

Week Ahead Asia-Pacific Economic Preview

- Flash PMI surveys offer insights into Q4 economic performance of major economies
- IHS Markit Business Outlook surveys provide clues of global business expectations
- Japan data updates, including inflation and exports
- Special focus on ASEAN-China trade

The release of flash PMI surveys in the coming week will provide important steers for the economic performance of major economies midway through the fourth quarter. The tri-annual Business Outlook Survey will meanwhile offer a more sentiment-based view of global business conditions.

Other data highlights for Asia include Japan's inflation and trade numbers, as well as Taiwan's export orders and Thailand's GDP data. The minutes of RBA's November meeting will meanwhile be scoured for clues of the timing of the next interest rate move.

Elsewhere, durable goods and housing data are published for the US, alongside updated estimates of GDP for Germany.

Our special focus this week looks at the rapid growth of trade between China and the ASAEN region.

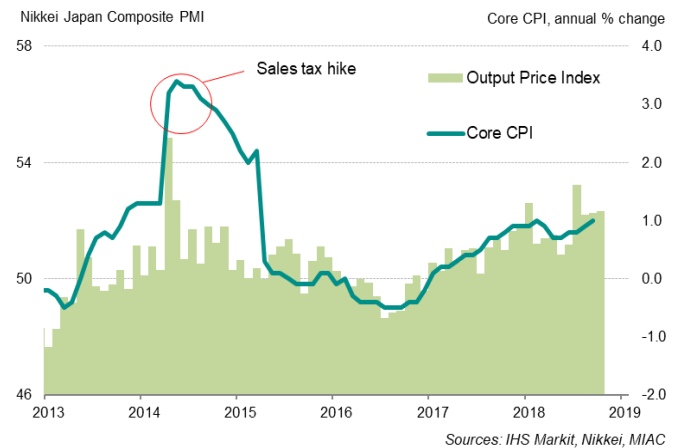
Flash PMIs and outlook surveys

The week starts with publication of IHS Markit's Global Business Outlook Survey and ends with November's flash PMIs, collectively providing a valuable insight into current and future economic trends around the globe.

Conducted three times per year and based on data collected from 12,000 companies worldwide, the Global Outlook Survey is the largest of its kind, asking PMI survey respondents to report on their plans for the year ahead, including production, capex, hiring and pricing plans. As such, the survey forms a natural opinion-based complement to the monthly fact-based PMI surveys.

The Outlook Survey comes at an interesting time: October's PMIs showed that the worldwide expansion is running at its slowest for two years as trade worries and political uncertainty intensified. Signs of slower growth in key emerging markets, notably China, have been accompanied by especially disappointing PMI numbers in the Eurozone and UK.

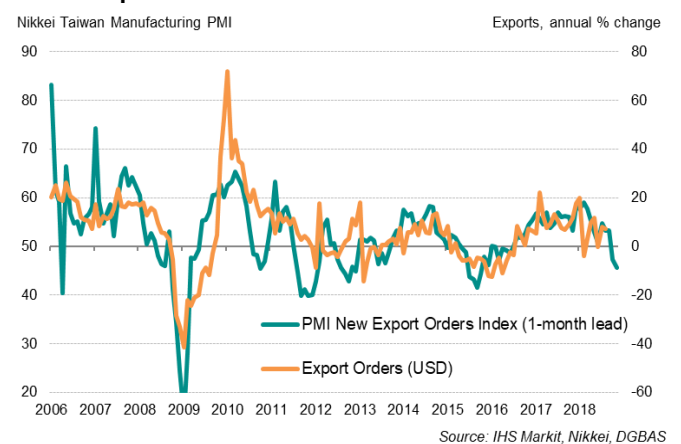
Japan PMI and core consumer inflation



Japan PMI and exports



Taiwan export orders and the PMI



The Eurozone flash PMI will be especially eagerly awaited, especially from a policy perspective, as the ECB has yet to formally acknowledge that risks have become skewed to the downside.

The flash PMIs will also help clarify the US economic picture, as recent months have seen distortions due to adverse weather. Robust [October PMIs](#) in part reflected a weather-related rebound, meaning November's surveys will be gleaned for better clues as to true underlying growth momentum.

Flash PMI results for Australia will also be updated. Fears have risen for a soft fourth quarter after October's PMIs showed the weakest expansion in the [CBA survey's](#) two-and-a-half year history.

Japan data updates

The coming week sees Japan reporting inflation figures, where the market consensus is for 1.0% annual growth in core inflation, still well below the 2% goal set by the Bank of Japan. Latest [Nikkei PMI surveys](#) continued to show selling prices rising at an historically strong rate, but still not sufficiently as high as to indicate that consumer inflation is reaching the target rate any time soon. With inflation remaining stubbornly subdued, more measures from the BOJ may be necessary to maintain the current ultra-accommodative monetary settings.

In the same week, analysts will eagerly await October trade figures, particularly exports, for insights into current economic activity. Official GDP data showed the economy shrinking an annualised 1.2% during the third quarter as a string of natural disasters disrupted business activity. Comparison with the PMI Index of New Export Orders, which exhibits a near 75% correlation when applied with a two-month lead, pointed to a near flat growth in exports for October.

Taiwan export orders

Analysts will also monitor keenly the October update to Taiwan's export orders, a barometer for regional trade. Recent Asian PMI surveys had indicated weaker export trends amid rising trade tensions. In particular, the [Taiwan PMI](#) gauge for export sales, which exhibits a positive relationship with official export orders when applied with a one-month lead, indicated the steepest decline in three years during October, suggesting that the outlook for overseas demand has dimmed. The Taiwan PMI showed business sentiment also turning negative with concerns over the ongoing US-China trade dispute commonly mentioned.

Other data highlights in Taiwan include official industrial production and retail sales numbers.

Thailand and Singapore GDP

Thailand is expected to see a slightly slower third quarter GDP growth at 4.5%, down from 4.6% in the previous quarter. However, the persistent [lack of momentum seen in the manufacturing sector](#), as reflected in Nikkei PMI data, hinted at more manufacturing woes in coming months which, in turn, could weigh on overall economic activity.

Final estimates for Singapore's third quarter GDP are likely to be revised up from an annual rate of 3.9% to 4.1%, consistent with the indications from Nikkei PMI surveys.

Monday 19 November

Worldwide release of IHS Markit Business Outlook surveys
 Japan trade (Oct)
 Thailand GDP (Q3)
 Euro area construction output and current account (Sep)

Tuesday 20 November

RBA meeting minutes
 Taiwan export orders (Oct) and current account (Q3)
 Hong Kong inflation (Oct)
 France unemployment rate (Q3)
 Germany PPI (Oct)
 US building permits and housing starts (Oct)

Wednesday 21 November

US durable goods orders and existing home sales (Oct)
 US Michigan consumer surveys (Nov)

Thursday 22 November

Japan inflation (Oct)
 Thailand trade (Oct)
 France and Brazil business confidence (Nov)
 Euro area business confidence (flash, Nov)

Friday 23 November

IHS Markit Flash PMI surveys (Australia, US, Eurozone, Germany and France)
 Singapore, Taiwan and Germany GDP (final, Q3)
 Singapore and Malaysia inflation (Oct)
 Taiwan industrial production and retail sales (Oct)
 Brazil consumer confidence (Nov)

Special Focus

The Long Boom in ASEAN-China Bilateral Trade

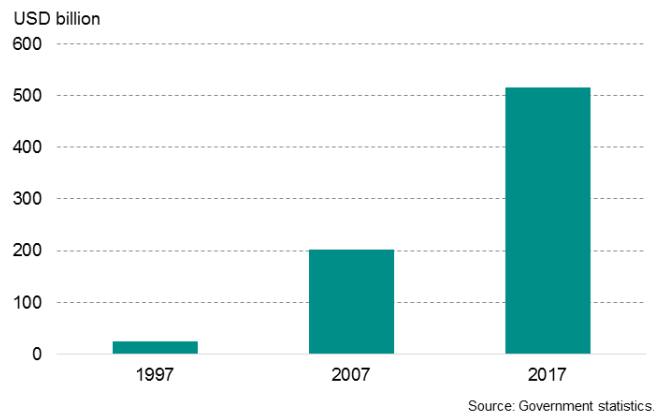
By Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit

This article assesses the outlook for bilateral trade between the ASEAN region and China, as rapid GDP growth and initiatives for trade liberalisation and regional infrastructure investment continue to boost regional trade flows.

Overview

Economic relations between China and ASEAN have strengthened considerably due to China's economic ascendancy as well as the dynamic growth of ASEAN. This has resulted in rapidly growing bilateral trade and investment flows. Over the past decade, bilateral trade between the ASEAN region and China has grown from USD 202 billion in 2007 to USD 515 billion by 2017.

China-ASEAN bilateral trade



Key drivers for ASEAN-China trade

A number of key drivers have helped to propel the strengthening bilateral economic relationship.

One major factor has been the fast pace of economic growth in both the ASEAN and Chinese economies. China's share of world GDP has risen from an estimated 4% in 2000 to around 15% by 2017, and is forecast to rise further, to around 21% of world GDP by 2028. Meanwhile the size of ASEAN GDP has also grown rapidly at an annual average pace of around 5% per year since 2011, which resulted in ASEAN's total GDP reaching USD 2.8 trillion in 2017.

A second important contributory factor has been initiatives for bilateral trade liberalization, notably the creation of the China-ASEAN Free Trade Area, which has substantially eliminated tariff barriers on trade in goods between China and ASEAN since 2010.

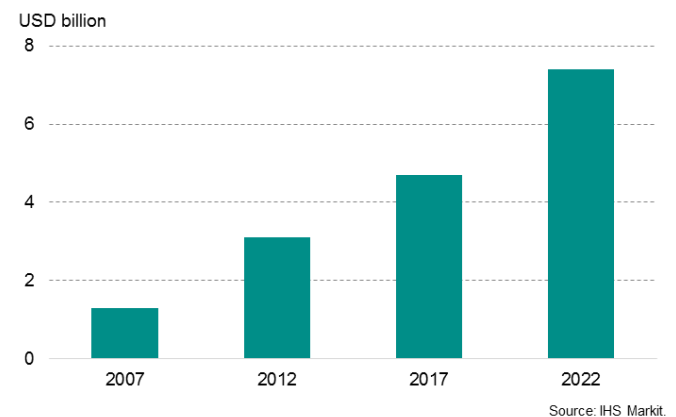
Thirdly, the consumer markets of both China and ASEAN have been growing rapidly over the past decade, helping to drive demand for a wide range of bilateral exports of goods and services.

Rapidly growing consumer markets

Rapid GDP growth in China over the past decade has resulted in Chinese per capita GDP rising from USD 2,650 in 2007 to USD 8,670 by 2017. This has propelled China into the ranks of the world's upper-middle income countries, creating a rapidly growing middle class that is driving consumer spending across a wide range of goods and services. Some of China's largest cities have reached per capita income levels that are considerably higher, with per capita GDP for Beijing estimated at US 20,356 in 2017.

As a result, China has become an increasingly important export market for many ASEAN countries for a wide range of goods and services, including agricultural and mineral commodities, energy commodities, manufactured products and services exports such as tourism. One of the key ASEAN exports to China is electrical and electronic equipment, which account for around 27% of total exports to China.

China's consumer market



The ASEAN region is itself also a large consumer market, with a total population of 658 million and rapidly growing household consumption in a number of populous ASEAN economies, including Indonesia, Philippines and Vietnam. The ASEAN region has consequently become a major export market for China, with total Chinese exports to ASEAN countries reaching USD 279 billion in 2017, rising by 9% year-on-year and accounting for 12.3% of total Chinese exports worldwide.

ASEAN exports of services are also being boosted by the buoyant growth of Chinese consumer spending.

The rapid growth in Chinese household incomes over the past decade has driven a surge in Chinese tourism travel abroad, with many ASEAN countries benefiting.

Thailand has been a key beneficiary of the Chinese tourism boom. Chinese tourism visits to Thailand rose from around 1.7 million visits in 2011 to 9.8 million in 2017, increasing four-fold within six years and reaching a 27.7% share of all international tourism arrivals in Thailand last year.

Chinese FDI flows to ASEAN

China has also become a significant source of new foreign direct investment (FDI) flows to ASEAN countries over the past decade, with especially strong inflows since 2013. Annual Chinese FDI flows to ASEAN have averaged around USD 7 billion per year over the 2013-2016 period.

With Chinese manufacturing wages rising rapidly in coastal Chinese manufacturing hubs, many Chinese firms have invested in establishing manufacturing production facilities in 'lower-cost' ASEAN countries such as Cambodia in order to maintain export competitiveness in low value-adding manufacturing industries such as garments and footwear.

The Belt and Road Initiative

An important new focus for bilateral economic co-operation between China and ASEAN has been through China's Belt and Road Initiative (BRI). The BRI is providing large-scale financing for infrastructure projects in many developing countries worldwide, with a number of ASEAN countries being key parts of the project. With bilateral trade flows having grown so rapidly, improving transport infrastructure connectivity between China and ASEAN countries through road, rail and port infrastructure will help to reduce logistics costs and further boost growth in bilateral trade.

China is providing financing for a number of rail infrastructure projects in ASEAN countries, including in Thailand, Laos and Cambodia, as well as for the Jakarta-Bandung High Speed Rail Link in Indonesia. Via the BRI China is also financing infrastructure to develop maritime connectivity for ASEAN countries, through projects such as the development of port infrastructure.

Outlook for ASEAN-China trade flows

IHS Markit forecasts that China will become the world's largest economy by 2028, overtaking the US, with China's share of world GDP projected to rise to around

21% by 2028. China's per capita GDP is meanwhile forecast to increase from USD 10,000 by 2019 to USD 22,000 by 2028. This will make China's consumer market an increasingly important growth engine for ASEAN's export sector across a wide range of goods and services. At the same time, the ASEAN consumer market, which is already a major export market for China, will continue to grow rapidly.

Both ASEAN and China are key driving forces for further trade liberalization in the Asia-Pacific, notably through the Regional Comprehensive Economic Partnership (RCEP) free trade agreement being negotiated among 16 APAC nations. These comprise the ten ASEAN nations plus China, Japan, South Korea, India, Australia and New Zealand.

Although negotiations among the RCEP member nations did not result in a deal being concluded during the latest round of talks held in Singapore in mid-November, leaders of RCEP nations did show strong political commitment to reaching a final agreement in 2019. The existing ASEAN-China free trade agreement and the network of free trade agreements between ASEAN and other RCEP partner countries are key building blocks for the successful conclusion of a broader RCEP multilateral trade agreement, which will help to further advance trade liberalization in the Asia-Pacific.

The long-term outlook is therefore one of continued rapid growth in bilateral China-ASEAN trade and investment flows, with China and ASEAN becoming increasingly important growth engines for the wider APAC region as well as for the global economy.

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