Emerging Asia Pacific: China Expected To Decelerate In 2018; Indian Economy Rebounds

KEY TAKEAWAY

China: The world's second-largest economy registered fourth quarter GDP growth of 6.8%, which beat analyst estimates. For the year 2017, the economy expanded 6.9% even as the government initiated economic restructuring.

India: The economy expanded at a 7.2% annual rate in the October-December quarter. This continues the country's rebound from 2017's slowdown due to the demonetization of high-denomination currency notes and troubles related to the rollout of the GST.

China, the largest of the economies under our coverage in the Emerging Asia Pacific region, was in the spotlight during the review period for a political development that could have far-reaching implications for the country as well as the global economy. Domestically, growth in the world's second largest economy is expected to slow down in 2018 as the Chinese government bolsters its efforts to curtail risks in its financial system and shuts down polluting factors. The Xi Jinping administration hopes these measures would help generate sustainable economic growth for the long term, notwithstanding short-term economic pain resulting from increasing corporate borrowing costs and slowing factory production. On the other hand, India, the third-largest economy in Asia, appears to be recovering after the sharp deceleration last year, which followed the twin shocks of demonetization and the disruptive rollout of the goods and services tax. South Korea's economy is expected to benefit from the Winter Olympics held in February, not to mention improving bilateral ties with its estranged neighbor North Korea.

The Indonesian economy expanded 5.2% in the fourth quarter from the year-ago period, helped by a rebound in exports though consumer spending remained tepid. While Malaysia's export growth is seen to moderate in 2018, monetary policy remains tight and high level of household debt is likely to restrain consumer spending. Thailand's GDP growth came in at 4% year on year in the fourth quarter, below the consensus estimate of 4.4%. Taiwan's economy, that is renowned for manufacturing and exports of memory chips and precision parts, registered higher export growth in January, helped by robust global demand for its products. The Pacific economy of the Philippines, that has the distinction of growing above 6% for six years in a row, also stands to gain from President Duterte's massive $180-billion infrastructure building scheme to construct roads and railway lines.

CHINA: GROWTH EXPECTED TO DECELERATE IN 2018

The world's second-largest economy registered fourth quarter GDP growth of 6.8%, which beat analyst estimates. For the year 2017, the economy expanded 6.9% even as the government initiated economic restructuring. The positive data highlighted the fact that while old economy sectors such as heavy industries and housing-related segments slowed, services, some parts of the manufacturing sector, and high-tech industries displayed robust growth, as a CNBC report pointed out. To be specific, the services sector contributed about half of GDP in the quarter, while the farm sector accounted for about 10%. The services sector expanded 8.3% in the quarter from the year-ago period, while agriculture sector grew 4.4%.

Bringing more cheer, the country's industrial output expanded at a faster clip in the first two months of 2018. Industrial production advanced 7.2% year on year, compared to estimates of 6.1% growth. Urban fixed-asset investment rose 7.9% during January-February from 7.2% in December.

Moreover, consumers also seemed to loosen their purse strings as retail sales grew 9.7% on a year-on-year basis during the period.

Yet, the Chinese government was realistic in acknowledging the effects of the painful restructuring program it has undertaken as it expects economic growth to decelerate to 6.5% in 2018. Chinese policy makers have been trying to rein in financial risks and slow the ballooning build-up of debt without upsetting economic growth. Shutting down inefficient, polluting factories is a part of the government's program to generate sustainable economic growth in the long term.

Meanwhile, the recent decision of the National People's Congress to rescind term limits for presidency has received much global attention as it would allow Mr. Xi Jinping to remain president for life. While some have hailed the move as one that would lead to more political stability in China, it has been pointed out that the dependence on a single person's health, perceptions and judgement may pose a long-term challenge for both China and the global economy.

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South Korea: The economy slowed down in the fourth quarter of 2017 due to a long holiday that curtailed industrial production, while the robust overseas sales of computer memory chips was offset by the slump in automobile exports, a *Reuters* news report said.

Indonesia: The economy expanded 5.2% in the fourth quarter from the year-ago period, better than expected, helped by a rebound in exports though consumer spending remained tepid. Exports increased 8.5% during the quarter, while retail sales edged up by a meager 2.6%.

INDIA: ECONOMY ON THE MEND

The Indian economy expanded at a 7.2% annual rate in the October-December quarter. This continues the country's rebound from last year's slowdown due to the demonetization of high-denomination currency notes in November 2016 and teething troubles related to the rollout of a nationwide goods and services tax (GST) in July 2017. The construction sector grew 6.8%, manufacturing rose 8.1%, and the farm sector expanded by 4.1% during the review period. The International Monetary Fund has forecast that the economy will expand 7.4% in 2018 and 7.8% in 2019, while rating agency Moody's expects India to grow 7.6% in 2018. Moody's had raised the country's investment grade rating in November 2017.

The healthy economic data do not seem to be an aberration as factory production increased and retail inflation softened at the turn of 2018. The index of industrial production expanded by 7.5% in January, which was better than analyst expectations. At the same time, retail inflation fell to 4.4% in February 2018 from 5.1% in January, giving the Reserve Bank of India the leeway to hold off on interest rate hikes for now.

However, certain domestic and global factors could play spoilsport with the still nascent economic recovery. The banking sector is reeling under bad loans that deter the flow of investments into the economy, while the recent fraud at a leading government-owned bank has dented investor confidence. Export growth is yet to gather pace and GST-related issues still need to be ironed out. U.S. President Trump's protectionist policies such as the recent imposition of tariffs on steel and aluminum imports may not have an immediate economic impact as India's share of steel exports to the U.S. is negligible. However, domestic prices could come under pressure due to the trickle-down effect of possible retaliatory tariffs on global steel prices.

SOUTH KOREA: GROWTH SLOWS AS EXPORTS SLUMP

The economy slowed down in the fourth quarter of 2017 due to a long holiday that curtailed industrial production, while the robust overseas sales of computer memory chips was offset by the slump in automobile exports, a Reuters news report said. GDP growth slowed down to 3.0% in the quarter from the year-ago period, compared to 3.8% in the third quarter. Exports dropped 5.4% in the review period, while construction investment fell 3.8% as the government plans to curb excessive borrowing to discourage consumers from owning multiple homes. Private consumption, which increased 1.0%, proved to be the saving grace for the economy during the fourth quarter.

Seoul expects the February Winter Olympics will give a boost to economic growth this year. As well, the signs of improving bilateral ties with its estranged neighbor North Korea also bode well for the largely export-reliant economy.

On its part, the Bank of Korea has maintained an accommodative monetary policy as it left the interest rate unchanged at 1.50% in its review meeting on January 18. The BOK forecasts growth at 3% for the year 2018 and expects inflation to remain a tad lower at 1.7% from its previous view of 1.8%.

INDONESIA: EXPORTS DRIVE ECONOMIC GROWTH

The economy expanded 5.2% in the fourth quarter from the year-ago period, better than expected, helped by a rebound in exports though consumer spending remained tepid. Exports increased 8.5% during the quarter, while retail sales edged up by a meager 2.6%.

Factory activity in the economy expanded in February, primarily driven by higher output and new orders, a report in Financial Times said. The Nikkei-Markit manufacturing index showed a reading of 51.4 in February, from 49.9 in January, the fastest pace of growth recorded since June 2016. Improving domestic demand helped offset the dip in overseas demand for goods manufactured in Indonesia.

The International Monetary Fund (IMF) also acknowledged the strength of domestic demand when it projected medium-term economic growth for the country to be around 5.6%. The Washington-based organization said it expects annual inflation to be about 3.5%. The IMF also forecast that the current-account deficit would remain steady at 2% of GDP due to stable commodity prices and robust exports. While praising Indonesia's economic management, IMF Managing Director Christine Lagarde urged the Joko Widodo administration to boost its GDP growth rate to create more employment opportunities.

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Malaysia: The economy grew at a rate of 5.9% year-on-year in the fourth quarter, slower than the 6.2% expansion in the quarter before. The services sector rose 6.2%, helped by retail and wholesale trade.

Thailand: Despite registering growth for the fifteenth quarter in a row, Thailand's economic expansion fell short of analyst estimates in the fourth quarter. Growth came in at 4% year on year in the quarter, below the consensus estimate of 4.4%.

MALAYSIA: SLOWING EXPORTS TO HIT ECONOMIC GROWTH

The south-east Asian economy grew at a rate of 5.9% year-on-year in the fourth quarter of 2017, slower than the 6.2% expansion in the quarter before. The services sector, the mainstay of the economy that contributes more than half of GDP, rose 6.2% in the quarter, helped by retail and wholesale trade. Manufacturing expanded 5.4%, thanks to increased demand for electrical products, according to a *Financial Times* report. Overall growth in the year 2017 increased to 5.9%, from 4.2% recorded in 2016. However, the prospects for the economy in 2018 do not seem as bright. While export growth is seen to moderate, monetary policy remains tight and a high level of household debt is likely to restrain consumer spending, a Capital Economics forecast said.

To rein in inflation, Malaysia's central bank increased interest rates to 3.25% in January 2018, the first rate hike in more than three years. However, the bank left its key interest rate unchanged in its policy review in March as inflation has eased to about 3% after touching 5.1% early in 2017 and the pace of economic growth is expected to decline.

THAILAND: GROWTH SEEN TO REMAIN LARGELY INTACT

Despite registering growth for the fifteenth quarter in a row, Thailand's economic expansion fell short of analyst estimates in the fourth quarter of 2017. Growth came in at 4% year on year in the quarter, below the consensus estimate of 4.4%. Manufacturing and tourism were the main drivers of growth during the review period. The manufacturing segment expanded 3%, while tourism-related sectors grew 4.6%. Looking ahead, while the rebound in tourism looks encouraging, GDP growth will keep the current pace as exports are likely to face headwinds, a forecast from *Capital Economics* said. Thailand, which receives tourists primarily from mainland China and other Asian countries, anticipates hosting about 37 million tourists in 2018. Capital Economics expects Thailand's GDP growth to average

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Taiwan: Taiwan's economy expanded 3.3% year-on-year in the fourth quarter of 2017, which came in well above the government's estimate of a 2.4% increase. The economy registered higher export growth in January, helped by robust global demand for its products.

The Philippines: The Philippines clocked GDP growth of 6.7% for the year 2017, earning the distinction of growing above 6% for the sixth year in a row. For the fourth quarter, the economy registered year-on-year growth of 6.6%.

4% in 2018.

Encouragingly, exports from Thailand increased at the fastest pace in five years in January, according to a Financial Times report. In terms of numbers, exports rose 17.6% year on year during the month, while imports too increased 24.3%.

TAIWAN: EXPORTS KEEP THE ECONOMY HUMMING

Taiwan's economy expanded 3.3% year-on-year in the fourth quarter of 2017, which came in well above the government's estimate of a 2.4% increase. The economy, which is renowned for manufacturing and exports of memory chips and precision parts, registered higher export growth in January, helped by robust global demand for its products. Export orders rose 19.7% in January compared to the year-ago period, the highest rate of growth clocked in the past twelve months. Region-wise, export orders from China rose 31%, while U.S.-bound exports increased 16.3%, according to a *Reuters* news report. Taking into account the strong export numbers, Taiwan now expects economic growth in 2018 to be around 2.4%, compared to its earlier view of a 2.3% expansion.

Being an export-dependent economy, Taiwan is vulnerable to the fluctuations in economic fortunes of its main trade partners such as China and the United States. That being said, exchange rates could impact the economy more than interest rate hikes. Needless to say, a weak Taiwanese Dollar helps to keep its exports competitive. Moreover, Taiwan is being talked about as a potential member of the Trans-Pacific Trade Partnership, a trade deal that is being revamped after President Trump pulled the United States out of the original 12-country pact.

PHILIPPINES: GROWTH MOMENTUM INTACT

The Philippines clocked GDP growth of 6.7% for the year 2017, earning the distinction of growing above 6% for the sixth year in a row. For the fourth quarter, the economy registered year-on-year growth of 6.6%. Consumer spending, which contributes about 70% of GDP, climbed 6.1% in the fourth quarter. Government spending increased 14.3%, while investment rose 8.2%. The Pacific economy also stands to gain from President Duterte's massive $180-billion infrastructure building scheme to construct roads and railway lines. However, the mammoth government spending has put a strain on the country's budget, stoking inflation fears. It is widely expected that the central bank will proceed with a rate hike in the first quarter of 2018.

Acknowledging the strong economic growth, the Philippine central bank said the fourth quarter and 2017 GDP figures confirm the underlying strength of the economy, according to a Reuters news report. Central Bank Governor Nestor Espenilla said the Philippines's vast foreign reserves provide ample defense against capital outflows. Mr. Espenilla said the country is expected to have posted a current account deficit of $100 million in 2017.
