

Expected Impact of Trump Administration's Policies on East Asia



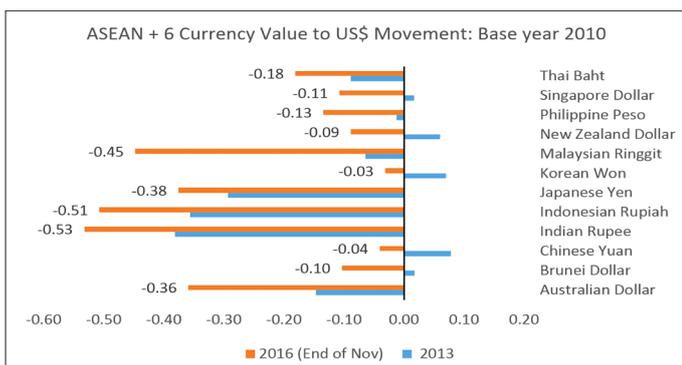
It is still uncertain how President-elect Donald Trump will govern, but his policies will have a significant impact on Asian economies. Based on his campaign

rhetoric, the two policies that will most affect Asian economies are his policies to boost domestic aggregate demand and the implementation of the 'America-First' trade policy.

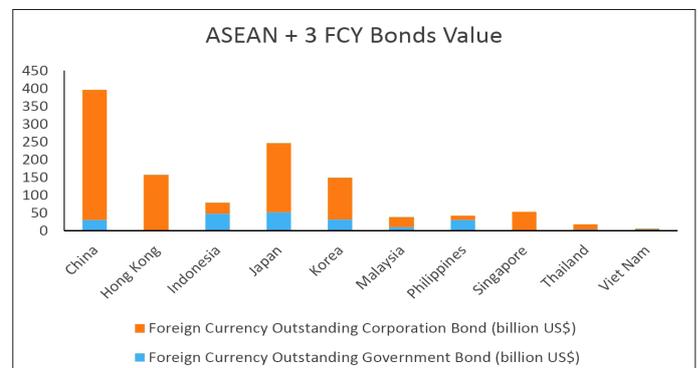
In the United States (US), there has been enthusiasm about the incoming Trump administration's determination to cut income and business taxes while at the same time increasing public spending on infrastructure. This is likely to encourage American companies to repatriate retained earnings held offshore and attract more capital to the US economy, leading to the depreciation of other countries' currencies against the US dollar. East Asian currencies depreciated vis-à-vis the US dollar throughout November, with Japan, Malaysia, and Indonesia having seen the sharpest falls so far. Moreover, emerging Asia's stock markets have been bearish since the beginning of November 2016, with the Philippine, Indian, and Indonesian stock markets the worst performers.

Country	Foreign Exchange Rates (National Currency per US\$)			Composite Index		
	Value on	Change Since		Value on	Change Since	
	29-Nov-16	1-Nov-16	31-Dec-15	29-Nov-16	1-Nov-16	31-Dec-15
China	6.89	-1.9%	-6.2%	3,282	5.1%	-8.2%
Japan	112.05	-7.9%	7.0%	18,307	5.0%	-3.8%
Brunei	1.43	-2.6%	-0.8%	-	-	-
India	68.65	-2.7%	-3.5%	26,394	-5.3%	1.3%
Indonesia	13,549.00	-3.8%	1.8%	5,136	-5.2%	12.7%
Korea	1,170.30	-2.5%	0.2%	1,978	-1.4%	1.1%
Malaysia	4.46	-6.4%	-4.0%	1,626	-2.6%	-3.9%
Philippines	49.78	-2.7%	-5.5%	6,781	-6.5%	-2.5%
Singapore	1.43	-2.6%	-0.8%	2,879	2.3%	0.6%
Thailand	35.61	-1.6%	1.3%	1,497	-0.5%	16.4%

Source: Bloomberg, CEIC Database, and IMF Database.



If the trend continues, the most apparent effect of the Asian currencies' depreciation is the difficulties Asian corporations and governments will face servicing their US denominated debt obligations, as total foreign currency denominated outstanding bonds had reached US\$1.2 trillion among ASEAN+3 countries by the end of 2015.



Source: Asian Development Bank – Asian Bonds Online.

Regarding foreign trade policies, the Trump administration is likely to shelve the ratification of the Trans-Pacific Partnership, at least in the early part of his presidency. The administration is also expected to impose higher tariffs on selected imported goods from China.

US imports of goods from Southeast Asia contributed 7 percent of its total imports in 2015, compared with 22 percent for US imports from China. From Southeast Asia's point of view, while the value of goods exported to the US almost doubled from US\$80 billion to US\$157 billion in 2001–2015, its proportion of total goods exports fell from 20 percent in 2001 to 14 percent in 2015. Over the same period, the proportion of ASEAN's exports to China rose from 6 percent in 2001 to 17 percent in 2015. It shows that while trade between Southeast Asia and the US grew, trade growth between Southeast Asia and its other trading partners grew faster. In terms of products, Southeast Asia's exports to the US and China are dominated by electrical machinery and equipment, machinery, and mechanical appliances; and rubber, which contributed just over 43 percent and 47 percent, respectively, of total goods exports from 2001 to 2015.

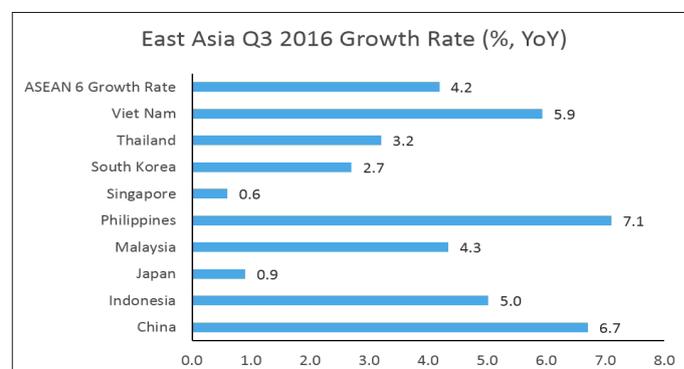
In short, East Asian countries may need to adjust their strategies in response to how the US will shape its trade policy under the Trump administration. It is certain that US trade policy will have a significant direct and indirect impact on Southeast's exports as many of Southeast Asia's exports are used by Chinese, Japanese, and Korean manufacturers to produce finished goods that will be shipped to their final markets.

East Asia Growth Q3 2016

The ASEAN 6 economies, which together make up 95 percent of the ASEAN economy, expanded by 4.2 percent in Q3 of 2016. The weighted average of ASEAN 6 countries' third quarter gross domestic product growth data show it was the slowest pace of growth in 2016. While economic growth in Indonesia, the biggest economy in the region, has been stabilizing at around 5 percent, mixed growth achievements can be seen in the other ASEAN 6 countries. Singapore has been struggling the most of all the economies in the region, growing by only 0.6 percent in Q3 2016, year-on-year (YoY), while the Philippines saw the highest growth at 7.1 percent. The very strong growth in the Philippines was supported by expansion in the construction sector, which grew by 15.5 percent, and by 8.8 percent growth in the real estate, rental, and business activities sector. Outside ASEAN, China grew by 6.7 percent in Q3 2016, driven by the expansion of its industrial production (showing a 6.1 percent increase in September, YoY), fixed asset investments (8.2 percent in the January–September period, YoY), and retail sales (10.7

percent growth in September). Japan expanded by 0.9 percent in Q3 2016 as private consumption, which makes up 59 percent of its economy, expanded by a mere 0.1 percent. The South Korean economy grew by 2.7 percent in Q3 2016, mainly driven by the construction sector, which grew by 11.4 percent, while the manufacturing sector saw only 0.7 percent growth. On the trade side, Q3 saw contractions in each ASEAN+3 country's total goods exports except for the Vietnamese economy. This has two important implications for the ASEAN+3 economy. First, global demand for goods produced in ASEAN+3 countries is still weak, which suggests each country needs to bolster its efforts to boost domestic demand and continue structural reform. Second, considering the moderate economic growth in the region, ASEAN+3 countries should find ways to boost cross-border economic activity, for instance through concluding the Regional Comprehensive Economic Partnership agreement as soon as possible.

Country	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016*	2016*	2017*
Australia	2.4	3.0	3.3	2.7*	2.8	2.9	3.1
China	6.9	6.7	6.7	6.7	6.6	6.7	6.2
India	7.5	8.2	7.0	6.7*	7.7	7.3	7.3
Indonesia	4.8	4.9	5.2	5.0	5.2	5.2	5.1
Japan	0.6	0.2	0.6	0.9	0.7	0.5	0.5
Malaysia	5.0	4.2	4.0	4.3	4.1	4.3	4.4
New Zealand	3.0	3.2	3.8	2.6*	2.5	3.7	3.3
Philippines	5.9	7.0	6.9	7.1	6.8	6.4	6.2
Singapore	2.0	2.0	2.0	0.6	1.7	1.0	2.2
South Korea	2.6	2.8	3.2	2.7	2.4	2.8	2.5
Thailand	2.8	3.3	3.5	3.2	2.9	3.0	3.1
Viet Nam	6.7	5.5	5.5	5.9	6.4	6.0	6.6
ASEAN	4.4	4.3	4.4	4.2	4.3	4.4	4.6



Source: CEIC Database.
Note: * estimated value based on Economist Intelligence Unit.

Source: CEIC Database.

Ease of Doing Business in ASEAN Countries 2017

Country	DB2016	DB2017
Brunei Darussalam	97	72
Cambodia	128	131
Indonesia	106	91
Lao PDR	136	139
Malaysia	22	23
Myanmar	171	170
Philippines	99	99
Singapore	3	2
Thailand	46	46
Viet Nam	91	82

As developing economies in ASEAN are trying to improve their economies to be more competitive in the global market, three economies in the region managed to improve their business climate, as reflected in their improved positions in the World Bank's 2017 edition of the Doing Business rankings. Brunei Darussalam and Indonesia showed the greatest improvements in the region, an indication that their push for structural reform is beginning to bear fruit. Brunei Darussalam's significant improvement is believed to be a result of fiscal adjustment and the 2015 government reshuffle. While the fiscal adjustment managed to prioritize expenditure toward a more diversified and efficient economy, Brunei's reconfiguration of ministries and government agencies led to better government delivery and a clearer regulatory framework. In Indonesia, the improvement can be interpreted as a sign that its recent economic packages, especially the 12th Economic Package issued in

April 2016, have been quite successfully implemented. In the 12th Package, the government set the goal of reducing the number of steps required to open a business from 12 to 7 procedures and the time needed to do so from 47 to 10 days. Although it still takes 25 days to start a business at present, the significant improvement indicated that the regulatory reform is being implemented. ■

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