

Week Ahead Asia-Pacific Economic Preview

- **Japan Flash manufacturing PMI and China's NBS PMI offer insights into Q4 economic performance**
- **South Korea sets monetary policy**
- **India GDP will be released for Q2 FY18/19**
- **US GDP, FOMC minutes and Euro-area inflation**
- **Special focus on the US Indo-Pacific Strategy**

The coming week sees Japan releasing a batch of data including the flash Nikkei manufacturing PMI as well as the NBS PMI for China. South Korea decides on monetary policy amid increasing concerns over financial imbalances, and India publishes GDP.

Other data highlights for Asia include Hong Kong's trade numbers, as well as China's industrial profits and Thailand's GDP data.

Elsewhere, the FOMC minutes will be keenly watched for insights into the pace of future interest rate hikes. Updated estimates to GDP for the US, Italy and France are published while Euro area's flash inflation numbers will warrant close attention.

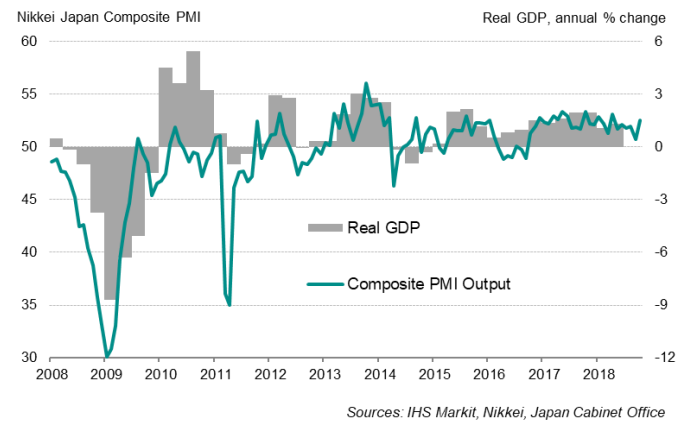
Our special focus this week is on the US Indo-Pacific strategy and its economic impact on the region.

Japan data updates

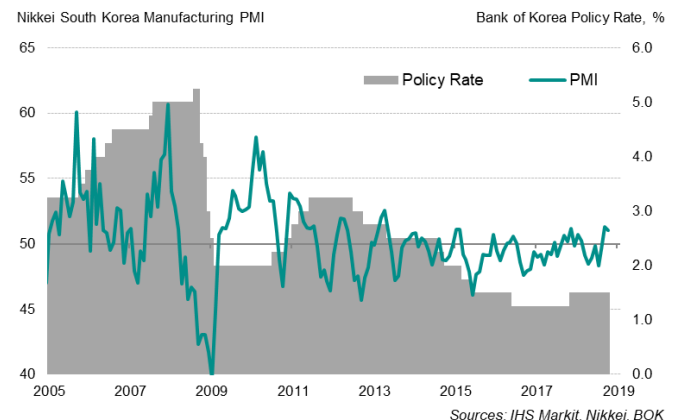
The Japan flash Nikkei manufacturing PMI will be especially eagerly awaited after the October pick-up in the survey was at least partially linked to the [post-typhoon recovery](#). The flash PMI will therefore help to shed light on whether the goods producing sector has picked up momentum in the fourth quarter, or whether trade worries have dampened growth.

The coming week also sees Japan reporting industrial production, housing starts, retail sales, consumer confidence and unemployment rate, all of which will provide clues as to the health of the economy at the start of the fourth quarter. While the PMI signals that underlying economic activity in Japan has been robust, inflation has remained well below the Bank of Japan's 2% target. BOJ governor Kuroda affirmed that the ultra-accommodative monetary settings will continue, speculation has intensified that the hit to bank profits due to low interest rates could warrant innovative policy measures from the BOJ to maintain stability in the financial and banking system. Any disappointing data will add to such speculation.

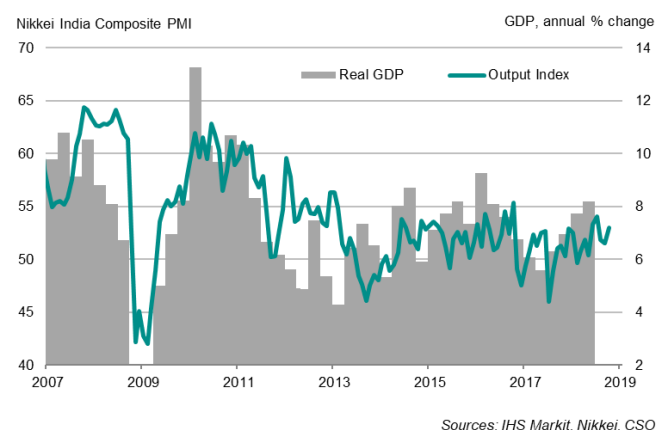
Japan PMI and economic growth



South Korea PMI and monetary policy rate



India economic growth and the PMI



Continued...

China profits and PMI under scrutiny

With China-watchers concerned over trade war impact, the publication of profits data and the government-sponsored NBS manufacturing PMI will be scoured for fresh clues as to fourth quarter trends. IHS Markit's recent [Business Outlook survey](#) revealed that corporate optimism about the year ahead had sunk to its lowest since 2009, dropping especially sharply in manufacturing. Trade wars were the most commonly cited threat to the outlook.

South Korea decides monetary policy

Analysts are expecting another tight call at the Bank of Korea's monetary policy committee meeting. Minutes from the October gathering showed more than half of the committee were in favour of higher interest rates. BOK governor Lee Ju-yeol also highlighted that the committee will consider a rate hike at the November meeting amid fears of an imbalance in the financial system due to a prolonged period of low borrowing costs. The policy rate currently stands at 1.5%.

Other data highlights for Korea include industrial production and retail sales. The former may add to calls for higher rates after the latest PMI surveys indicated relatively [steady growth](#) in the South Korean manufacturing sector, though signs of a further squeeze on profit margins were a concern.

India GDP

In India, the pace of GDP growth is expected to slow to an annual rate of 7.6% during the second quarter of FY2018/19, from 8.2% reported in the first quarter. However, in a sign that the slowdown could be temporary, latest PMI surveys pointed to stronger growth momentum at the start of the third quarter, with faster rises seen in both [manufacturing](#) and [services](#) activity. That said, input cost inflation remained a key concern, alongside [worries over political issues and currency stability](#), as indicated in our tri-annual India Business Outlook survey.

US FOMC minutes and GDP

Updated figures on the health of the US economy in the third quarter are expected to confirm that the economy enjoyed a spell of robust growth, which surveys indicate has persisted in to the final quarter of the year. Similar, the FOMC minutes are expected to confirm that policymakers remain set on hiking US interest rates at a steady pace of once per quarter.

Monday 26 November

Nikkei Japan manufacturing PMI (flash, Nov)
Singapore industrial production (Oct)
Hong Kong trade (Oct)
Germany IFO surveys (Nov)
US Chicago Fed National Activity Index (Oct)

Tuesday 27 November

South Korea consumer confidence (Nov)
China industrial profits (YTD, Oct)
Thailand industrial production (Oct)
UK nationwide housing prices (Nov)

Wednesday 28 November

Australia construction work done (Q3)
Germany consumer confidence (Dec)
US GDP and PCE prices (2nd est, Q3)
US wholesale inventories and new home sales (Oct)

Thursday 29 November

Japan retail sales (Oct)
Australia new home sales (Oct) and private capital expenditure (Q3)
Vietnam industrial production (Nov)
Germany inflation and unemployment rate (Nov)
France GDP (2nd est, Q3)
Spain inflation (Nov) and retail sales (Oct)
UK mortgage lending (Oct) and BoE consumer credit (Nov)
Euro area business and consumer confidence (Nov)
Brazil unemployment rate (Oct)
US core PCE, pending home sales, personal income and spending (Oct)

Friday 30 November

FOMC minutes
South Korea industrial production and retail sales (Oct)
Japan jobless rate, industrial production, housing starts and consumer confidence (Oct)
China NBS Manufacturing PMI (Nov)
South Korea interest rate decision
India GDP (Q3)
UK consumer confidence (Nov)
Germany retail sales (Oct)
France and Italy inflation (flash, Nov)
Italy GDP (final, Q3)
Euro area inflation (flash, Nov) and unemployment rate (Oct)
Brazil GDP (Q3)

Special Focus

The US Indo-Pacific Strategy: Assessing the Economic Impact

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

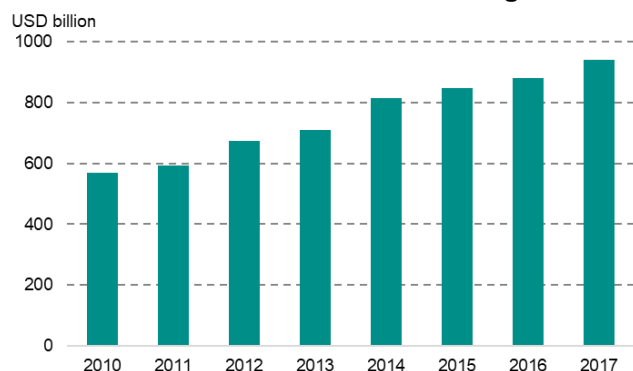
One year ago, US President Trump launched a new US strategy for the Indo-Pacific in his speech at the APEC CEO Summit in November 2017. This article discusses the evolution of the new US Indo-Pacific strategy and its economic implications, which include significant new US initiatives for infrastructure development for the region.

The US Strategic Vision for the Indo-Pacific

The new US vision for an Indo-Pacific strategy marks a strategic shift to widen the focus of US engagement in the Asian region, notably by including India as a key part of the overall US regional strategy. This broadening of the US strategic vision in the region was also reflected in the revival of the Quadrilateral Security Dialogue (the Quad) between the US, Japan, Australia and India during the ASEAN Summits held in 2017, for the first time in a decade. Another round of dialogue among the Quad was held at the ASEAN Summits in Singapore in November 2018.

The three key parts of the new US Indo-Pacific strategy are security, governance and economics. During the ASEAN Summits in Singapore and subsequent APEC Summit in Port Moresby held in November 2018, Vice President Pence announced a number of initiatives that strengthened the economic segment of the new US initiative. US firms already have an estimated USD 940 billion of cumulative foreign direct investment in the Indo-Pacific region, with annual US exports of goods and services to the region at around USD 450 billion.

US direct investment in Indo-Pacific Region



Source: BEA

Infrastructure development for the Indo-Pacific Region

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.

The US is also working together with other advanced economies of the Indo-Pacific to strengthen development financing flows to the region. On 12th November 2018, a Memorandum of Understanding to advance cooperation in mobilizing private investment in the Indo-Pacific was signed between the US Overseas Private Investment Corporation (OPIC), the Japan Bank for International Cooperation (JBIC), and Australia's Department of Foreign Affairs and Trade (DFAT) and Export Finance and Insurance Corporation (EFIC).

The initiative is intended to support individual projects on which Japanese, US and Australian companies cooperate in the infrastructure, energy and natural resources sectors in third countries, with a focus on the Indo-Pacific region.

Overseas Private Investment Corporation already has a portfolio of USD 3.9 billion invested in the Indo-Pacific region together with private American firms in a wide range of industries, including banking, energy and healthcare.

Another partnership for infrastructure development is the Japan-US Strategic Energy Partnership (JUSEP), which was launched in 2017. Through this partnership, the US and Japan will facilitate investment in projects to supply liquefied natural gas (LNG) or build LNG infrastructure by aligning the Japanese government's target of USD 10 billion in public and private investment and capacity building with the US Asia Enhancing Development and Growth through Energy (Asia EDGE) initiative.

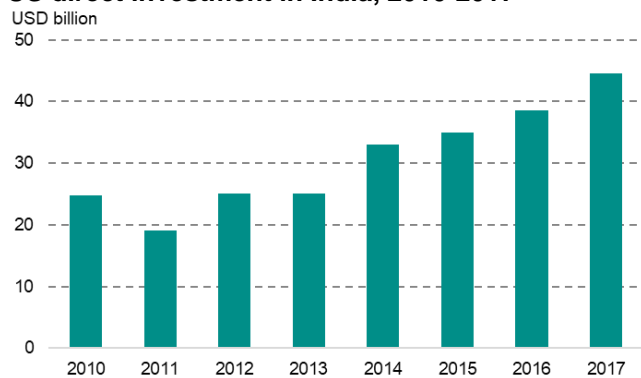
A major new infrastructure project in Papua New Guinea is an early example of the new US initiative,

which will catalyse infrastructure development in the Indo-Pacific through partnerships with advanced economies in the region.

On the wings of the APEC Summit held in Port Moresby in November 2018, the Prime Ministers of Papua New Guinea, Australia, Japan, New Zealand, together with US Vice President Pence, signed a joint statement agreeing on a new multi-country initiative for the Papua New Guinea Electrification Partnership. The objective of the initiative will be to increase reliable access to electricity from 13% of the Papua New Guinea population currently to 70% by 2030, with fibre-optic cable to be installed as part of the electric grid to provide internet access. The estimated project cost is around USD 1.7 billion. As part of regional security co-operation, the US will also partner with Papua New Guinea and Australia on their joint initiative to redevelop the Lombrum Naval Base in PNG.

The US has also launched a range of other economic initiatives for the Indo-Pacific region, including a new US-ASEAN Smart Cities Partnership, which aims to help local governments in ASEAN nations to accelerate the digital transformation of urban areas.

US direct investment in India, 2010-2017



Source: BEA

The US and Singapore have also announced a Memorandum of Understanding which will develop joint activities in areas such as infrastructure, energy and e-commerce. As part of this initiative, the US and Singapore will collaborate on sustainable infrastructure development for the Indo-Pacific.

Governance initiatives

Another major part of the US Indo-Pacific strategy is to strengthen governance in the region. The initial US program already amounts to USD 400 million over the next two years to promote transparency, openness, rule of law, and to protect human rights. Vice President

Pence announced a new Indo-Pacific Transparency Initiative in mid-November during his visit to the region. These efforts to improve governance will also help to create a better business climate that will be more attractive for private investment inflows.

Medium-term outlook for the US Indo-Pacific strategy

One year after the new US strategic vision for the Indo-Pacific was launched, there has been very significant progress achieved, notably in the area of financing infrastructure development in developing countries of the Indo-Pacific.

A key success has been through establishing regional infrastructure financing partnerships with other advanced economies from the region. The rapid pace of progress in launching new economic initiatives for the Indo-Pacific within the first year signals that the new US strategy is likely to gather momentum over the medium term. With existing partnerships with Japan and Australia already in place for financing regional infrastructure projects, the door is still open for other partner nations to join these initiatives for the economic development of the Indo-Pacific.

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