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East Asia Pacific economies: Looking good

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EAST ASIA PACIFIC ECONOMIES: LOOKING GOOD

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The World Bank expects recovering global trade and commodity prices to buoy regional prospects

In its latest East Asia Pacific Economic Update, the World Bank expressed optimism in the region's growth. Robust domestic demand and a recovering global economy, boosted by rising commodity prices, provide a positive outlook despite a slowing Chinese economy that will grow 6.5 percent in 2017 compared to 6.7 in 2016.

"Compared to the last time we did this update six months ago, we are a bit more optimistic because of some of the things we've seen in the last three to four months," explains **Sudhir Shetty**, the World Bank's East Asia and Pacific Chief Economist. "2016 saw the slowest growth since the GFC. Once reason for that was what you might call a 'synchronised' slowdown between the advanced economies as well as the emerging and developed economies.

"A big part of that was what was happening to commodity exporters – Brazil, Russia etc. – that were seeing negative growth or very sluggish growth. However, when you look at more recent indicators – PMI, industrial production growth – these are quick snapshots of economies."

He concludes: "What you see is a nice recovery towards the latter part of 2016 and early 2017. So in that sense, there's a little bit of optimism in terms of where the global economy is headed."

Speaking at a recent SMU School of Social Sciences seminar on the launch of its April update, Dr. Shetty outlined two more reasons for the region's expected growth.

“The second part has to do with global trade. This is particularly important for this region given how open it is. There was a collapse of global trade during the Global Financial Crisis, a nice recovery right after that, and then a continued slowdown. Now, what you are beginning to see is a pickup in the value of global trade. The volume of global trade is still somewhat flat but there are some signs that it is beginning to pick up.

“Finally, commodity prices. The big story of 2015 and early 2016 was collapsing commodity prices, particularly energy prices and now you’re beginning to see energy prices, led by coal and also oil and gas, picking up a little bit. You also see gradual improvement in metals prices, and the beginning of perhaps an uptick in agricultural commodity prices.”

CAUSE FOR CAUTION

While the outlook appears optimistic, pointed to what he described as “accommodative monetary policy coupled with somewhat expansionary fiscal policy” that has contributed to a fiscal deficits across most of the region. The update warned of “faster-than-expected interest rate hikes in the U.S.; protectionist sentiments in some advanced economies; and rapid credit expansion and high levels of debt in several East Asian countries” as things to watch out for.

Could there be a repeat of the 1997 Asian Financial Crisis?

“Countries of this region have learnt their lesson,” Shetty assures, saying some countries have learnt them “too well”. He explains: “If you look at reserve levels in the countries that were most affected – Malaysia, Indonesia, Thailand – you’ll see there’s little danger of a 1997 repeat.

“The second thing these countries have learnt is the management of exchange rate regimes. It’s quite remarkable that the countries that were hit the most are the ones that have the most flexible exchange rates. They’ve learnt the lesson of not pegging an exchange rate and then facing the consequences. I think those lessons are well learnt.”

With recovering world trade expected to fuel the region’s growth going forward, the Trans-Pacific Partnership’s (TPP) effective demise has turn attention on to the Regional Comprehensive Economic Partnership (RCEP) to be the multilateral free trade agreement to take its place. Shetty is not optimistic it will be the most effective arrangement to promote free trade.

“It’s quite possible that RCEP ends up being little more than a paper agreement,” he muses. “The advantage of TPP, particularly for countries such as Malaysia and Vietnam, was that it actually raises the bar and it would these countries to do things that they probably would not have done on their own, but given the possibility of gains on other aspects, they would have.

“The risk with RCEP is that it would a lowest common denominator kind of agreement which will end up doing very little. That’s why what we’re saying here is not that the goal would be to sign RCEP at all costs. The goal would be to use RCEP to address things such as non-tariff barriers that really are a binding constraint to integration with the region.”