

Week Ahead Asia-Pacific Economic Preview

- **US-China trade negotiations**
- **GDP and trade updates from China**
- **ECB set monetary policy**
- **Special focus on the CPTPP**

US-China trade talks dominate the calendar in the coming week, brought into focus with the latest trade figures from both US and China. Fourth quarter GDP for China will also be eyed for any trade war impact. Release of December Sector PMI surveys will provide further nuances into global business activity for key industries.

Other data highlights for Asia include Taiwan's trade numbers and South Korea's unemployment data. Analysts will monitor the first ECB policy meeting in 2019 after the Bank's decision in December to end its bond-buying programme. Elsewhere, GDP data for the UK and US trade statistics will be keenly watched.

Our special focus this week looks at the impact of the new Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which came into force on 30th December 2018.

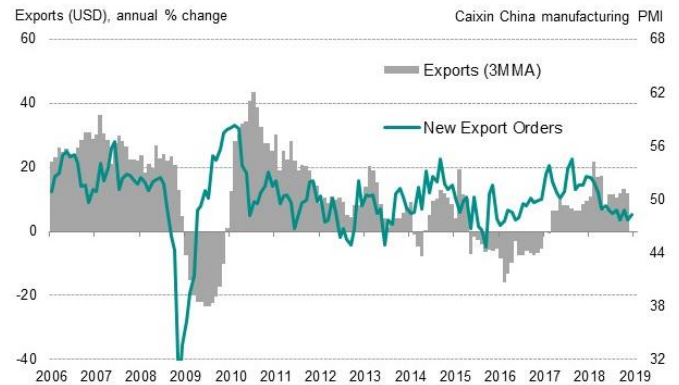
US-China trade talks

The outcome of the US-China trade talks starting next week will influence whether recent trade tensions will intensify or cool. While negotiations are set to take place the US has agreed to hold back on a scheduled increase in tariffs on \$200 billion in imports from China.

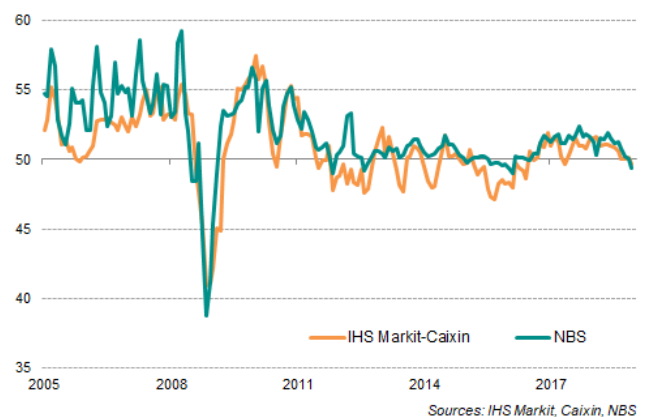
Updated trade statistics from China and US in the same week will also be keenly watched for clues as to the impact of recent trade war developments. Latest Caixin China PMI surveys indicated a ninth successive monthly decline in goods export orders during December.

There will also be great interest in the release of fourth quarter GDP figures for China to confirm if growth momentum has slowed further, as reflected in recent economic indicators. Both the government-sponsored manufacturing PMI and IHS Markit compiled [Caixin manufacturing PMI](#) fell below the no-change threshold of 50 in December, the latter below 50 for the first time since May 2017. The disappointing PMI surveys followed news of softer growth in industrial profits and retail sales.

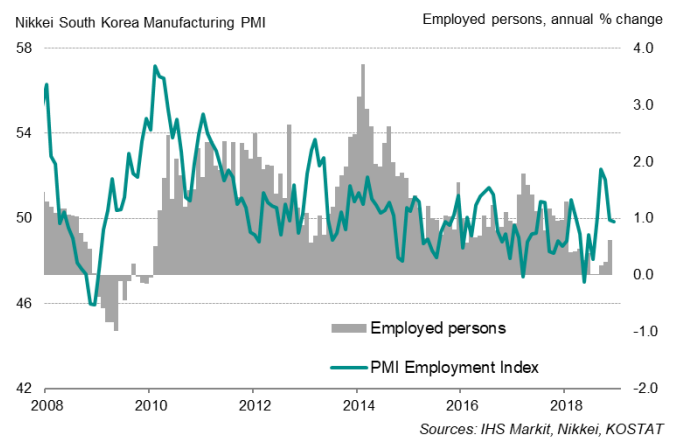
China PMI and exports



Caixin and NBS China manufacturing PMI



South Korea PMI and employment



Continued...

Korea employment

Updates to South Korea's unemployment rate will be closely watched for clues as to whether more stimulus measures are needed. While South Korea's jobless rate declined to 3.8% in November from August's eight-year high of 4.2%, the unemployment level remained above the average in recent years. Furthermore, the [Nikkei South Korea PMI](#) pointed to stagnating jobs growth in the manufacturing sector towards the end of 2018.

ECB under spotlight

In Europe, the first meeting of 2019 for the European Central Bank's Government Council will be watched for any signs that policymakers have become more concerned about the growth outlook after disappointing GDP data for the third quarter and subsequent weak PMI surveys. The [flash PMI for December](#) sank to its lowest for over four years. Any indications of growth risks moving to the downside could cause rate hike expectations to shift into 2020.

US data updates

A flurry of data releases will meanwhile add further insight into the health of the US economy at the end of 2018, including ISM surveys, factory orders, trade data, new home sales and inflation. Traders will be watching for signs of economic weakness that could bring the Fed's interest rate path closer to the more dovish expectations of the markets, which are increasingly pricing in a lack of further hikes in 2019 as growth risks become skewed to the downside. Futures markets indicate a 72% chance of rates not changing over the course of 2019. [IHS Markit's flash PMI surveys](#) indicated that the GDP growth rate slowed closer to 2.0% in December, and expectations regarding future business growth slipped to the lowest for two-and-a-half years.

Brexit uncertainty

The week also sees UK parliament resume after the Christmas break. Brexit-related news flow is therefore set to intensify ahead of the government's vote on the prime minister's Withdrawal Agreement deal, scheduled for 14th January. The release of UK GDP is meanwhile likely to show the economy relatively resilient in November, albeit buoyed temporarily by [firms stepping up their Brexit preparations](#).

Monday 7 January

Nikkei Japan services PMI (Dec)
Philippines trade (Nov)
Taiwan trade (Dec)
Germany factory orders and retail sales (Nov)
Germany construction PMI (Dec)
Euro area retail sales (Nov)
US factory orders (Nov) and ISM non-manufacturing PMI (Dec)

Tuesday 8 January

IHS Markit Sector PMI for Global, US, Europe and Asia (Dec)
Australia trade (Nov)
China trade (Dec)
Japan consumer confidence (Dec)
Germany industrial production (Nov)
Taiwan inflation (Dec)
France trade balance (Nov)
UK Halifax House Price Index
Euro area economic sentiment (Dec)
Brazil industrial production (Nov)
US trade and JOLTs job openings (Nov)

Wednesday 9 January

Japan average cash earnings (Nov)
Germany trade (Nov)
Euro area jobless rate (Nov)
Canada monetary policy decision

Thursday 10 January

China GDP (Q4) and inflation (Dec)
Philippines industrial production (Nov)
ECB monetary policy meeting
US goods trade balance (adv, Nov)
US wholesale inventories and new home sales (Nov)

Friday 11 January

Korea unemployment rate (Dec)
Japan current account and household spending (Nov)
Malaysia industrial production and retail sales (Nov)
Spain inflation (final, Dec)
UK GDP, trade balance and industrial output (Nov)
Brazil inflation (Dec)
India industrial production (Nov)
US inflation (Dec)

Special Focus

CPTPP rings in a Happy New Year for Asia-Pacific Trade

By Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit

The New Year has started on a positive note for Asia-Pacific trade, with the new Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) having entered into force on 30th December 2018. Seven of the eleven CPTPP countries have ratified the new multilateral trade deal. The CPTPP has created a state-of-art new multilateral trade agreement that could attract other countries from Asia and also Latin America to seek accession in coming years.

CPTPP Creates New Free Trade Architecture for APAC

On 30th December 2018, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) came into effect, creating a positive start for Asia-Pacific trade in 2019. The new trade deal will provide positive momentum for world trade liberalisation after a turbulent year of rising global protectionism during 2018, including the outbreak of the US-China trade war, which is still unresolved. The implementation of the new CPTPP trade deal was triggered by Australia’s ratification of the agreement on 31st October 2018, the sixth of the eleven member nations to ratify the deal.

For Australia, New Zealand, Canada, Japan, Mexico and Singapore, which were the first six ratifying nations, the trade benefits of the CPTPP took effect from 30th December 2018. Vietnam also ratified the CPTPP on 12th November 2018, and the CPTPP agreement will take effect for Vietnam on 14th January 2019. For the remaining four CPTPP members, Brunei, Chile, Malaysia and Peru, the CPTPP will take effect 60 days after they ratify the agreement.

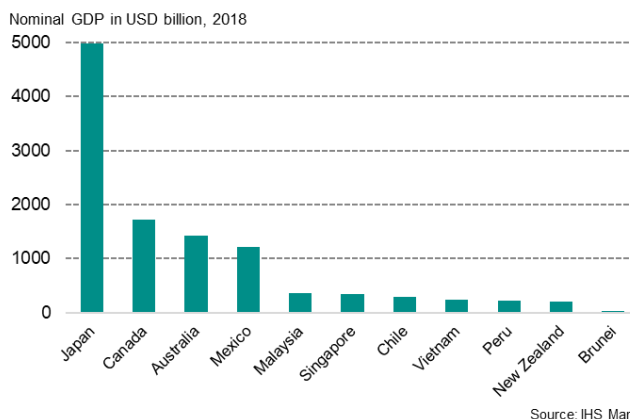
The US, which had been among the original 12 nations negotiating the predecessor Trans-Pacific Partnership (TPP) trade deal, is not among the CPTPP member nations, having pulled out of the TPP deal immediately after President Trump took office. Consequently, the US will not benefit from the expanded market access and trade liberalisation measures created by the CPTPP. Under the original TPP agreement, market access for US firms would have increased notably in services, agriculture and advanced manufacturing.

Indeed, trade liberalisation measures such as tariff reductions under the CPTPP will likely reduce the relative competitiveness of some US products. For example, in the agricultural sector, lower CPTPP tariff barriers are expected to result in trade diversion away from the US towards CPTPP agricultural exporting nations such as Australia and New Zealand.

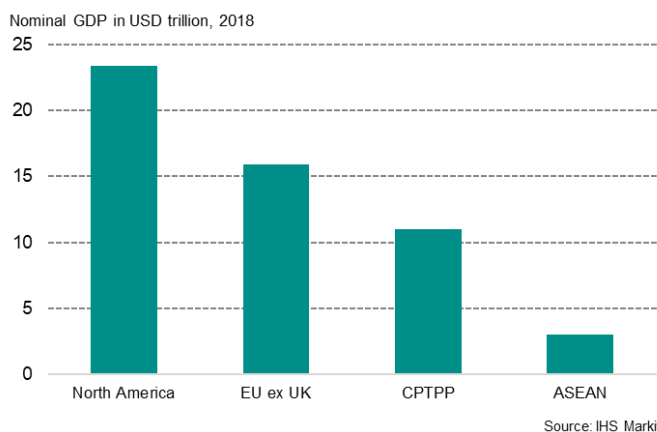
Economic Impact for CPTPP Members

The eleven CPTPP members have a total GDP of USD 11 trillion, creating a combined market equivalent to around 13 per cent of world GDP, with a population of around 500 million persons. Significant economic benefits will accrue to member nations as a result of tariff liberalisation under the CPTPP agreement.

CPTPP members’ GDP



CPTPP compared to other FTAs



However, as a state-of-art advanced multilateral trade agreement whose scope goes far beyond tariff liberalisation, the benefits also extend to greater access to some government procurement markets, improved environmental protection as well as stronger investment protection provisions. The CPTPP is expected to deliver significantly improved market

access and boost trade flows among the CPTPP member nations.

The CPTPP deal is an important achievement for Japan, which played a leadership role in driving forward the momentum for the new trade deal after the US had withdrawn from the original TPP agreement. The CPTPP will form a central part of Prime Minister Abe's 'third arrow' structural economic reforms that are crucial for boosting Japan's long-term potential growth rate.

The total economic benefits of the CPTPP deal together with the new Japan-EU Economic Partnership Agreement (EPA), which is expected to enter into force in February 2019, are estimated by the Japanese government to lift Japan's long-term GDP level by Yen 13 trillion (USD 117 billion) once both agreements are fully implemented. The long-term economic boost from CPTPP alone is estimated at Yen 8 trillion, equivalent to around 1.5% of GDP for fiscal 2017. Japan's auto sector will be one of the significant winners from these two major trade deals.

The New Zealand government has meanwhile estimated that the CPTPP has the potential to deliver an estimated USD 150 million of tariff savings each year to New Zealand exporters once it is fully in force, boosting New Zealand's real GDP by an estimated cumulative total of 0.3% to 1.0% by that time. Reduced Japanese tariffs and non-tariff barriers on imports of New Zealand fruits, vegetables, dairy products, seafood and beef are expected to boost New Zealand's agricultural exports to Japan's large consumer market. New Zealand agricultural exports to Canada, Mexico and Peru are also expected to be boosted significantly by the CPTPP tariff reductions.

The Australian economy is projected to obtain an annual boost to GDP of around USD 11 billion by 2030 due to the CPTPP, according to Australian government estimates. A key positive impact will be improved market access for Australian agricultural exports into the Japanese market, notably for beef, wheat and dairy products.

As Singapore already has an extensive network of free trade agreements with many of the other CPTPP member nations, the total impact of CPTPP expected to boost Singapore's exports and GDP level by an additional 0.2% over the medium term once the full impact of CPTPP measures are implemented by all the members.

Vietnam is a major winner from CPTPP, and will gain significantly improved market access to several of the world's largest markets, notably Japan and Canada. For example, tariffs on over 40% of Vietnam's garments exports to Canada to become tariff free as of 14th January 2019, rising to 100% after four years. Garments are one of Vietnam's largest exports, so this will provide a further boost to this fast-growing industry.

As with Japan, Vietnam has also concluded a free trade agreement with the EU which will enter force after the ratification process is completed. The combination of trade liberalisation through the CPTPP and the new EU-Vietnam free trade agreement will be a significant boost to Vietnam's export sector as tariff barriers for Vietnamese exports to the CPTPP members and EU nations are substantially reduced. This will further enhance Vietnam's attractiveness as a leading Asian low-cost hub for manufacturing exports.

The CPTPP and EU-Vietnam FTA will also accelerate the process of key domestic economic reforms in Vietnam, as the trade deals open up Vietnam's public procurement market to competition from CPTPP and EU countries. The investment deals concluded under the CPTPP and with the EU will improve Vietnam's investment climate for foreign investment from these countries, helping to boost foreign direct investment inflows.

Outlook for CPTPP

The CPTPP is expected to deliver significantly improved market access and boost trade flows among the seven CPTPP member nations that have so far ratified the deal. Japan is expected to be a key winner from the combined impact of the CPTPP as well as the new Japan-EU Economic Partnership Agreement due to take effect in February 2019.

The CPTPP has also provided a boost for multilateral trade liberalisation after a difficult year for the world trading system in 2018 due to rising global protectionism. Going forward, the CPTPP has established an important new state-of-art multilateral trade agreement that other countries could also decide to join. Some other East Asian economies could be among the next countries that might apply to join the CPTPP, possibly including Thailand, Philippines and South Korea. The Thai government is already undertaking studies and public consultations to assess the costs and benefits of CPTPP membership.

For further information:

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Contact for further APAC commentary:

Rajiv.Biswas@ihsmarkit.com or Bernard.Aw@ihsmarkit.com.

Editor and contact for European and US PMI commentary:

chris.williamson@ihsmarkit.com

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