EAST ASIA UPDATES

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Asia Facing Anti-Globalisation Trend

After almost a decade of weak growth and persistent high employment in the Eurozone, the world is entering 2017 set to retreat from the globalisation process that has been underway since the end of World War II. The Britain's decision to leave the European Union, the election of Donald Trump as the 45th President of the United States (US), and the rise of a populist anti-trade and anti-immigrant movement in Europe have dampened the trend towards further integration. A losing appetite for engagement with foreign economies can be seen mainly through two indicators. First, the growth of global trade since the global financial crisis has slowed compared with the decade before the crisis, largely as a result of slow growth in the Eurozone and the US. Second, growing anti-immigrant sentiments across the western hemisphere, especially in the Eurozone, as a result of a large influx of refugees fleeing the war-torn countries of the Middle East, coinciding with high unemployment rates and rising inequality in European countries.

The increasing negative sentiment towards globalisation may have negative consequences for East Asia's economies. There are several possible channels of disruption: Asian exports to the US market may be hit as a result of growing protectionism given President Trump's determination to implement his 'America-First' policy, which has so far manifested itself through the formal withdrawal of the US from the Trans-Pacific Partnership. The potential severity of the 'America-First' policy's effect on Southeast Asian and East Asian economies is based on the fact that exports to the US market make up 22 percent of China's total goods exports, 14 percent of ASEAN's total goods exports, and 20 percent of Japan's total goods exports. The 'America-First' policy will also indirectly affect ASEAN countries as 17 percent of ASEAN's total exports go to China while 9 percent of the region's total exports go to Japan.

Second, after one and a half decades of China's increasing prominence as a global investor, there has been a rising reluctance to Chinese foreign direct investment (FDI) across the North Atlantic. This has manifested itself in particular by the US and German governments' calls for more thorough scrutiny of Chinese investment, especially in the semiconductor industry. Furthermore, China's global FDI is also expected to decline as a result of the government's efforts to stabilize the yuan by adopting measures aimed at reducing outward investments by Chinese companies.

Faced with these anti-globalisation sentiments, Southeast Asian and East Asian economies need to embrace the benefits of global trade and free movement of capital and skilled labour as it has pulled hundreds of millions of people out of poverty and has significantly increased living standards. to develop itself through both strong national action and promoting regional cooperation. Asian countries can do that by continuing with their individual structural reforms while increasing their contributions to global institutions by providing more resources to help maintain the global order.

Oil Price Update 2017

After a historical deal between the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC oil producing countries was reached on 10 December 2016 to cut a total of 1.758 million barrels per day (bpd) starting from 1 January 2017 for six months, the price of oil increased to over $55 a barrel – the highest price in over a year and a half (Figure 1). Two factors contributed to the latest oil price development: an unexpected decline in China's oil production and the success of the cartel to take 1.5 million bpd of oil out of the market (Reuters, 2017).

Figure 1. Weekly Europe Brent Spot Price FOB (US$ per Barrel)

Source: US Energy Information Administration, 2017.

Structural Reform across Asia – Prospects for 2017

Asian countries – especially China, Indonesia, India, the Philippines, and Viet Nam – have the potential to improve their productivity levels to catch up with the developed economies (Figure 3). This is due to several factors including their favourable demographic conditions (Figure 2), tolerable levels of debt to gross domestic product (GDP) ratios, and strong commitment to structural reform, China is expected to continue its role as the main driver of the region's growth. To improve their productivity levels and maintain their growth momentum, Asian economies need to intensify efforts to reform their economies to increase their competitiveness on the global stage while continuing to implement sound macroeconomic policies.

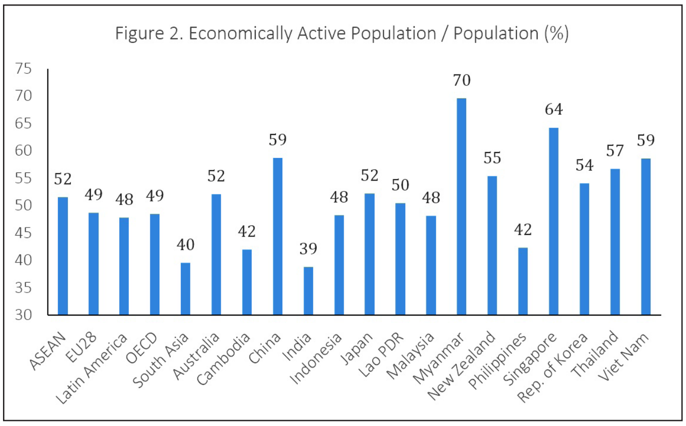


Figure 2. Economically Active Population / Population (%)

Note: Economically Active Population: all persons of either sex who furnish the supply of labour for the production of economic goods and services as defined by United Nations System of National Accounts during a specified time-reference period.
Source: Economist Intelligence Unit, 2017

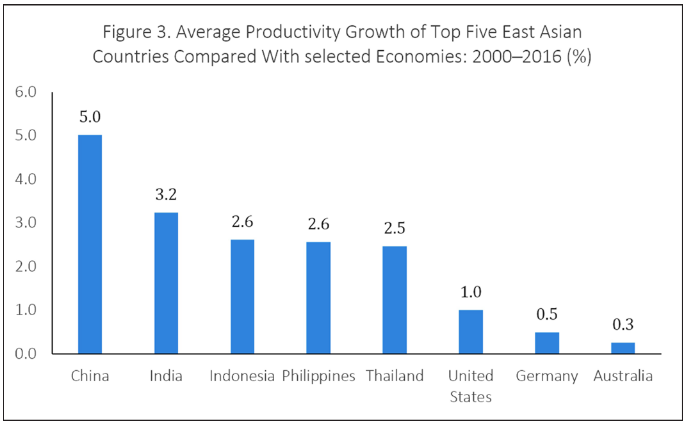


Figure 3. Average Productivity Growth of Top Five East Asian Countries Compared With selected Economies: 2000–2016 (%)

Source: Economist Intelligence Unit, 2017

Indonesia

Indonesia is expected to face another year of tax revenue shortfall as the country's tax amnesty has not been able to significantly expand the taxpayer base. Furthermore, another year of predicted moderate growth due to low commodity prices is likely to be an obstacle to the government's attempts to achieve its tax revenue target. As a consequence, the public debt-to-GDP ratio and the fiscal deficit are expected to increase because of more debt issuance to support the government's budget in 2017. Indonesia should be more careful in managing its budget to maintain credibility as the fiscal deficit reached 2.4 percent in 2016 while the debt-to-GDP ratio was 27.7 percent in 2016 (Figure 4).

On the monetary side, the possibility of monetary expansion has diminished as there is an upward pressure on inflation due to increased oil prices and the possibility of higher US interest rates. That said, Bank Indonesia is expected to manoeuvre in the realm of macro-prudential policy to navigate the economy in 2017.

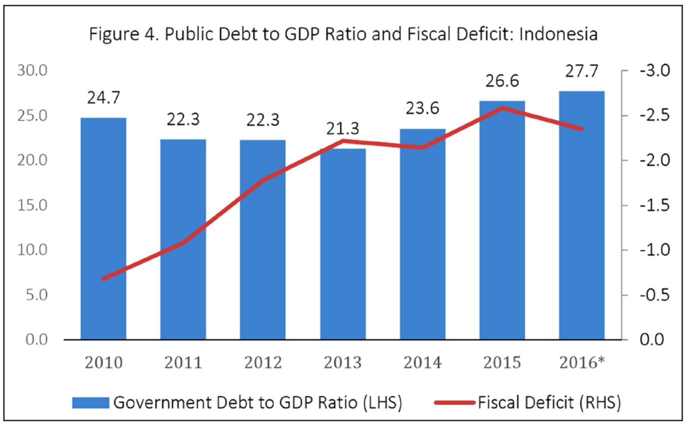


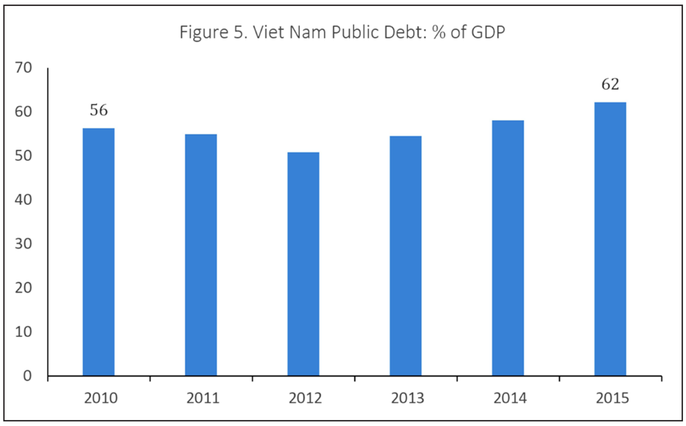
Figure 4. Public Debt to GDP Ratio and Fiscal Deficit: Indonesia

*= Ministry of Finance estimate as of November 2016
Source: Indonesia Ministry of Finance.

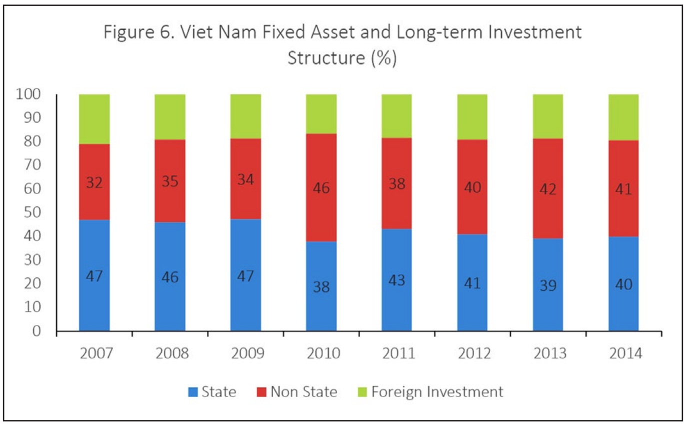
Viet Nam

As Viet Nam prepares to be an industrialised country by 2020, it is aiming not only to be a main player in the global supply chain, but also a regional hub for start-ups. To do so, Viet Nam needs to pursue prudent macroeconomic policies to ensure sustainable growth. In particular, it needs to improve fiscal discipline and public investment efficiency, as the public debt-to-GDP ratio rose significantly from 51 percent in 2012 to 62 percent in 2015, coming close to the ceiling of 65 percent of GDP (Figure 5).

That said, the private sector in Viet Nam needs to take a bigger role in moving the economy forward as the state still accounts for 40 percent of fixed asset and long-term investment in Viet Nam (Figure 6). To increase the role of the private sector, the government needs to maintain its commitment to restructure state-owned enterprises, the financial sector, the land use rights market, and human resources development.



Source: Ministry of Finance, Viet Nam, 2017.

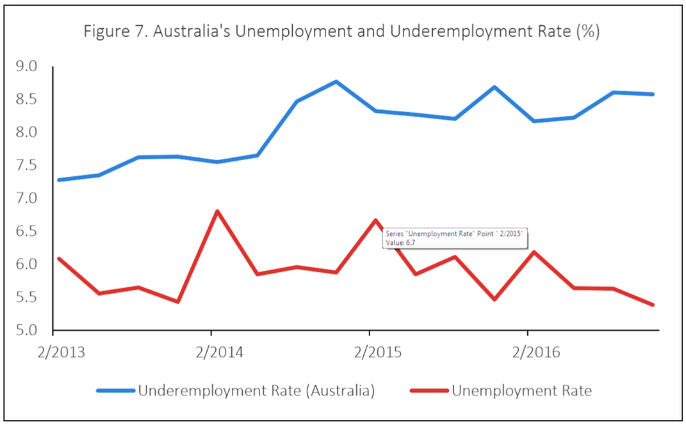


Source: General Statistic Office of Vietnam, taken from CEIC.

Australia

Commodity prices have been constantly low for the past four years. The Australian economy's transition from mining to other sectors has been difficult as previously capital was concentrated in the mining sector, comprising around 32 percent of private new capital expenditure in 2000–2012. As a result, although the unemployment rate hovered around five percent from 2013–2016 with a declining trend in 2016, the underemployment[1] rate has been on an upward trend over the past four years (Figure 7).

The most likely reason for the persistently high underemployment rate is that the moderate growth of around two percent per year from 2012–2016 has not been able to instil confidence to the business sector, resulting in a tendency to hire more part-time workers instead of full-time employees. Moving forward, given that Australia already possesses sufficient public goods, allocating more money to build new infrastructure in an attempt to boost economic growth is considered ineffective. Therefore, finding new markets seems to be one of the most viable strategies to find its way out of only moderate growth.



Source: Australian Bureau of Statistics, 2017.

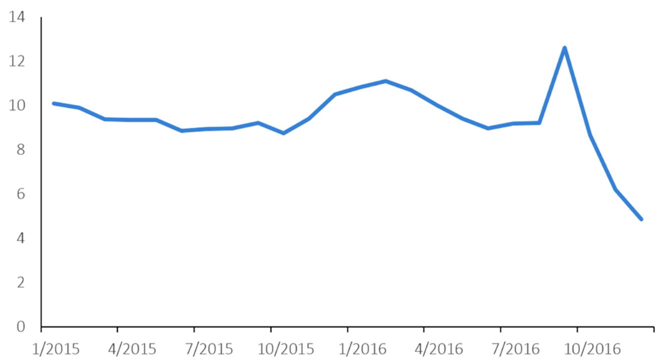
1 Underemployment is defined as part-time workers who want, and are available for, more hours of work than they currently have, and full time workers who worked part-time hours due to economic reasons (Australian Bureau of Statistics, 2013).

India

As part of its structural reform agenda, India's efforts to reign in the black economy through demonetization has had negative impact on the overall economy. Although the medium to long-term impact on the economy could be positive, the demonetisation put a brake on an economy that had been showing strong growth in the first three quarters of 2016. Two indicators in particular were very negative in the aftermath of demonetisation.

First, the last two months of 2016 saw a significant decrease in credit growth (Figure 8). It may not only have negative impact in the current period or quarter, but it may also affect the quarters ahead in 2017. Second, demonetisation brought the property market to a complete standstill in the fourth quarter of 2016 as sales volume plunged by 44 percent while new launches dropped by 61 percent in Q4 2016 compared with the same period in 2015 (Knight Frank Research, 2016). The standstill of the property market is due to less cash available for transactions and the expectation that interest rates will fall further due to an anticipated cut in benchmark interest rates by the central bank.

Figure 8. India Bank Credit to Commercial Sector Growth (%, YoY)

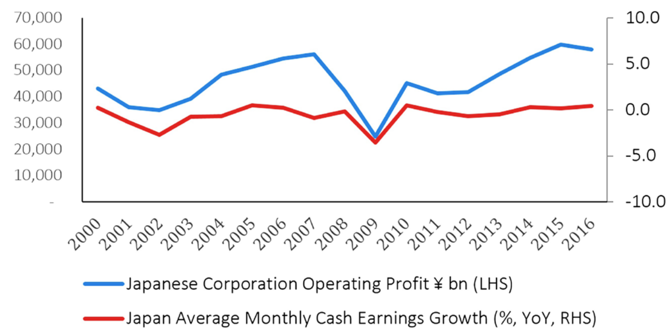


Source: Reserve Bank of India, 2017.

Japan

The strengthened dollar may have a positive impact on Abenomics, but Japan still needs to address its structural problems. Corporate profits have been picking up since 2013, rising to more than their pre-crisis level in 2015. But to achieve the target of a two percent inflation rate and two percent GDP growth in a sustainable manner, Japan needs to address its structural problems by, for instance, increasing private consumptions by raising wages for average workers, which only increased at a rate of 0.1 percent from 2013–2016 (Figure 9).

Figure 9. Japanese Corporation Operating Profit and Average Monthly Cash Earnings Growth



Source: Ministry of Health, Labor and Welfare; Ministry of Finance, Japan, 2017.

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