

Week Ahead Asia-Pacific Economic Preview

- Flash PMI surveys to provide early clues to economic performance in Q1
- Trade data from Japan, Taiwan, Thailand, Singapore
- Thai GDP and Bank Indonesia's policy meeting
- Special report on US-Vietnam bilateral ties

Flash February PMI surveys will provide important steers of economic activity and price trends during the first quarter of 2019. [January PMI data](#) indicated that the growth slowdown has gathered pace at the start of the year, pushing the global PMI down to a 28-month low.

In Asia, a number of countries are reporting trade figures, with the focus on Japan's exports and Taiwan's export orders. Thailand will meanwhile report fourth quarter GDP figures, while Indonesia sets its monetary policy. The Reserve Bank of Australia publishes its policy meeting minutes. Other notable data releases included inflation figures in Japan, Malaysia and Hong Kong.

Elsewhere, US durable goods orders will be watched, alongside UK job and earnings data, as well as final estimates of inflation numbers across the Eurozone.

Our special report this week examines the improving bilateral relationship between the US and Vietnam.

Japan data

Next week sees a batch of data releases from Japan, but the focus will be on inflation and trade figures.

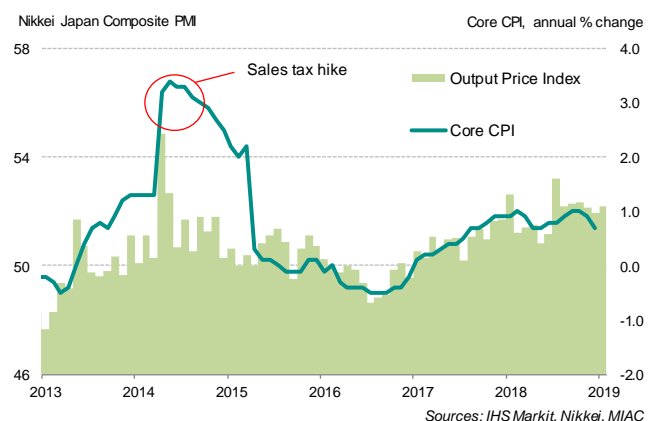
With Japanese exports declining at the steepest rate for two years during December, analysts will place close attention to January updates to trade numbers. PMI-based indicator suggest that export growth is likely to remain weak over the next few months. The quarterly average of Nikkei manufacturing PMI Export Orders Index exhibits a 77% correlation with official export data when applied with a two-month lead.

Inflationary pressures had weakened in recent months, with core inflation easing to an annual rate of 0.7% in December, well below the Bank of Japan's 2% target. The Composite PMI Output Price Index continues to indicate subdued price pressures, bringing into focus the January update to official inflation statistics.

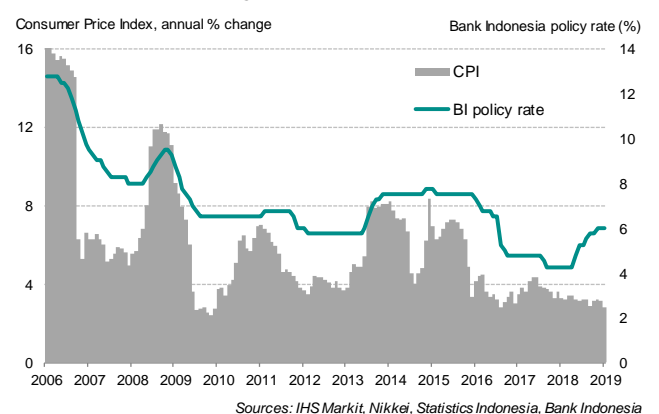
Japan PMI and exports



Japan PMI and core inflation



Bank Indonesia policy rate and inflation



Continued...

Thailand's growth

Fourth quarter GDP growth in Thailand is expected to pick up to an annual rate of 3.8%, up from 3.3% in the third quarter, according to IHS Markit's forecast. Faster expansions in fixed investment and an improvement in net exports, in particular tourism, are seen to be supporting economic activity. Looking ahead, Nikkei PMI surveys pointed to further growth of the Thai manufacturing sector in January, but the rate of expansion remained marginal, with other PMI sub-indices suggesting that the current growth momentum is soft, giving the Bank of Thailand little room to manoeuvre. With inflation remaining subdued, this put the central bank in a tough spot from a policy perspective. IHS Markit expects no adjustments to the policy rate for the first half of 2019. Meanwhile, analysts will also keenly monitor export data updates, following two consecutive months of decline.

Bank Indonesia stays hawkish

Indonesia's central bank is deciding on monetary policy in the coming week. The rate hold decision in the previous two meetings is not indicating the end of the tightening cycle. On the contrary, Bank Indonesia governor Warjiyo [hinted recently](#) that the Bank's policy stance remains hawkish, and dependent on exchange rate stability and future external sector developments. Despite a soft start to the year, the [Nikkei PMI](#)'s gauge for optimism showed that business confidence among Indonesian manufacturers remained elevated, adding support to the case for further tightening. IHS Markit expects BI to raise the policy rate by 75 basis points over the course of 2019.

Rest of world

Employment and wage data in the UK will meanwhile be monitored closely amid Brexit discussions. The January [PMI surveys](#) indicated that the UK economy stalled at the start of the year as escalating Brexit worries led to an increasingly broad-based malaise.

US Fed watchers will watch out for updated durable goods orders and existing home sales. The Fed is widely expected to raise rates at a slower pace this year, with financial markets increasingly [pricing](#) in at most one rate hike for 2019. [IHS Markit's PMI surveys](#) have indicated steady US growth of 2.5% in January, but the rates of economic expansion and inflation signalled by the PMI has clearly cooled since peaks seen last year.

Monday 18 February

Japan machinery orders (Dec)
Singapore NODX (Jan)
Thailand GDP (Q4)
UK household finance index (Jan)

Tuesday 19 February

RBA meeting minutes
UK unemployment rate and wage data (Dec), and claimant count change (Jan)
Euro area and Germany ZEW surveys (Feb)

Wednesday 20 February

Japan trade (Jan)
Australia wage price index (Q4)
Germany PPI (Jan)
Euro area consumer confidence (flash, Feb)
Brazil business confidence (Feb)

Thursday 21 February

IHS Markit Flash PMI for US, Eurozone, Australia, Germany, France and Japan (Feb)
Australia jobless rate and employment change (Jan)
Thailand trade (Jan)
Germany, France and Italy inflation (final, Jan)
Indonesia monetary policy decision
US durable goods orders (Dec) and existing home sales (Jan)

Friday 22 February

Japan, Malaysia and Hong Kong inflation (Jan)
China house price index (Jan)
Taiwan export orders (Jan)
Germany GDP (final, Q4) and IFO surveys (Feb)
Euro area inflation (final, Jan)

Special Focus

US-Vietnam Economic Ties Strengthen as Hanoi hosts Trump-Kim Summit

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

The selection of Hanoi as the venue for the second Trump-Kim Summit on 27th-28th February 2019 has put the spotlight on the rapidly strengthening US-Vietnam economic relationship. The US has now become a key market for Vietnamese exports as well as a significant source of foreign direct investment. Vietnam also offers a strong growth market for US exports, with Vietnam's GDP forecast to more than double over the next decade, from USD 250 billion in 2018 to USD 585 billion by 2028.

Improving US-Vietnam Bilateral Ties

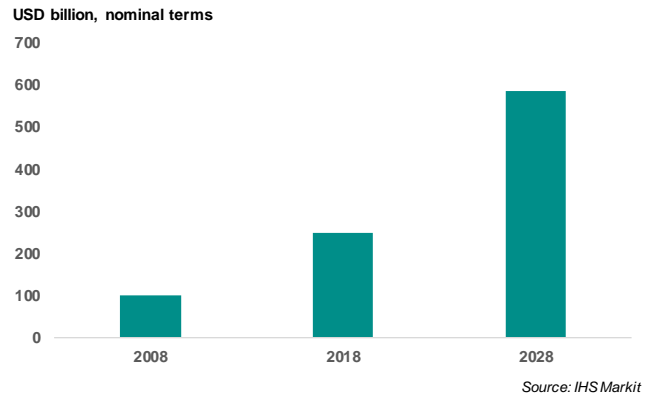
Over the past decade, the rapid growth of Vietnam's manufacturing export sector has resulted in bilateral merchandise trade flows between the US and Vietnam having almost quadrupled. Bilateral trade has risen from USD 15.7 billion in 2008 to USD 60.3 billion by 2018, as the US has become a key export market for Vietnam's rapidly growing electronics and garments industries. However, the buoyant growth of Vietnamese exports has also fuelled a widening US bilateral trade deficit with Vietnam.

The improving bilateral relationship has been underpinned by high-level political dialogue, notably when President Trump met with Vietnamese President Quang in Hanoi in November 2017. Their Joint Statement issued highlighted the commitment of both nations to strengthening bilateral trade and investment flows. President Trump's 2017 visit has been followed by further high-level visits, notably by then Secretary of Defence Mattis in January 2018 and the subsequent visit by Secretary of State Pompeo in July 2018 to Vietnam.

Vietnam's Tiger Economy

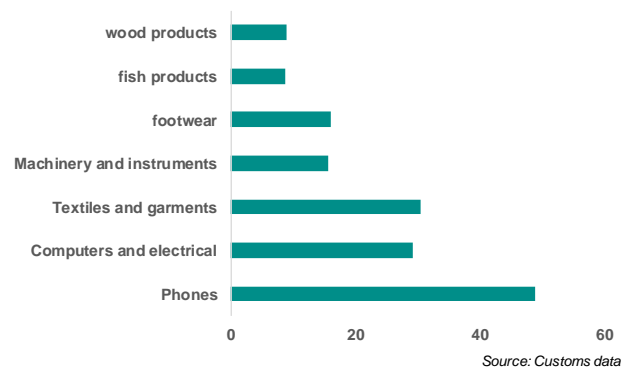
Buoyed by rapid growth in manufacturing exports and foreign direct investment, as well as strong growth in private consumption spending, the Vietnamese economy has grown at between 6% and 7% per year since 2014, with a similar pace of growth forecast to continue over the medium-term outlook from 2019-2023. Over the past decade, the total size of Vietnamese GDP has risen from USD 100 billion in 2008 to around USD 250 billion by 2018.

Vietnam GDP



In 2018, GDP growth strengthened to a pace of 7.1% year-on-year, with manufacturing sector output growth up 13% year-on-year, buoyed by rapid expansion in output of electronics and garments products. Exports continued to post rapid growth in 2018, up 13% y/y.

Vietnam's major exports, 2018 (USD billions)



Trade Liberalisation Initiatives

The decision of the US to withdraw from the Trans-Pacific Partnership Agreement (TPP) when President Trump took office in 2017 was a negative factor for the medium-term Vietnamese manufacturing export sector outlook. Vietnam had been expected to be among the largest beneficiaries due to the much-improved market access to North America. The TPP agreement would have significantly reduced tariff barriers for Vietnam's electronics manufacturing industries, as well as providing a large boost for Vietnam's textiles exports.

However, Vietnam has continued to increase its global trade competitiveness through other trade liberalization measures, including through the new EU-Vietnam Free Trade Agreement and by its membership of the Comprehensive and Progressive

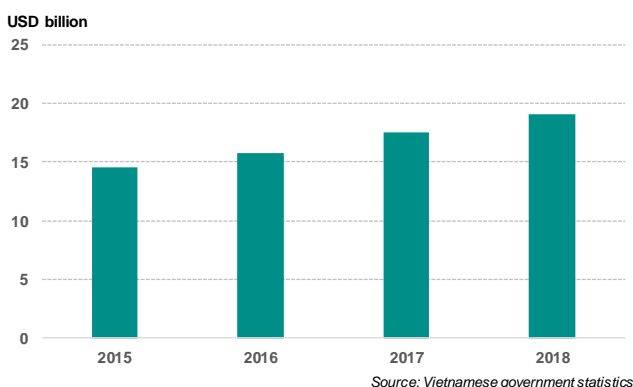
Agreement for Trans-Pacific Partnership (CPTPP). The EU-Vietnam trade agreement will eliminate over 99% of all tariffs, with EU duties on imports from Vietnam to be eliminated progressively over a seven-year timeframe.

Moreover, Vietnamese exports to the US have continued to show buoyant growth during 2018, rising by 11% year-on-year. This rapid pace of export growth partly reflects some trade diversion effects away from China due to the US-China trade war and bilateral tariff measures, which benefited some Asian low-cost manufacturing hubs such as Vietnam that produce substitutes for Chinese low-cost manufactures. Vietnam produces low-cost electrical and electronic goods as well as garments and textiles that US importers could source as substitutes for some Chinese products

Foreign direct investment

Furthermore, the US-China trade war has added to a number of other factors that have already resulted in strong foreign direct investment (FDI) in Vietnam from large multinational corporations. Total FDI into Vietnam rose by 9.1% y/y in 2018, reaching an estimated USD 19.1 billion, according to Vietnamese government estimates. The rapid growth in foreign direct investment flows into the Vietnamese manufacturing sector since 2010 has also reflected a number of other factors, including the competitiveness of Vietnam's relatively low manufacturing wages compared to rapidly rising wage costs in coastal Chinese provinces, a well-educated and skilled Vietnamese workforce, rapidly improving infrastructure and good port logistics for export shipments. The Vietnamese government has also implemented policy changes to encourage FDI in the electronics and IT sectors, as part of a trade strategy to improve the share of higher value-added manufacturing.

Vietnam: Disbursed FDI (2015-2018)



Infrastructure Development

A key focus of the new US economic strategy for the Indo-Pacific region is to boost regional infrastructure development, both bilaterally and through several joint initiatives with other Indo-Pacific nations.

A major initiative is the creation of the new US International Development Finance Corporation under the Better Utilization of Investment Leading to Development (BUILD) Act, which will double US development financing to USD 60 billion, with a significant share likely to be allocated for the developing countries of the Indo-Pacific. This will also create new opportunities for US financing for infrastructure projects in Vietnam.

Outlook for US-Vietnam Economic Ties

By 2028, the Vietnamese economy is forecast to grow to USD 585 billion, helped by continued rapid growth in its manufacturing export sector as well as tourism exports, while consumer expenditure is buoyed by rapid growth in per capita GDP. Over the next decade, annual per capita GDP is expected to double, from around USD 2,550 in 2018 to USD 5,600 by 2028, helping to drive rapid growth in the total size of the Vietnamese consumer market.

This will likely result in Vietnam transitioning from the ranks of the lower middle-income countries to become an upper middle-income country, representing far-reaching economic progress for the nation. This will make Vietnam a fast-growing market for a wide range of goods and services, ranging from manufactures such as white goods, autos and fast-moving consumer goods to services such as telecommunications, real estate services, financial services and health care.

The sustained strong growth of the domestic consumer market will also catalyse further industrial development, as Vietnam's manufacturing sector broadens and deepens into sectors such as auto manufacturing and petrochemicals.

The rapid future expansion of the Vietnamese economy will create a fast-growing market for a wide range of US exports of goods and services, including manufactures such as commercial jet aircraft, autos, defence equipment and advanced electronics products as well as services such as insurance, banking and logistics.

Vietnam is also likely to remain an attractive location for foreign direct investment by US multinationals, as

a low-wage manufacturing hub for electronics and textiles exports as well as a rapidly growing market for a wide range of services.

Strengthening trade and investment flows will be underpinned by further gradual enhancements in the broader bilateral strategic relationship through closer co-operation on security and governance initiatives. The new US vision for an Indo-Pacific strategy launched in November 2017 marks a strategic shift to widen the focus of US engagement in the Asian region, with Vietnam likely to be among the key partner countries.

For further information:

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