

Monthly Highlights

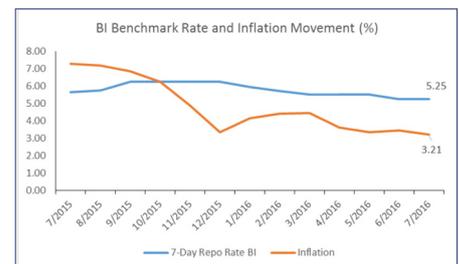
- The Fourth East Asia Summit Economic Ministers' Meeting held on 5 August in Vientiane re-affirmed the efforts to enhance regional economic integration in East Asia region by continuing progress in negotiations towards the Regional Comprehensive Economic Partnership (RCEP).
- The likelihood of Hillary Clinton becoming the next president of the United States will raise the chance for a number of chapters in the Trans-Pacific Partnership (TPP) being discussed, particularly on investment and intellectual property rights. The discussion is expected to provide a more balanced agreement regarding the need to provide guarantees to investors that their investment will be protected while at the same time maintaining national interests. Those factors will make TPP more attractive for countries in ASEAN and East Asia such as China, Indonesia, and Thailand.



INDONESIA

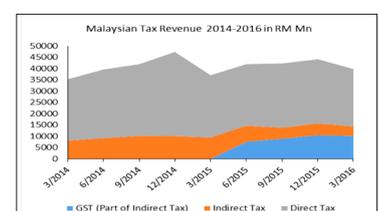
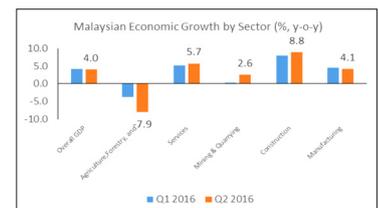
(trade data, inflation and new benchmark rate and tax amnesty achievement)

- Bank Indonesia (BI) introduced a new policy rate known as the seven-day reverse repurchase rate (BI 7-Day Repo Rate) replacing the benchmark BI rate that has a one-year tenor (360 days) intending to influence the market more effectively through stronger impact on short term money market rates and bank rates. In the August 2016 Board of Governors Meeting, BI decided to keep the BI 7-Day Repo Rate at 5.25 percent due to a stable inflation rate of around 3 to 5 percent in the past 9 months.
- Tax Amnesty revenue reached Rp3.13 trillion as of August 31, marking only 1.9 percent of the targeted Rp165 trillion revenue to be met by March 2017.
- Indonesia's recent Working Cabinet reshuffle has brought mixed response from the market. It surely brought more political backing to the President's administration as two more major parties are joining the cabinet, in addition to the return of the well-respected former Finance Minister Sri Mulyani Indrawati to the government. However, the inclusion of a number of party heavyweights into the cabinet has sparked concern of the government's commitment on the economic reform.



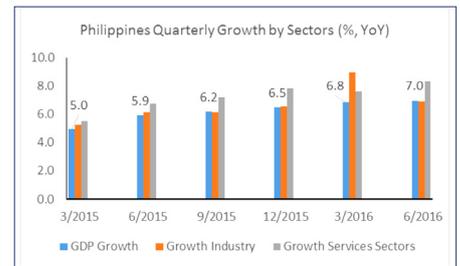
MALAYSIA

- Malaysia's economy grew at the rate of 4.0 percent in the second quarter (Q2) of 2016. Construction, services, and manufacturing sectors acted as the main driver of growth. In services sector, Wholesale and Retail Trade as well as Information and Communication remained as the key drivers of Services sector. Meanwhile, Electrical, Electronic, Optical and Petroleum as well as Chemical, Rubber and Plastic products supported the growth in the Manufacturing Sector. Finally, Civil Engineering and Residential Buildings maintained their stronghold and continued to support the Construction Sector.
- Value Added Tax (VAT) on goods and services that has been implemented in Malaysia since Q2 of 2015 has helped cushion the blow from declining government revenue due to the slump of global commodity prices. This can be seen through the increase of government tax revenue to RM40 billion in Q1 of 2016 from RM37 billion in Q1 of 2015 after the bill was passed with GST contributing significantly on the indirect tax component.



PHILIPPINES

- The Philippines managed to sustain the high-growth momentum by expanding 7 percent in Q2 of 2016 year-on-year (YoY). The growth is mainly driven by the expansion in services sector, particularly Trade, Real Estate, and other services.
- Moving forward, President Rodrigo Duterte expects to remove redundant posts and overlapping functions in the government. He has ordered government agencies to streamline and automate their frontline and business processes.
- The UN's growing concern over President Duterte's policy to combat illicit drug trade may bring him to significant disagreement with the international body as its experts urge the Philippines to stop unlawful killings of people suspected of drug-related offences.



SINGAPORE

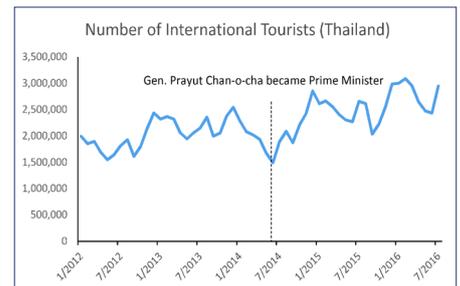
- Singapore's latest economic update showed some dismal signs as the domestic wholesale trade slid 20.5 percent in Q2 of 2016. The decline in nominal domestic wholesale trade was due partly to the lower prices of petroleum and chemical products compared to Q2 of 2015.
- On the trade side, non-oil exports growth slumped 10.6 percent in July 2016 compared to July 2015, driven by the declining exports of electronic products, petrochemicals, and civil engineering equipment parts.

Ship Chandlers & Bunkering	-39.4
General Wholesale Trade	-30.1
Petroleum & Petroleum Products	-26.8
Electronic Components	-23.9
Chemicals & Chemical Products	-21.4
Wholesale Trade Index (WTI)	-20.5
Excluding Petroleum	-15.3
Metals, Timber & Construction Materials	-14.8
Telecommunications & Computers	-13.2
Industrial & Construction Machinery	-13.1
Other Wholesale Trade	-4.9
Household Equipment & Furniture	0.8
Food, Beverages & Tobacco	1.0
Transport Equipment	12.3

*nominal and seasonally adjusted

THAILAND

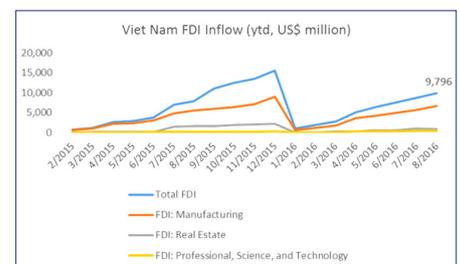
- After the constitutional referendum, Thailand's military junta tightened its political grip on the country while waiting for the election that is scheduled to be held in late 2017. The market perceived this move as bringing more stability to Thailand's economy as the political uncertainty is expected to end. Moreover, the new Constitution is expected to provide a more balanced power distribution between major and medium-sized political parties with the proposed formula to award seats in Parliament.
- Thailand's tourist arrivals and public works spending are expected to offset weak domestic demand and global economic drag so that Thai economy will remain on course for 3.1 percent growth in 2016.



VIET NAM

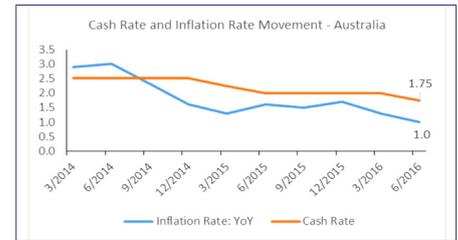
(trade data reading, growth)

- Foreign direct investment flowing to Viet Nam from January to August increased to US\$9.8 billion from US\$7.9 billion compared to the same period last year. The inflow of US\$9.8 billion is mainly concentrated in three sectors: Manufacturing, Real Estate, and Professional, Science and Technology.
- Viet Nam's growing middle class with the expected purchasing power of US\$179 billion in 2020, boosted by the opening of the retail sector to 100 percent foreign ownership in January 2015, has been attracting both domestic and foreign players to retail businesses. Domestic players are equipped with local knowledge and ability to secure good locations before foreign companies come in while foreign companies have advantages in terms of capital, shop design, and product line-up.



AUSTRALIA

- Australia's central bank cut the cash rate to 1.5 percent as the consumer prices increases by just 1 percent over the past year. This move is expected to help the domestic economy to grow as the Reserve Bank of Australia expects the currency to stop appreciating, thereby making Australia's export and tourism sector more competitive.



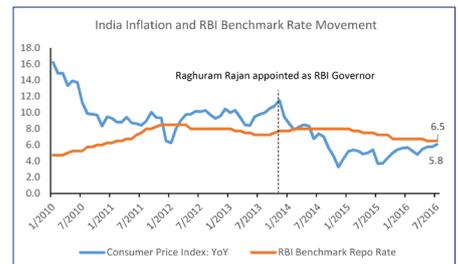
CHINA

- State-owned enterprises acted as the main driver of China's investment growth while private and individual business fixed-asset investment growth slowed down for the first seven months of 2016. The private investment growth slumped to 8.3 percent in July 2016 from 11.3 percent in January 2016, while individual business investment growth plummeted to 0.2 percent in July 2016 from 20.6 percent in January 2016.
- As falling global demand for electronic products complemented by rising labour cost in China, Foxconn and Lenovo are both facing challenges to keep their business profitable. Lenovo has expanded their business by opening a mobile division especially targeting the more lucrative premium smartphones. At the same time, Foxconn, the biggest electronics contract manufacturing in the world by revenue and number of employees, acquired Sharp Corp to bring the market products using Sharp's valuable patents and technology.



INDIA

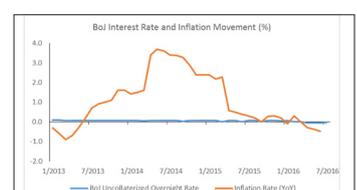
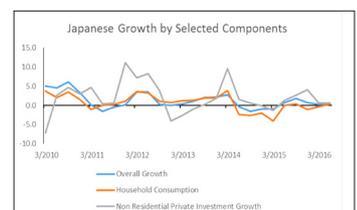
- Reserve Bank of India (RBI), the central bank of India, kept the benchmark rate unchanged at 6.5 percent after inflation surged to 5.8 percent in June 2016 nearing the top of the inflation target of between 2 percent and 6 percent.
- RBI Governor Raghuram Rajan has decided that he would not seek a second term even though he has managed to bring down the inflation to around 5 percent from around 11 percent and managed Indian Rupee stable at an average of 63 Rs per US\$ during his tenure. India appointed Urjit Patel, the current Deputy Governor of RBI with a strong background from both corporate and academic field, as the new RBI Governor. The decision is deemed as New Delhi's commitment to continue the inflation-fighting policies developed during the outgoing Governor Rajan's tenure at the RBI as the new governor is expected to maintain the inflation level between 2-6 percent.



JAPAN

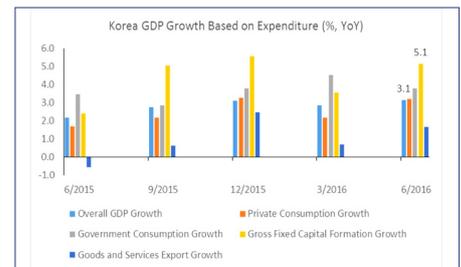
(growth component, negative interest rate, household cash and deposit holding, and nonfinancial corporations cash and deposits)

- The Japanese economy expanded by a mere 0.6 percent (YoY) in Q2 of 2016 as the household consumption and non-residential private investment growth remained weak during that period.
- After being implemented in December 2012, Abenomics, which includes monetary easing, fiscal stimulus, and structural reforms, has not been able to bring the desired outcome. First, the monetary easing has not been able to accelerate the inflation rate due to the pessimistic assessment towards the Japanese future. Second, fiscal policy measures have been limited to tax reforms on consumption, inheritance, and corporate tax reduction. Third, the Japanese government has not been able to reinvigorate its growth by loosening labour markets, cutting red tape for start-ups, lowering trade barriers, and reforming the insular corporate culture.



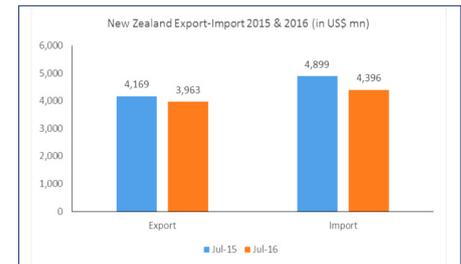
KOREA

- The Korean economy expanded by 3.2 percent in Q2 of 2016, beating the 2.8 percent growth in Q1. Based on expenditure analysis, the better-than-expected growth was mainly driven by the expansion in construction expenditure while the slowest expansion occurred in Korea's nominal export on Q2 of 2016.
- Government announced the creation of a US\$9.7 billion (₩11 trillion) fund to support its lackluster economy due to sluggish global trade and weak domestic demand. The fund will be used to finance corporate restructuring, to act as a capital buffer against bad loans, and to create jobs for laid-off workers in the affected industries.



NEW ZEALAND

- The value of New Zealand's exports of goods merchandise declined to US\$4 billion from US\$ 4.2 billion in July 2016 YoY. The decline of beef and lamb exports to key markets, namely the United States and the European Union, acted as the main driver of July 2016 export decline.



Data sources:

Data are mostly taken from CEIC, which allowed permission to reproduce its data in this monthly update.

For more information, please contact:

Jaysa Prana (jaysa.prana@eria.org)

Lili Yan Ing (liliyan.ing@eria.org)

DISCLAIMER:

The findings, interpretations, and conclusions expressed herein do not necessarily reflect the views and policies of the Economic Research Institute for ASEAN and East Asia, its Governing Board, Academic Advisory Council, or the Institutions and governments they represent. All rights reserved. Material in this publication may be freely quoted or reprinted with proper acknowledgement.

© Economic Research Institute for ASEAN and East Asia

Sentral Senayan 2, 5th and 6th floors
Jalan Asia Afrika No.8
Gelora Bung Karno, Senayan
Jakarta Pusat
10270,
Indonesia

http://www.eria.org/publications/east_asia_update/

Tel: (62-21) 57974460

Fax: (62-21) 57974463

E-mail: contactus@eria.org