delivered during the APEC CEO Summit held in Da Nang, Viet Nam from 8–10 November 2017, President Donald Trump emphasised that partnership should be based on mutual respect and directed toward mutual gain with private entities able to compete on a fair and equal basis and each party to an agreement accountable for its actions.

Whereas bilateralism provides a great degree of flexibility both in terms of process and its ability to reconcile disparate interests, the rapid growth of bilateral trade agreements (BTAs) will fragment the world trading system (Menon, 2006). Further, the positive or negative impact of a BTA on the world trading system is highly dependent on the motivation behind pursuit of the BTA. For instance, if the preferences provided by the BTA aim to divert trade previously conducted with a country that was a lower-cost supplier, the BTA would in effect be a welfare-reducing trade agreement. Finally, the proliferation of BTAs

would reproduce extremely complicated duplication of rules that the multilateral or regional trade system was designed to simplify and streamline.

Asia’s resolve to maintain the momentum of multilateralism and globalisation are manifested through three main milestones reached at the summit. First, the Regional Comprehensive Economic Partnership (RCEP) summit was inaugurated, with the instruction by country leaders to the ministers and negotiators to intensify efforts to conclude the RCEP negotiations in 2018. Second, the leaders signed the ‘ASEAN Consensus on the Protection and Promotion of the Rights of Migrant Workers’. Third, ASEAN welcomed and signed the conclusion of the negotiations for the ASEAN–Hong Kong, China (HKC) Free Trade Agreement and the ASEAN–HKC Investment Agreement on 12 November 2017.

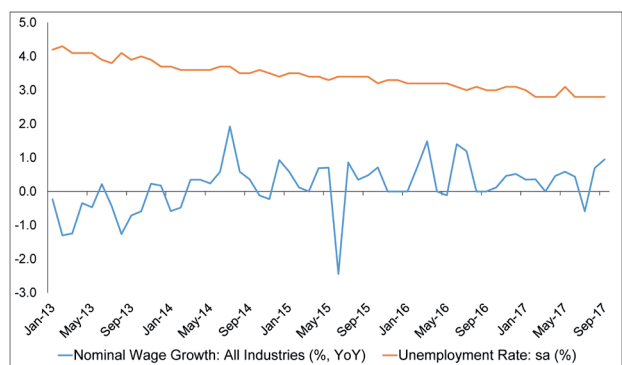
## Japan: Five years of Abenomics

Five year after its implementation, Abenomics – the multi-pronged economic programme of Japanese prime minister Shinzō Abe based upon ‘three arrows’ of monetary easing, fiscal stimulus, and structural reforms – has achieved a number of important milestones in the Japanese economy. First, the strategy has resulted in an expansion of the Japanese economy, albeit not a strong one, manifested in consistent economic growth from Q2 2016 to Q3 2017. Second, the Japanese stock market, as measured by the Nikkei 225 index, has soared to an all-time high, recording 22,605 at the end of November 2017, which is twice as high as in December 2012. Third, the yen has been depreciating, giving a boost to Japanese exports, manifested in high corporate profits, which reached ¥22 trillion in Q2 2017. Fourth, Abenomics has been successful in creating new jobs as 3.7 million jobs were added to the economy from January 2013 to September 2017, resulting in an unemployment rate of 2.8%, the lowest since July 1994.

Despite its achievements, Abenomics has not been successful in all areas. First, the 2% inflation target has not been achieved. Second, wage growth has not shown robust growth despite

tightening labour market conditions (Figure 4). Third, female labour market participation has not improved significantly and continues to hover around 50%–52%, despite implementation of a programme aimed at raising it.

**Figure 4. Japan’s Labour Market Capacity and Nominal Wage Index**



yoy = year-on-year; sa = seasonally adjusted  
Source: CEIC, 2017.

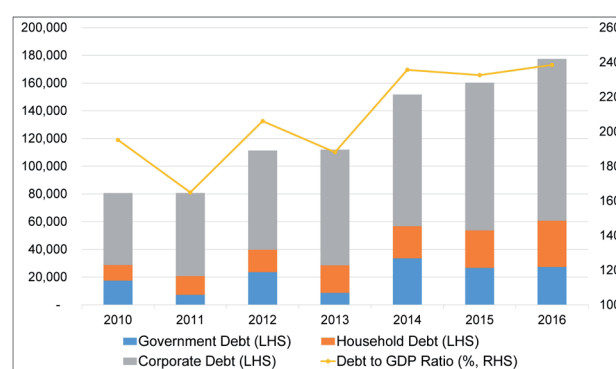
# China: Five years of President Xi Jinping

Since Xi Jinping became China's president in 2012, Chinese national strength and international influence have risen steadily, but many challenges still need to be addressed. President's Xi's administration can claim credit for at least three key achievements. First, China has maintained its strong growth rate despite an ageing population at an average annual rate of 7.2% from 2013–2016 and it continued to grow at 6.9% in the first half of 2017. Second, although economic growth has been slower than before, indications are its economy's structural transformation has been positive. This is evident from an increase in the share of the services industry from 45.3% in 2012 to 51.7% in 2016, thanks to strong annual growth of 8% in that sector over that period. Third, final consumption has become the backbone of Chinese economic growth as intended. This can be seen from a significant increase in consumption growth's average contribution to overall Chinese growth from 48.4% in 2013 to 68.5% in the first 3 quarters of 2017.

Over the next 5 years, President Xi Jinping will have two key priorities. The first is to maintain economic stability. President Xi Jinping and Mr. Zhou Xiaochuan, the central bank governor, have been emphasising the importance of curbing financial risk

and deleveraging the economy as China's debt to GDP ratio reached 238% in 2016. Second, China needs to accelerate its climb up the innovation ladder before it loses its growth momentum due to an ageing population. This can be achieved by increasing investment in the high value-added manufacturing industry and by trying to expand its market share in the technology industry, e.g. in the semi-conductor, advanced manufacturing, and biotechnology sub-sectors.

Figure 5. China's Debt Breakdown in Billion Yuan



LHS = left hand side; RHS = right hand side

Source: CEIC, 2017.

## References

Menon, J. (2006), Bilateral Trade Agreements and the World Trading System. ADBI Discussion Paper 57. Tokyo: Asian Development Bank Institute.

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