Monthly Update of the ASEAN+3 Regional Economic Outlook (AREO)

Feature: Updates on U.S. Trade Measures and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

ASEAN+3 Macroeconomic Research Office (AMRO)

Singapore

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This Monthly Update of the AREO was prepared by the Regional Surveillance team and approved by Dr Khor Hoe Ee (Chief Economist).

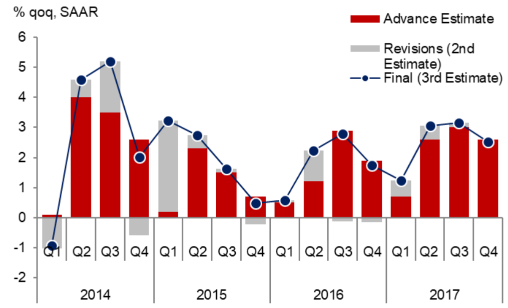
The analysis in this report is based on information available up to 5 March 2018. For the sake of brevity, "Hong Kong, China" will be referred to as "Hong Kong" in the text and figures.

Global Economic Developments

Global growth continued to be robust, driven by domestic demand. Growth in the U.S. economy remained strong, despite the downward revision in Q4 2017 GDP growth from 2.6 percent to 2.5 percent quarter-on-quarter (qoq, SAAR) (Figure 1). Consumer spending continued to be the main driver of growth. In the Eurozone, growth was stable in Q4 at 0.6 percent qoq (Figure 2). The PMI index fell slightly in February but remained in the expansion territory and above its long-term average (Annex 2). In the U.K, growth slowed down in Q4 2017 to 0.4 percent qoq, dragged by higher imports.

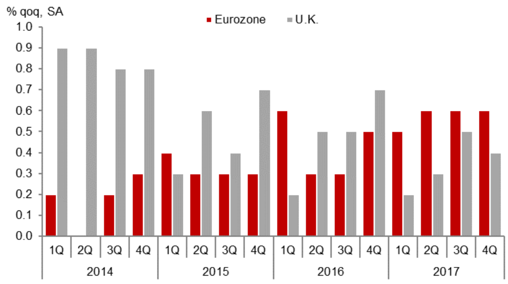
Global financial conditions have remained accommodative but are expected to tighten. The U.S. Fed Chair Powell signaled a more hawkish monetary policy for the U.S and a rate hike to be expected as early as March this year. U.S. 10 year treasury yields dipped slightly in late February (Figure 3), reflecting increased demand for safe-haven assets, given the uncertainty related to Trump's policies. Global oil prices continued on its upward trend, in anticipation of supply cuts from OPEC. However, looking at market-based indicators, inflation expectations in the medium term are slowly increasing. Looking at the dollar, it has been moving sideways in past few weeks, after picking up slightly in mid-February.

Figure 1 The U.S. economy slowed slightly in Q4 2017 but continued to grow robustly



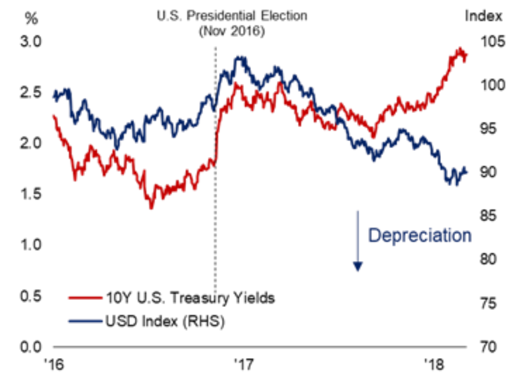
Source: Bureau of Economic Analysis

Figure 2 Growth in the Eurozone remained stable in Q4 but the U.K economy slowed



Source: Reuters

Figure 3 U.S. Treasury yields dipped slightly

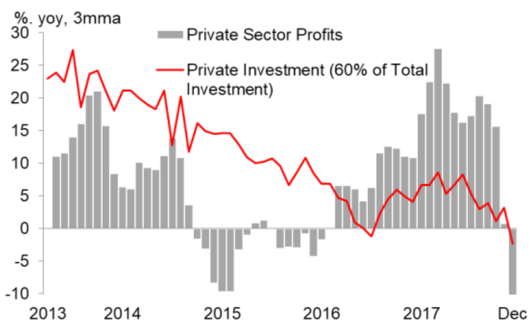


Source: Reuters

Regional Economic Developments

Growth in China in early 2018 continued to be on a gradually moderating trend. On the supply side, service activities expanded further while manufacturing activities moderated. On the demand side, growth has been mainly driven by steady consumption while private investment continued to moderate (Figure 4). The trade surplus in January fell significantly, as growth in imports exceeded exports. Chinese authorities recently announced the GDP growth

Figure 4 Private investment growth in China is moderating



Source: CEIC

target of around 6.5 percent for 2018, highlighting that policy would focus on containing financial risk and improving quality of growth. Monetary conditions in China remained benign, with CPI and PPI showing some slowdown in January. The RMB has stabilized and capital outflow pressures have also eased due to the robust performance of the economy and the countercyclical measures in place.

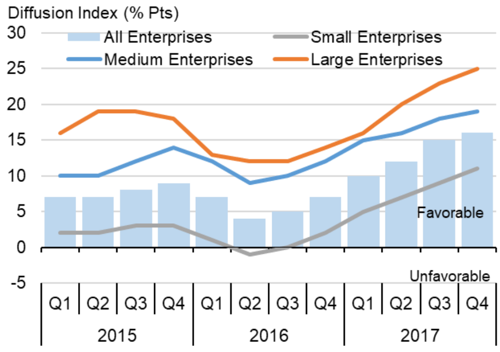
The Japanese economy slowed down slightly in Q4 2017 from the previous quarter mainly due to increased imports, while exports remained strong. On domestic demand, private consumption turned positive, while private non-residential investment continued to grow steadily. In addition, the latest Tankan survey showed that business confidence amongst Japanese firms continue to improve (Figure 5). Inflation figures continued to be well below the Bank of Japan's price stability target of 2 percent.

According to recent GDP data releases (Annex 1), there has been some slowdown in Q4 in Thailand, Malaysia and Singapore, although **growth remained robust, supported by exports.** There is, however, some uncertainty with respect to the global trade outlook as trade protectionist measures from the U.S. continue to gain momentum (discussed in the attached Feature article).

Monetary conditions remained accommodative although inflation has picked up in some economies, including Korea and Vietnam (Figures 6a and 6b). For the most part, monetary conditions remain accommodative in the region. However, with the risk of faster-than-expected tightening of global financial conditions, some central banks in the region are on a tightening bias.

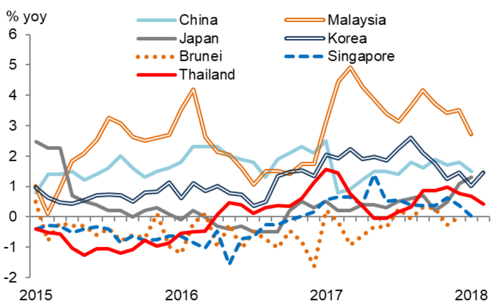
With global financial conditions remaining accommodative, portfolio capital inflows have continued into the region, particularly

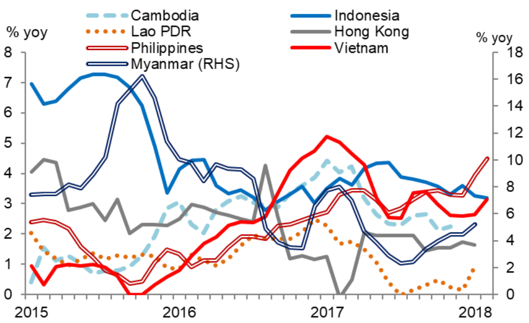
Figure 5 Business confidence indicators in Japan show a positive outlook



Source: CEIC

Figures 6a and 6b Inflation in the region remain benign with uptick in some economies

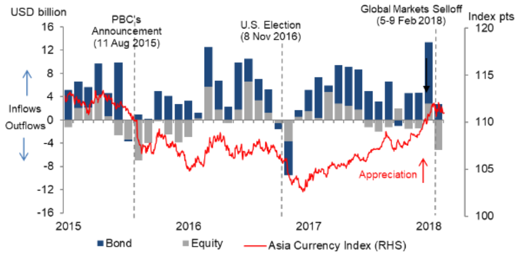




Source: National Authorities, CEIC

into debt markets (Figure 7). The net outflow from regional equity markets was a result from the short-lived global market sell-off in early February. However, overall, the regional markets have shown resilience in the face of this event and have recovered quickly. Regional currencies depreciated against the U.S. dollar in February as the dollar gained in expectation of faster than expected Fed interest rate hikes.

Figure 7 Capital inflows continued into the region despite the short-lived global equities sell-off



Source: Bloomberg

Annex 1: Annual GDP Growth Figures for Selected ASEAN+3 Economies

Economy	Annual GDP Growth, % y-o-y					
	2015	2016	1Q'17	2Q'17	3Q'17	4Q'17
China	6.9	6.7	6.9	6.9	6.8	6.8
Hong Kong	2.4	2.0	4.3	3.9	3.6	3.4
Japan	1.4	0.9	1.5	1.6	2.1	1.5
Korea	2.8	2.8	2.9	2.7	3.8	3.0
Brunei	-0.4	-2.5	-1.7	0.7	1.2	-
Indonesia	4.9	5.0	5.0	5.0	5.1	5.2
Malaysia	5.0	4.2	5.6	5.8	6.2	5.9
Philippines	6.1	6.9	6.4	6.7	7.0	6.6
Singapore	2.0	2.0	2.5	3.0	5.4	3.6
Thailand	2.9	3.2	3.3	3.8	4.3	4.0
Vietnam	6.7	6.2	5.2	6.3	7.5	7.7

Source: National Authorities, Bloomberg, CEIC
* Table shows economies with latest GDP data releases since the last edition of the Monthly Update of the AREO. Data released as of 5 March 2018.

Annex 2: Global Manufacturing PMI Heatmap

Economies	2015				2016				2017												2018		Change from Prev Month	Trend (with min and max pts)
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb		
Global																							-0.2	
Developed Markets																							-0.6	
U.S.																							-0.2	
U.K.																							-0.1	
Eurozone																							-1.0	
Austria																							-2.1	
France																							-2.5	
Germany																							-0.5	
Greece																							0.9	
Ireland																							-1.4	
Italy																							-2.2	
Netherlands																							0.9	
Spain																							0.8	
Emerging Markets																							0.0	
Brazil																							2.0	
India																							-0.3	
Russia																							-1.9	
South Africa*																							2.4	
China																							0.1	
Hong Kong*																							0.6	
Japan																							-0.7	
Korea																							-0.4	
ASEAN																							0.5	
Indonesia																							1.5	
Malaysia																							-0.6	
Philippines																							-0.9	
Singapore*																							1.7	
Thailand																							0.3	
Myanmar																							0.9	
Vietnam																							0.1	

Note: These seasonally adjusted PMI readings are coded by colors:

- Darker shades of red in the reading denote readings further below (< 45) the diffusion level of 50; conversely, greener shades in the readings denote readings further above (> 55) the diffusion level of 50.
- The trend lines shown in the right-most column represent the PMI readings since January 2015, the red dots denote minimum and maximum points in that period.
- Global PMI is as aggregated by JP Morgan. China's PMI refers to Caixin/ Markit PMI.
- (*) denotes whole economy PMI

Source: Markit, JP Morgan

Annex 3: Major Policy Developments (6 February – 5 March 2018)

China

[5 March 2018] According to the 2018 government work report, China has set its GDP growth target at around 6.5 percent for 2018. The target takes into consideration the fact that China's economy is transitioning from a phase of rapid growth to a stage of high-quality development.

[5 March 2018] According to the 2018 government work report, China's prudent monetary policy will remain neutral in 2018. The government will make sure that aggregate money supply is well controlled and maintain a moderate growth in M2 monetary supply, credit and aggregate financing.

[5 March 2018] According to the 2018 government work report, China's budget deficit will be 2.6 percent of GDP for 2018, compared with 3.0 percent target in 2017.

Hong Kong, China

[28 February 2018] In the Finance Secretary's Budget Speech for FY2018-19, the real GDP growth rate for this year is projected to be 3 to 4 percent. The public expenditure will be slightly higher than 21 percent of GDP for FY2018-19 and the subsequent few years, higher than a budgetary criterion of 20 percent of GDP in the past years.

Korea

[27 February 2018] The Monetary Policy Board of the Bank of Korea maintained its base rate at 1.50 percent for the intermeeting period.

Lao PDR

[13 February 2018] The Bank of Lao PDR (BoL) lowered the deposit ceiling effective on 1 March 2018, in line with lower inflation in 2017.

Types of Kip Deposit	Ceiling interest rate (as of Q4 2017)	New ceiling interest rate (for Kip only) effective March 2018
3-month Deposits	3.26	3.16
6-month Deposits	4.02	3.95
12-month Deposits	5.72	5.59
24-month Deposits	6.84	6.71
36-month Deposits	6.9	6.77
48-month Deposits	6.97	6.83
60-month Deposits	7.04	6.9

Malaysia

[27 February 2018] BNM released regulations on "Anti-Money Laundering and Counter Financing of Terrorism for Digital Currencies (Section 6)", which puts in place measures against terrorism financing and money laundering risks relating to digital currency use.

The Philippines	[16 February 2018] The BSP cut banks' reserve requirement by 1 percentage point to 19 percent to promote a more efficient financial system.
Singapore	[19 February 2018] Singapore announced its FY2018 budget. In FY2018, Singapore's budget position will remain expansionary, with ministries' total expenditures are expected to be SGD 80.0 billion, or 8.3 percent higher than in FY2017. Overall, FY2018 expects a slight overall budget deficit of SGD 0.6 billion, or 0.1 percent of GDP.
Thailand	[14 February 2018] Monetary Policy Committee decided to maintain the policy rate at 1.50 percent.

Feature: Updates on U.S. Trade Measures and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

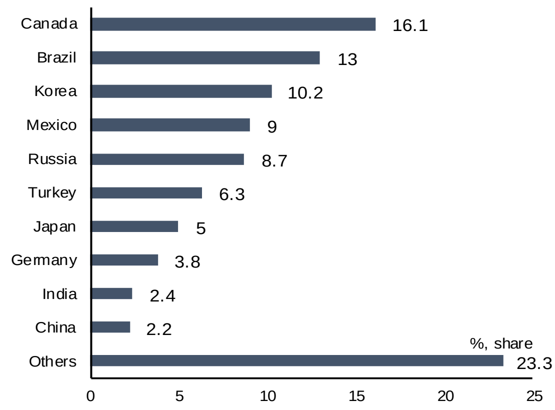
Updates on U.S. Trade Measures

U.S. trade protectionist measures are broadening and gaining momentum as the U.S. trade deficit continues to widen, with the potential of triggering retaliatory measures by targeted countries. In January 2018, the imposition of 20 and 30 percent global tariffs on imported washing machines and solar panels affected primarily exporters from China and Korea, though with minimal impact on overall exports.

The U.S. announcement of imposing 25 percent and 10 percent tariffs on imported steel and aluminium imports respectively, will affect a broader range of countries (Figure 1). The impact on NAFTA countries are among the most consequential, and on Korea (10.2 percent) and Japan (5 percent). Nevertheless, the U.S. would exempt Canada and Mexico on a temporary basis from these tariffs and may exempt more countries.

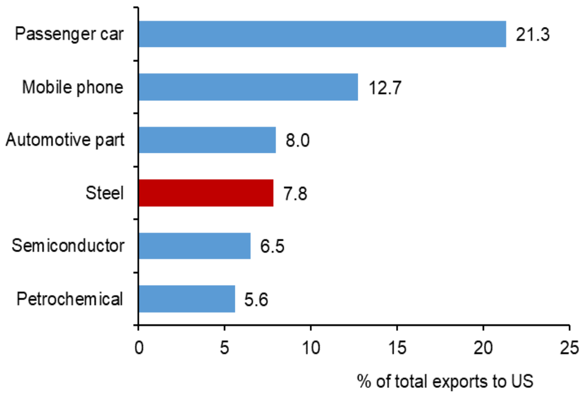
Thus far, the trade retaliation actions from U.S. trading partners have been measured, although a stronger response cannot be ruled out. European authorities responded strongly to the recent announcement, considering possible safeguard tariff measures on steel and aluminium in order to prevent export diversion from the U.S. to the EU, and reciprocal tariffs on U.S. exports including motorcycles, alcohol and clothing, amongst others. In response to the measures announced on washing machines and solar panels, China announced similar anti-dumping investigations on U.S. exports of sorghum, which makes up less than 1 percent of total U.S. exports to China. As for the latest round of U.S. measures, China will be among the least affected by the steel and aluminium tariffs as

Figure 1. Share of U.S. Steel Imports by Country, 2017



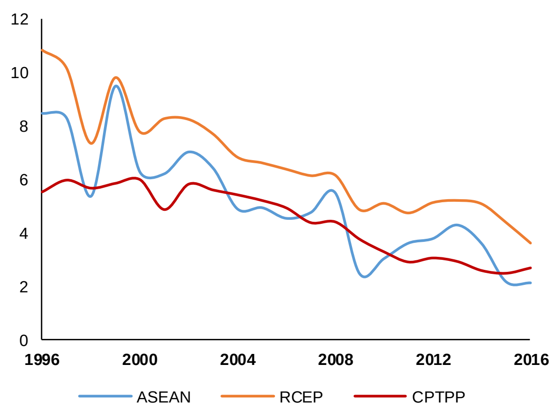
Source: U.S. Department of Commerce, International Trade Administration

Figure 2. Korea's Major Export Goods to the U.S., 2017



Source: Korea Customs Service

Figure 3. Average Effective Applied Tariff Rates (1996-2016)



Source: World Integrated Trade Solution (WITS), WTO – IDB Database only 1.6 percent of China's steel exports (by volume) are to the U.S., and these exports account for only 2.2 percent of total steel imports by the U.S.

As for other trade agreements, NAFTA renegotiations are ongoing with a low likelihood of an outright U.S. withdrawal in the near-term. Although discussions on automotive-related trade had slowed overall renegotiations, the U.S. is expected to remain in NAFTA given marked progress in non-trade areas, for instance, provisions on anti-corruption practices. Thus far, six chapters have been concluded. However, trade negotiations are further complicated by the issue of steel and aluminium tariffs, in which Mexico and Canada's tariff exemptions are conditional on progress made on NAFTA.

Meanwhile, the negotiation for amendments to the Korea-U.S. FTA is also ongoing, even as recent measures affect Korea's exports of washing machines (0.5 percent), solar panels (1.9 percent) and steel (7.8 percent) to the U.S. (Figure 2).

Opportunities from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

The signing of the CPTPP on 8 March 2018 among eleven member economies can cushion, at least partially, the threat of U.S. trade protectionism on the region. While the original TPP with the U.S. would yield more benefits because of the importance of the US as a trading partner to many countries in the world, the CPTPP is still a very important agreement with the 11 CPTPP members, which account for 13.5 percent of global GDP and 15 percent of global trade. All CPTPP member countries are expected to see gains in their GDP, exports and inward FDI flows, particularly Malaysia,

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Section 201 Cases: Imported Large Residential Washing Machines and Imported Solar Cells and Modules. https://ustr.gov/sites/default/files/files/Press/fs/201%20FactSheet.pdf

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Peter A. Petri, Michael G. Plummer, Shujiro Urata, and Fan Zhai (2017), Going It Alone in the Asia-Pacific: Regional Trade Agreements Without the United States Working Paper 17-10, Peterson Institute for International Economics.
https://piie.com/publications/working-papers/going-it-alone-asia-pacific-regional-trade-agreements-without-united

Vietnam, Singapore and Brunei (Petri et al., 2017). The CPTPP would result in binding commitments to reduce tariffs and decelerate the pace of new non-tariff barriers (NTBs), thereby helping to mitigate the adverse impacts from rising protectionist threats. While the returns to further tariff reductions would decline as it approaches the zero lower-bound (Figure 3), there remains ample gains as the CPTPP trade rules will also lead to a reduction in trade-impeding non-tariff barriers.