EAST ASIA
UPDATES

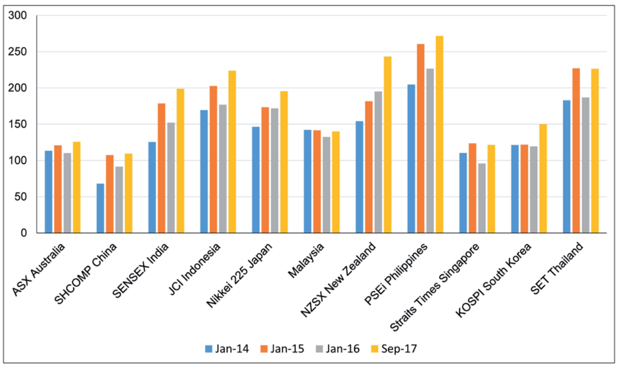
ERIA
Economic Research Institute for
ASEAN and East Asia
www.eria.org

October 2017

Asset prices rise in East Asia and elsewhere

Asset prices have reached record highs for a wide range of assets in developed nations, with the highest prices found for asset types such as housing, stocks, and government bonds. The stock markets in the United States (US) and Japan have reached record highs while house prices in the US have exceeded their 2008 peak in nominal terms. This trend is also widespread amongst East Asian economies with stock markets having reached record highs in 2017 (Figure 1).

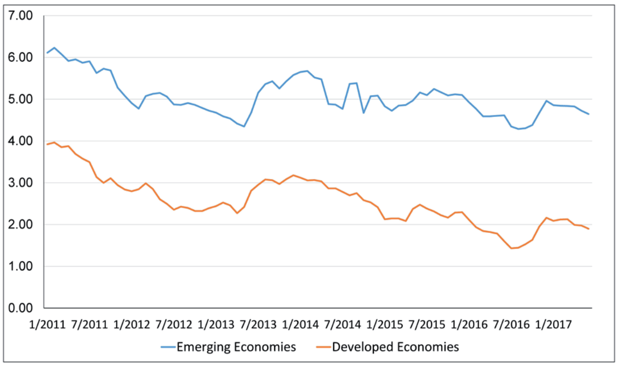
Figure 1. East Asian Stock Market Index Performance (January 2010=100)



Source: Economist Intelligence Unit, 2017.

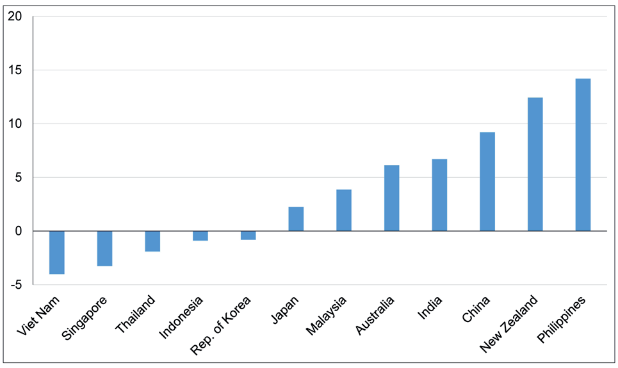
High asset prices are also evident from lower government bond yields in both emerging and developed economies, and high increases in housing prices in the Philippines, New Zealand, and China (Figures 2 and 3).

Figure 2. East Asian 10-Year Government Bond Yield (%)



Note: The data are averages of 10-year government bond yields of various countries. Emerging economies are China, India, Indonesia, Malaysia, Philippines, and Thailand; developed economies are Australia, Japan, New Zealand, Singapore, and the Republic of Korea.
Source: Economist Intelligence Unit, 2017.

Figure 3. Real House Prices in 2017 (%)



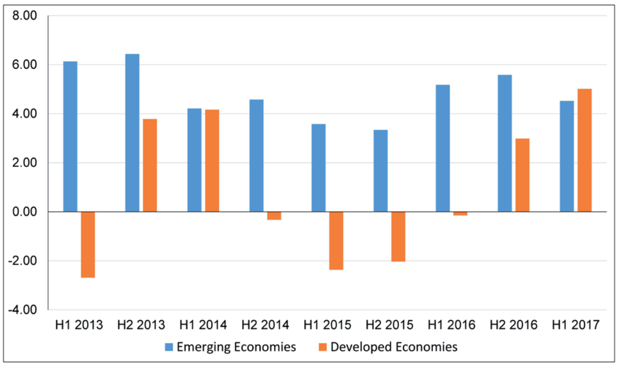
Source: International Monetary Fund, 2017

There are several reasons for the bullish asset market in East Asia. First, global economic conditions have been improving, as can be seen from the highest global gross domestic product (GDP) growth in Q2 2017 since 2010, against a backdrop of higher commodity prices and improving global trade conditions. Such developments have led to an improvement in investors' confidence in a wide range of asset types. Second, pursuit of extraordinarily loose monetary policy by developed countries' central banks triggered a capital flow to East Asian economies.

Although these high asset prices are backed by solid improvements in the global economy, it should be examined whether they are also a reflection of robust real sector development in key countries.

First, industrial production in both East Asia's emerging economies and developed economies expanded in the second half of 2016 and the first half of 2017 (Figure 4). In the first half of 2017, developed economies' output saw a robust expansion after weak growth from the second half of 2014 to the first half of 2016. But performances amongst individual emerging countries and amongst individual developed countries in East Asia varied widely. In the first half of 2017, China's output grew by 6.8% and that of the Philippines by 8.3% while India, Indonesia, and Thailand grew by 2.5%, 4.1%, and 0.1%, respectively. And amongst developed countries in East Asia, Japan and Singapore grew by 4.8% and 8.2%, respectively, whereas the Republic of Korea's output expanded by only 1.9%.

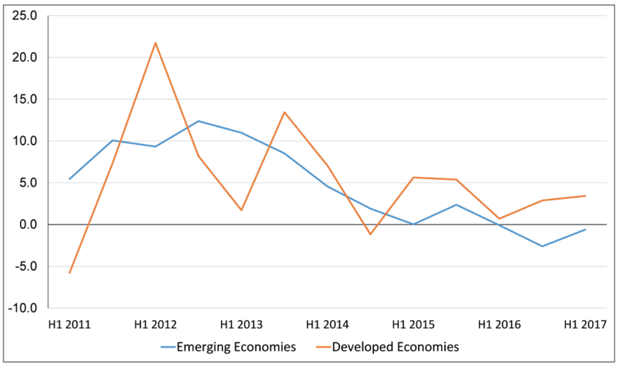
Figure 4. East Asia's Industrial Production Index Average Growth (%)



H1: first half; H2: second half.
The data are the half-year averages of the monthly industrial production index growth of various countries. Emerging economies are China, India, Indonesia, Malaysia, Philippines, and Thailand; developed economies are Japan, Singapore, and the Republic of Korea.
Source: Bureau of Statistics of each country, 2017.

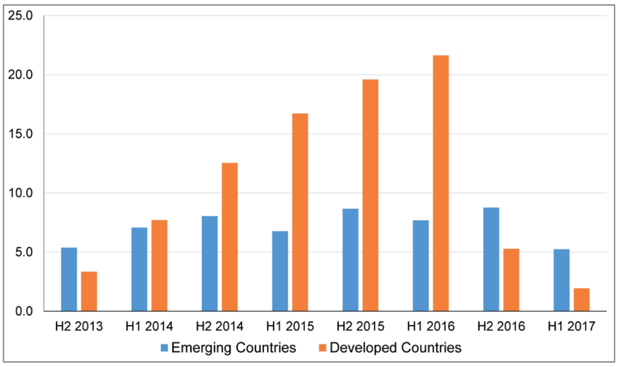
Second, in the first half of 2017, amongst the emerging economies of East Asia, several key consumption indicators did not show any improvement from the second half of 2016. This is evident from the weak growth of cement sales, slower vehicle sales growth compared to the previous periods, and the slowest retail growth sales in 5 years (Figures 5 and 6). Amongst the developed economies, cement sales growth and retail sales growth saw slight improvements compared to the previous two periods while vehicle sales growth declined.

Figure 5. East Asia's Half-yearly Cement Sales Growth (%, YoY)



H1: first half; H2: second half.
The data are the average of annual cement sales growth rates of various countries. Emerging economies are China, Indonesia, Malaysia, Philippines, and Thailand; developed economies are Japan, Singapore, and the Republic of Korea.
Source: Bureau of Statistics of each country, 2017.

Figure 6. East Asia's Half-yearly Passenger and Commercial Car Sales Growth (%, YoY)



H1: first half; H2: second half.
The data are the average of annual passenger and commercial sales growth rates of various countries. Emerging economies are China, India, Indonesia, Malaysia, Philippines, Thailand, and Viet Nam; developed economies are Japan, Singapore, and the Republic of Korea.
Source: Automotive Manufacturers' Association of each country, 2017.

These data suggest that the increase in asset prices in East Asia should be carefully assessed, as the main real sector indicators are not showing significant improvement compared to previous years. These circumstances call for a cautious approach to maintaining stability by policymakers in both emerging and developed economies due to the possible capital reversal to major advanced economies as a result of monetary policy tightening.

Prospects of cryptocurrencies in East Asia

With a robustly growing economy currently generating a gross domestic product (GDP) of about US$23 trillion, the nations of East Asia have the opportunity to be in the vanguard of the fast-moving global digital economy in the next 10 years. The development of the digital economy in East Asia will not only cover the areas of e-commerce, media, and travel, but also financial technology. One recent craze in the area of financial technology is the use of cryptocurrencies.

Since their introduction in 2009, Bitcoin and other cryptocurrencies have left academics and government officials puzzled about how to regulate such intricate monetary instruments. The underlying technology used by cryptocurrencies, the blockchain, is a revolutionary technology that enables the creation of a decentralised digital ledger that can keep track of every transaction made by users. This has the power to revolutionise the world, not only in the domain of the financial system, as it is able to record any structured information from financial transactions to certificates of ownership of many types of property.

Application of this new technology has many consequences for both regulators and practitioners. At the policy level, for instance, the widespread use of cryptocurrencies may reduce the ability of central banks to monitor the payments system, control the money supply and credit, and be a lender-of-last-resort.

At the practical level, although use of cryptocurrency can significantly reduce transaction costs and speed up the movement of wealth between the parties involved, it has given rise to controversy as its use can also facilitate tax evasion, money laundering, bribery, and criminal activities. Governments in East Asia are ambivalent about the use of cryptocurrencies.

Amongst Southeast Asian central banks, Bank Indonesia, Bangko Sentral ng Pilipinas, and Bank Negara Malaysia have reaffirmed that cryptocurrencies are not a legal medium of exchange in those countries although they have not issued any specific regulation to ban buying or selling Bitcoin or other cryptocurrencies in their countries. The Monetary Authority of Singapore has decided not to intervene in businesses' decision to accept cryptocurrencies in exchange for goods and services and acknowledges cryptocurrencies' role as asset or property.

Of the major East Asian economies, Japan is quite welcoming to the use of cryptocurrencies, with the government allowing people to pay for goods and services with Bitcoin while requiring cryptocurrency exchanges and operators to be licensed and be subject to annual audits by the Financial Services Agency (Financial Services Agency, 2017). In China, by contrast, the People's Bank of China, the Ministry of Industry and Information Technology, the Ministry of Commerce, the Banking Regulatory Commission, and the Insurance Regulatory Commission jointly decided to ban the operation of cryptocurrency exchanges and prohibit companies from issuing their own cryptocurrencies (Ministry of Industry and Information Technology of the People's Republic of China, 2017).

It appears that, at present, cryptocurrencies are not causing significant disruption to the world economy, as there are only limited numbers of people who understand how they work and who use them extensively. However, central banks are now under pressure (i) to keep the existing currencies attractive to safeguard their effectivity and authority in maintaining financial stability in their countries, and (ii) to decide how to regulate cryptocurrencies.

For more information, please contact:
Jaysa Prana (jaysa.prana@eria.org); **Lili Yan Ing** (liliyan.ing@eria.org)

ERIA Economic Research Institute for ASEAN and East Asia

Sentral Senayan 2, 5th and 6th floors
Jalan Asia Afrika No.8
Senayan, Central Jakarta 10270, Indonesia
Tel: (62-21) 57974460
Fax: (62-21) 57974463
E-mail: contactus@eria.org