

ASIA EXCLUDING CHINA & JAPAN

PRESENTATION TO ICCBE 2016

TOKYO – JULY 2016

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SAUL ESLAKE

Topics

- ❑ **Asia's trade recession**
- ❑ **Disinflation arrives in Asia**
- ❑ **Asia's debt burdens**
- ❑ **The challenge of demography**
- ❑ **The governance challenge**
- ❑ **South China Sea - a geo-political flashpoint?**
- ❑ **India – the only BRICS economy where growth is accelerating?**

Asia: a statistical snapshot

It's very difficult – and unwise – to generalize about Asia, in a way that you might about Europe or (say) Latin America

	Popu- lation (mn, 2015)	GDP (US\$bn, 2015)		Per capita GDP at PPPs (US\$, 2015)	Real per capita GDP growth (% pa)		Inflation (% pa)		Current account balance (% of GDP)		Government (% of GDP)					
		Market exchange rates	PPPs		2011- 2015	2016- 2020 (f)	2011- 2015	2016- 2020 (f)	2011- 2015	2016- 2020 (f)	2011- 2015	2016- 2020 (f)	Spend- ing	Reve- nue	Bal- ance	Gross debt
China	1,374.6	10,982.8	19,392.4	14,107	7.3	5.6	2.8	2.3	2.1	1.5	31.9	29.2	-2.7	43.9		
Japan	126.9	4,123.3	4,830.1	38,054	0.7	0.8	0.7	0.8	1.6	3.7	39.3	34.0	-5.3	248.1		
South Korea	50.6	1,376.9	1,848.5	36,511	2.5	2.5	1.9	1.9	5.1	6.9	21.1	20.9	-0.2	35.9		
Taiwan	23.5	523.6	1,099.0	46,783	2.3	2.1	1.0	1.3	11.2	14.3	18.3	15.6	-2.7	38.3		
Hong Kong	7.3	309.9	414.6	56,701	2.2	2.0	4.2	2.7	2.6	3.3	17.6	19.1	1.5	0.1		
Mongolia	2.7	11.7	36.1	12,195	8.5	3.8	10.0	5.1	-19.1	-16.0	33.8	25.6	-8.2	na		
Macao	0.7	46.2	65.4	98,135	-0.7	-4.9	5.6	3.0	38.3	19.7	18.8	31.6	12.8	0.0		
Indonesia	255.5	859.0	2,842.2	11,126	4.0	4.1	5.7	4.3	-2.2	-2.9	17.4	14.8	-2.6	27.3		
Philippines	102.2	292.0	741.0	7,254	3.8	4.2	3.3	3.2	3.2	2.2	19.4	19.4	0.0	37.1		
Vietnam	91.7	191.5	552.3	6,024	4.8	5.1	7.6	2.7	3.4	0.4	28.7	22.1	-6.6	59.3		
Thailand	68.8	395.3	1,108.1	16,097	2.4	3.0	0.0	0.1	2.7	4.5	22.3	22.6	0.3	43.1		
Myanmar	51.8	67.0	283.5	5,469	6.5	7.1	5.7	7.8	-5.0	-8.1	25.9	21.2	-4.7	32.0		
Malaysia	31.0	296.2	815.6	26,315	2.9	3.6	2.4	3.0	5.4	1.9	25.2	22.2	-3.0	57.4		
Cambodia	15.5	18.2	54.2	3,488	5.5	5.4	3.3	2.8	-11.4	-7.5	18.2	18.3	0.1	33.6		
Laos	7.0	12.5	37.3	5,309	5.7	5.4	5.8	2.6	-24.6	-17.8	26.2	23.3	-2.9	64.3		
Singapore	5.5	292.7	471.9	85,253	2.2	1.6	2.5	1.4	18.8	19.9	20.3	21.4	1.1	98.2		
East Timor	1.2	2.6	6.6	5,629	-4.8	-10.5	6.8	3.5	33.0	-9.3	51.2	55.4	4.2	na		
Brunei	0.4	11.8	33.2	79,587	-1.5	4.6	0.0	0.1	23.8	7.6	40.4	30.6	-9.8	3.1		
India	1,292.7	2,090.7	7,965.2	6,162	5.9	5.0	7.9	5.3	-2.7	-2.1	27.9	20.8	-7.1	67.2		
Pakistan	186.2	270.0	931.0	5,000	1.9	2.9	9.0	4.7	-1.1	-1.5	19.8	14.5	-5.3	64.4		
Bangladesh	159.9	205.7	576.5	3,607	5.1	5.7	7.7	6.5	-0.1	-1.7	13.8	9.9	-3.9	34.0		
Nepal	28.4	21.4	70.1	2,465	3.0	2.1	8.8	8.5	3.4	-0.2	19.9	20.8	0.9	28.7		
Sri Lanka	21.1	82.1	223.0	10,566	5.4	4.3	5.0	4.6	-4.6	-2.1	18.3	12.1	-6.2	74.4		
Bhutan	0.8	2.2	6.4	8,201	5.3	6.7	8.8	5.8	-23.0	-15.5	25.1	22.7	-2.4	115.7		
Australia	24.0	1,223.9	1,138.1	47,389	1.0	1.1	2.3	2.4	-3.7	-3.3	37.2	34.5	-2.7	36.8		
Papua New Guinea	7.7	16.1	20.5	2,652	5.0	0.6	5.0	5.2	-22.1	1.4	32.6	24.9	-7.7	40.8		
New Zealand	4.7	172.2	168.2	36,172	1.3	1.5	1.5	1.9	-3.2	-3.3	34.7	35.0	0.3	30.4		

Sources: International Monetary Fund, *World Economic Outlook* database (April 2016); Thomson Reuters Datastream.

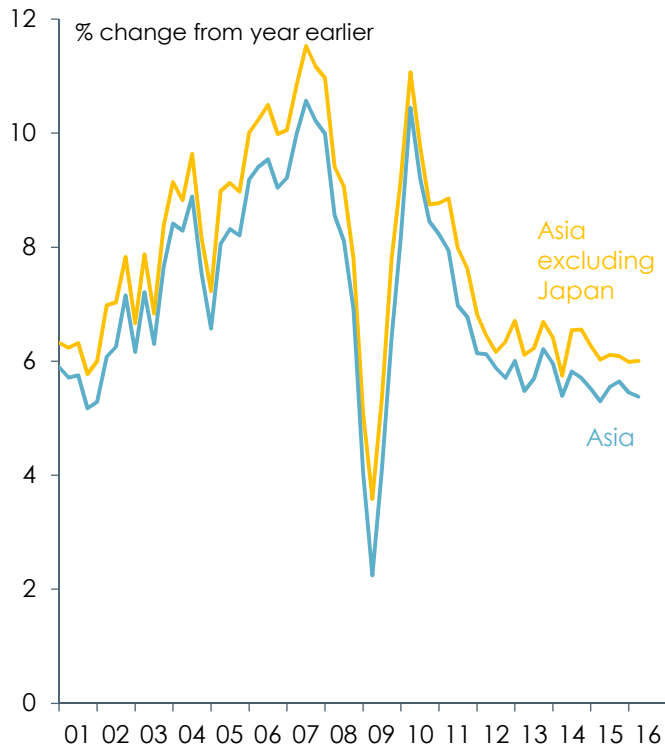
Asian economies are at very different stages of development, with very different economic structures, capital intensity and trade exposure

	Popu- lation (mn, 2015)	GDP (US\$bn, 2015)		Per capita GDP at PPPs (US\$)	Industry composition of gross value added (% , 2014)			Fixed investment as a pc of GDP	Exports as a pc of GDP	Net inter- national investment position (% of GDP, 2014)
		Market exchange rates	PPPs		Agriculture	Industry	Services			
China	1,374.6	10,982.8	19,392.4	14,107	9.5	42.8	47.7	46.4	24.6	17.0
Japan	126.9	4,123.3	4,830.1	38,054	1.2	27.5	71.3	21.9	17.7	66.2
South Korea	50.6	1,376.9	1,848.5	36,511	2.3	38.2	59.4	29.2	50.6	6.2
Taiwan	23.5	523.6	1,099.0	46,783	1.9	34.1	64.0	21.9	70.1	180.5
Hong Kong	7.3	309.9	414.6	56,701	0.1	7.0	93.0	24.0	219.6	298.8
Mongolia	2.7	11.7	36.1	12,195	15.6	36.2	48.1	31.9	53.3	-194.3
Macao	0.5	46.2	65.4	98,135	na	na	na	na	na	na
Indonesia	255.5	859.0	2,842.2	11,126	13.7	42.9	43.3	34.7	23.7	-43.4
Philippines	102.2	292.0	741.0	7,254	11.3	31.4	57.3	20.9	28.7	-14.4
Vietnam	91.7	191.5	552.3	6,024	18.1	38.5	43.4	26.8	86.4	na
Thailand	68.8	395.3	1,108.1	16,097	10.5	36.8	52.7	24.1	69.2	-23.6
Myanmar	51.8	67.0	283.5	5,469	27.9	34.4	37.7	35.3	17.6	na
Malaysia	31.0	296.2	815.6	26,315	9.0	40.4	50.6	25.0	73.8	-0.3
Cambodia	5.5	18.2	54.2	3,488	30.5	27.1	42.4	22.0	62.3	-33.6
Laos	7.0	12.5	37.3	5,309	24.8	34.7	40.5	na	na	na
Singapore	5.5	292.7	471.9	85,253	0.0	24.9	75.0	27.6	187.6	188.5
East Timor	1.2	2.6	6.6	5,629	4.5	77.8	17.7	13.5	98.6	390.5
Brunei	0.4	11.8	33.2	79,587	0.9	67.8	31.2	27.5	68.2	na
India	1,292.7	2,090.7	7,965.2	6,162	17.0	30.0	53.0	30.8	23.2	-17.7
Pakistan	186.2	270.0	931.0	5,000	25.0	20.9	54.1	15.0	12.3	-30.6
Bangladesh	159.9	205.7	576.5	3,607	16.1	27.6	56.3	28.6	19.0	-10.5
Nepal	28.4	21.4	70.1	2,465	32.5	15.1	52.4	38.3	9.6	na
Sri Lanka	21.1	82.1	223.0	10,566	9.9	33.8	56.3	29.4	22.3	-56.3
Bhutan	0.8	2.2	6.4	8,201	17.5	44.6	37.9	61.7	42.5	-54.9
Australia	24.0	1,223.9	1,138.1	47,389	2.4	25.3	72.3	27.4	20.9	-50.1
Papua New Guinea	7.7	16.1	20.5	2,652	25.5	49.1	25.4	na	na	na
New Zealand	4.7	172.2	168.2	36,172	7.2	23.7	69.1	23.4	28.2	-60.8

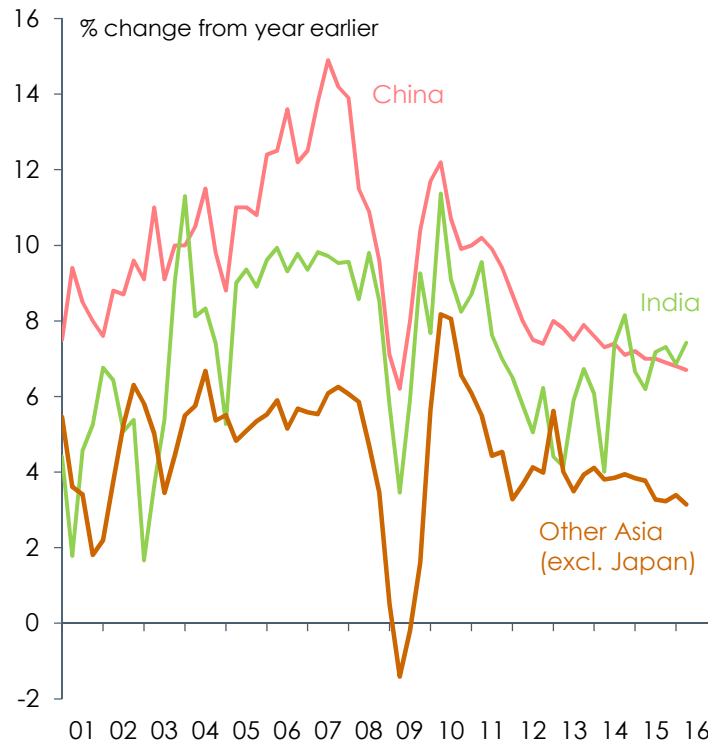
Sources: International Monetary Fund, *World Economic Outlook* database (April 2016); International Financial Statistics; Asian Development Bank, *Key Indicators for Asia and the Pacific* 2015.

Asian economic growth has slowed since the financial crisis – mainly as a result of slower growth in China, Japan and North-East Asia

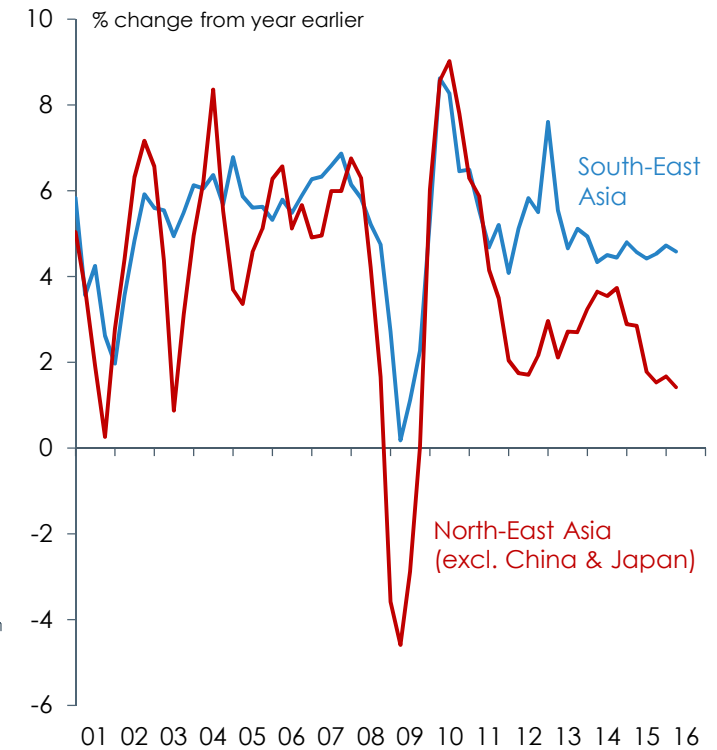
Real GDP growth – Asia as a whole



Real GDP growth – China, India & other 'emerging' Asia



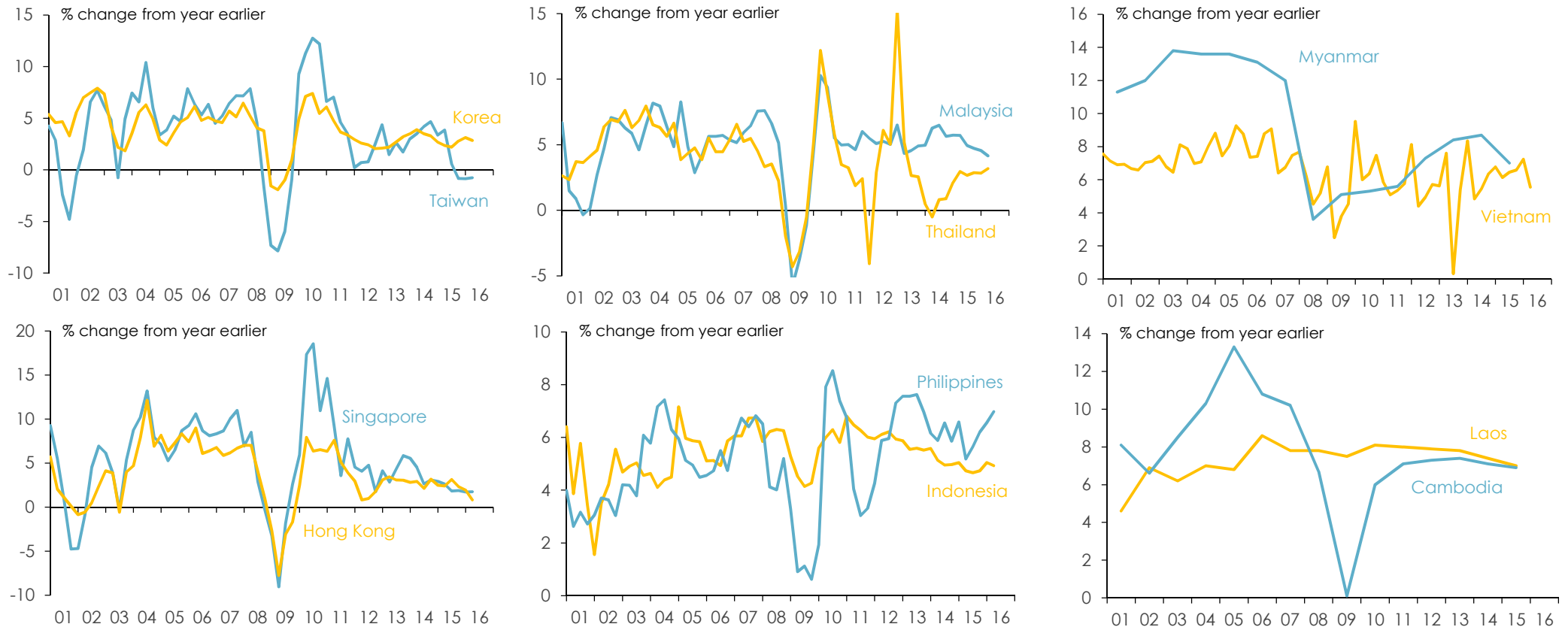
Real GDP growth – North-East and South-East Asia



Note: 'Asia' in these charts comprises China, India, Japan, 'North-East Asia' (Korea, Taiwan and Hong Kong) and 'South-East Asia' (Indonesia, Thailand, Malaysia, Philippines, Vietnam and Singapore), weighted by 2015 GDPs at PPP exchange rates. Sources: national statistical agencies and central banks; IMF.

Among the smaller East Asian economies, the least trade-exposed have shown the greatest resilience

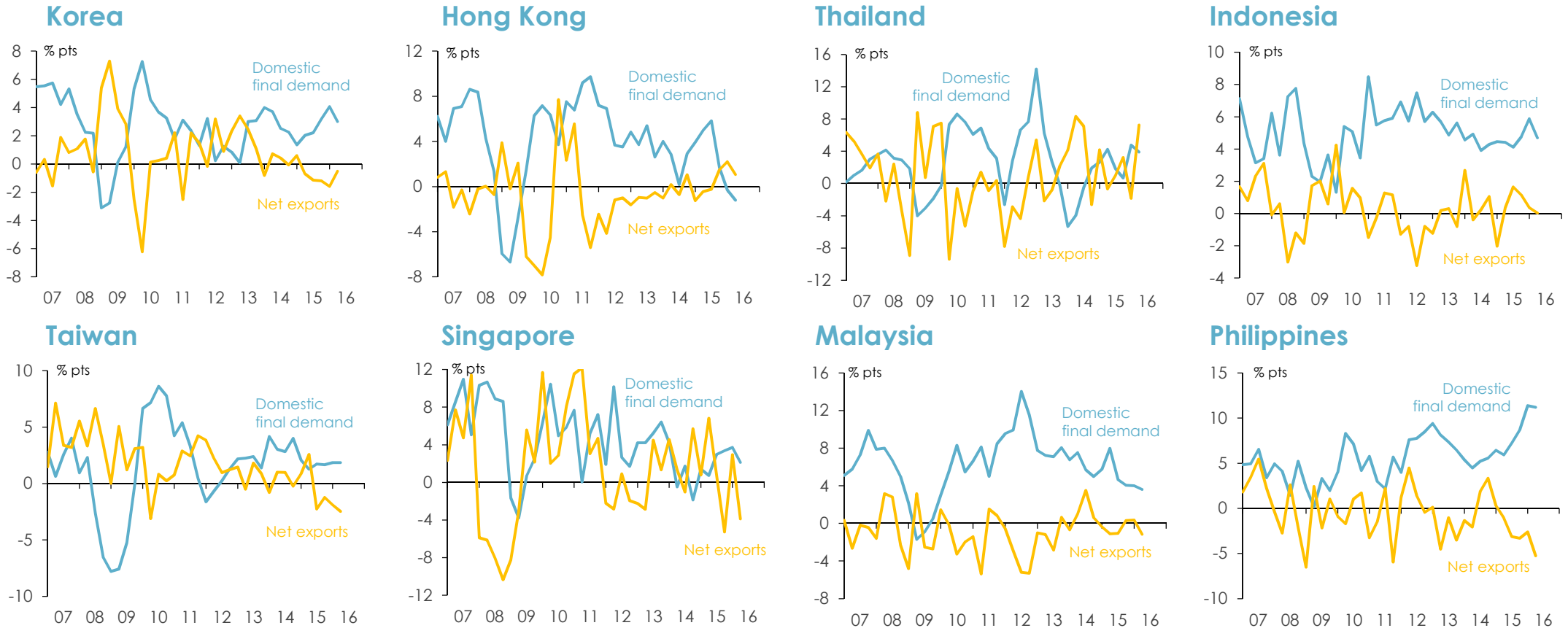
Real GDP growth – North- and South-East Asian economies



Sources: national statistical agencies and central banks; IMF (annual data for Myanmar, Cambodia & Laos).

Final domestic demand has held up reasonably well across East Asia (other than HK & Singapore) – net exports have been the major drag

Domestic final demand & net exports contributions to year-on-year growth in real GDP

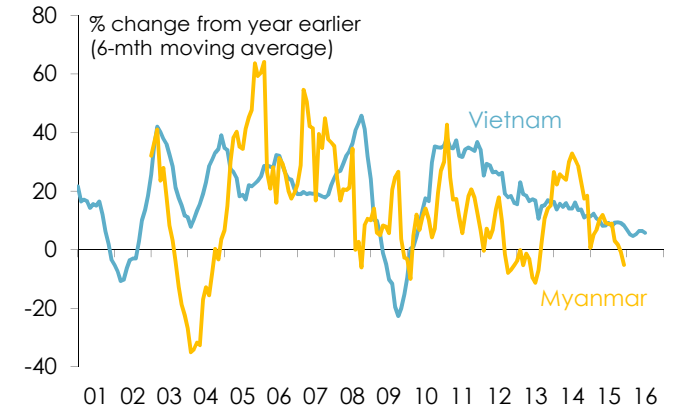
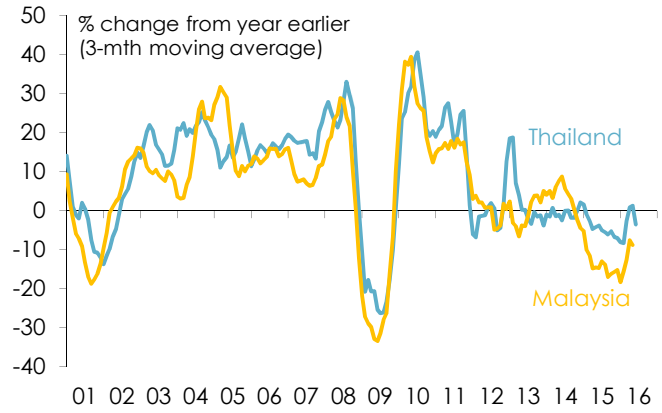
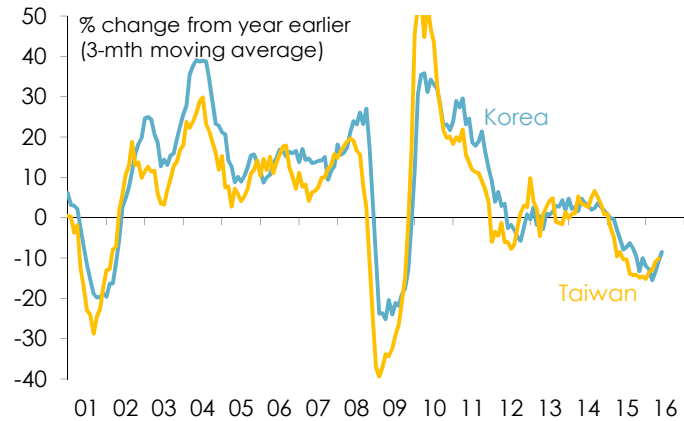
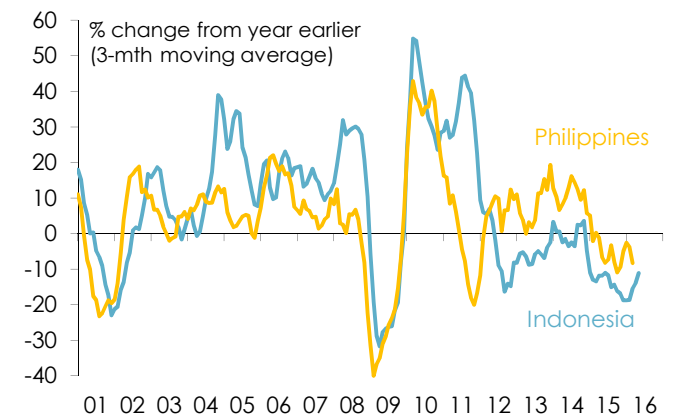
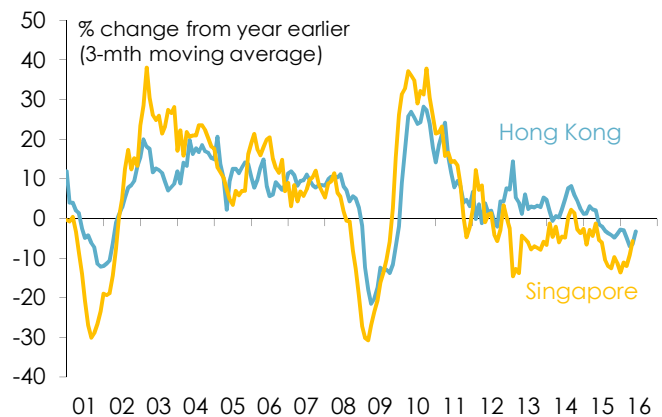
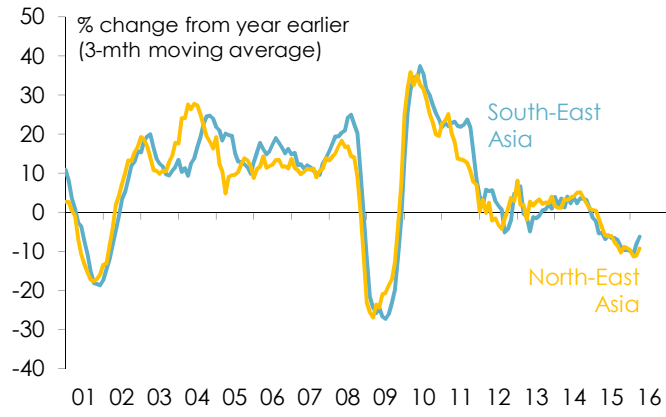


Note: Contributions to growth in real GDP from changes in inventories not shown. Sources: National statistical agencies and central banks.

Asia's "trade recession"

All East Asian economies other than Vietnam have experienced declines in merchandise exports since 2014

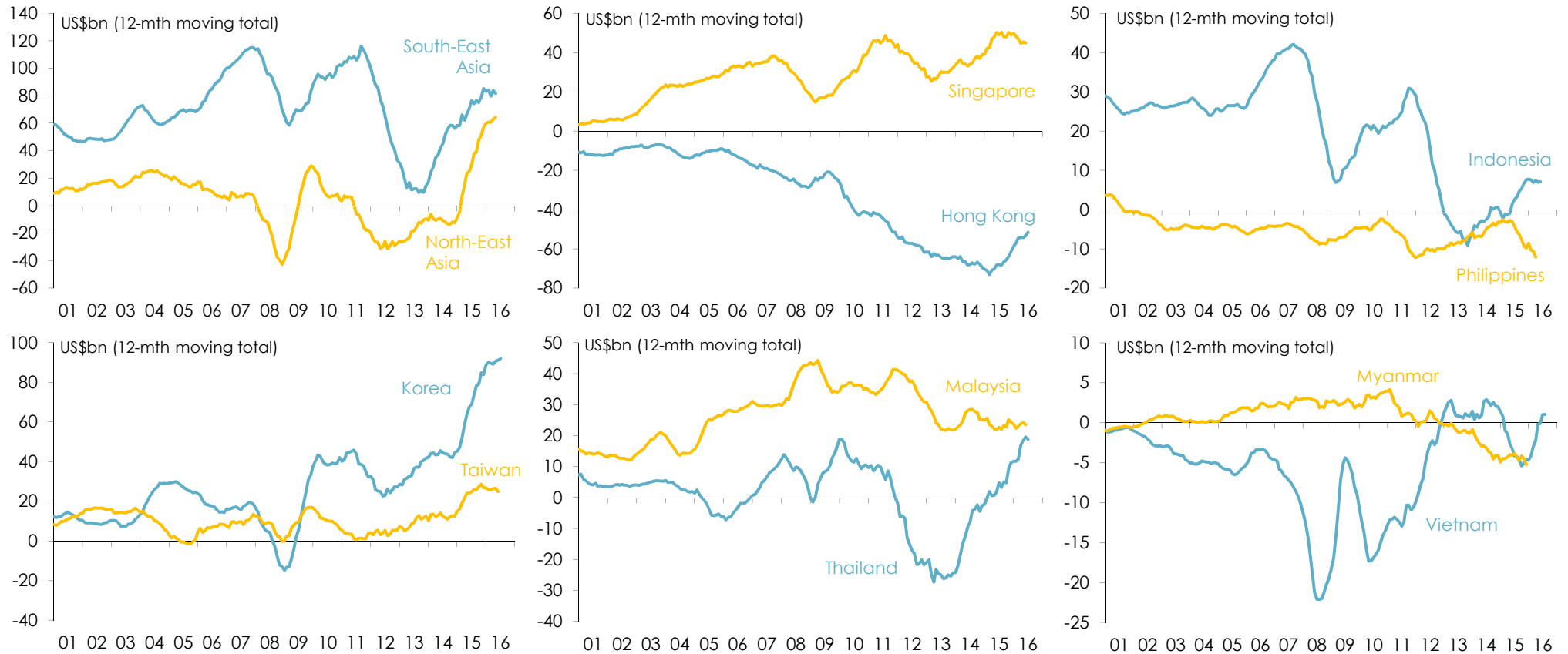
Asian economies merchandise exports growth



Sources: National statistical agencies and central banks; IMF (for Myanmar).

As is the case with Europe, rising trade surpluses are not necessarily a sign of strong economic performance

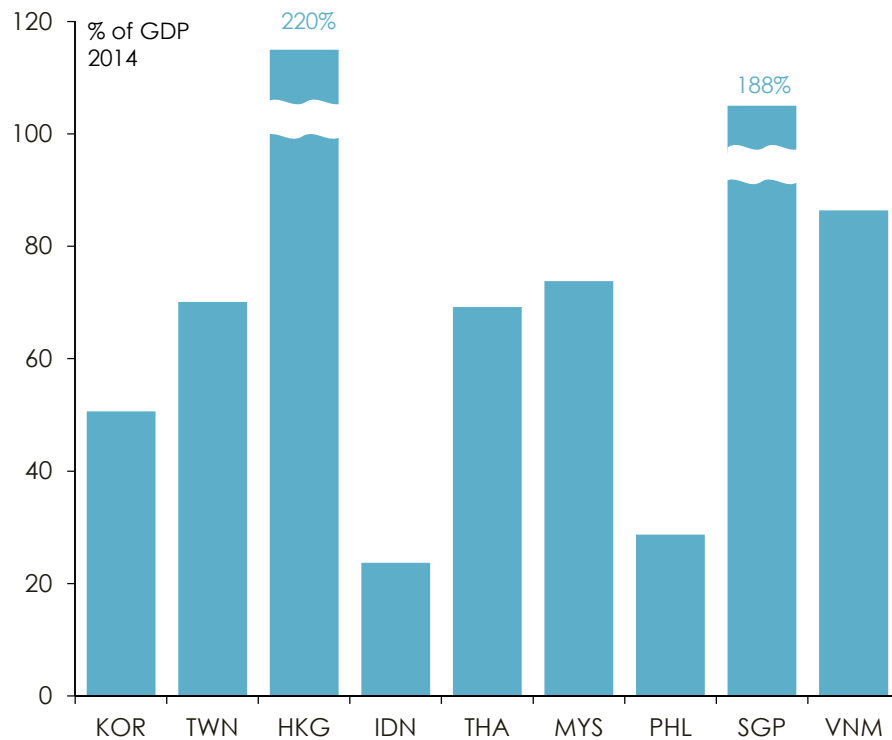
Asian economies merchandise trade balances



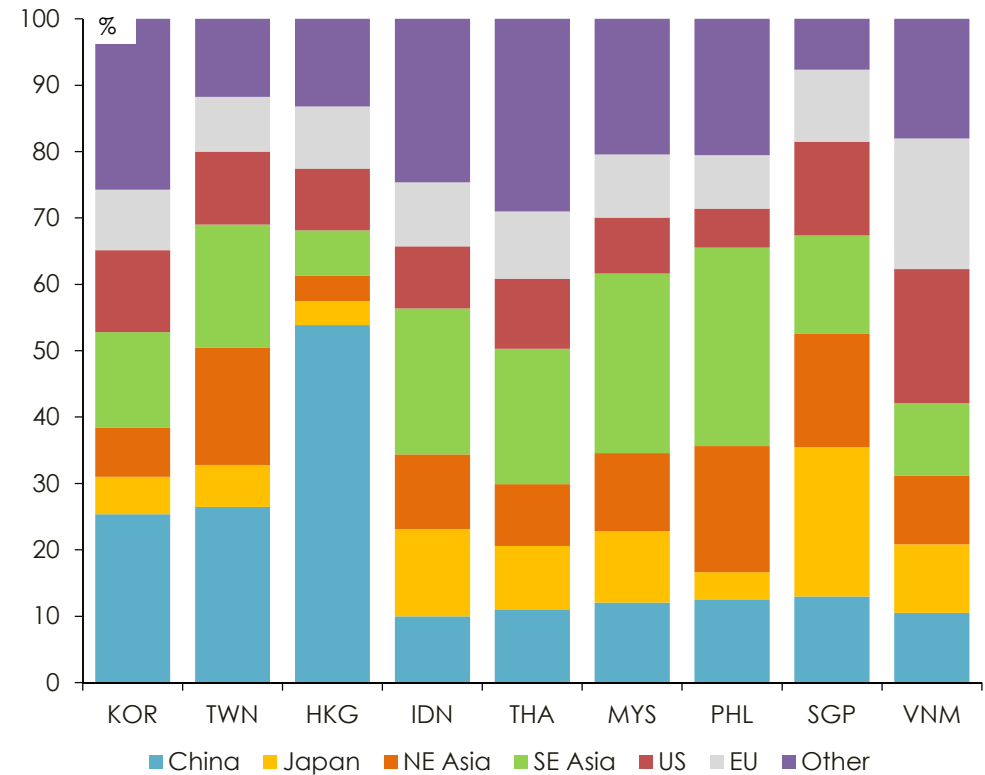
Sources: National statistical agencies and central banks; IMF (for Myanmar).

Relative importance of exports, and where those exports go, determined how significant the 'trade recession' was for individual Asian economies

Exports (of goods and services) as a pc of GDP, 2014



Destination of merchandise exports, 2014

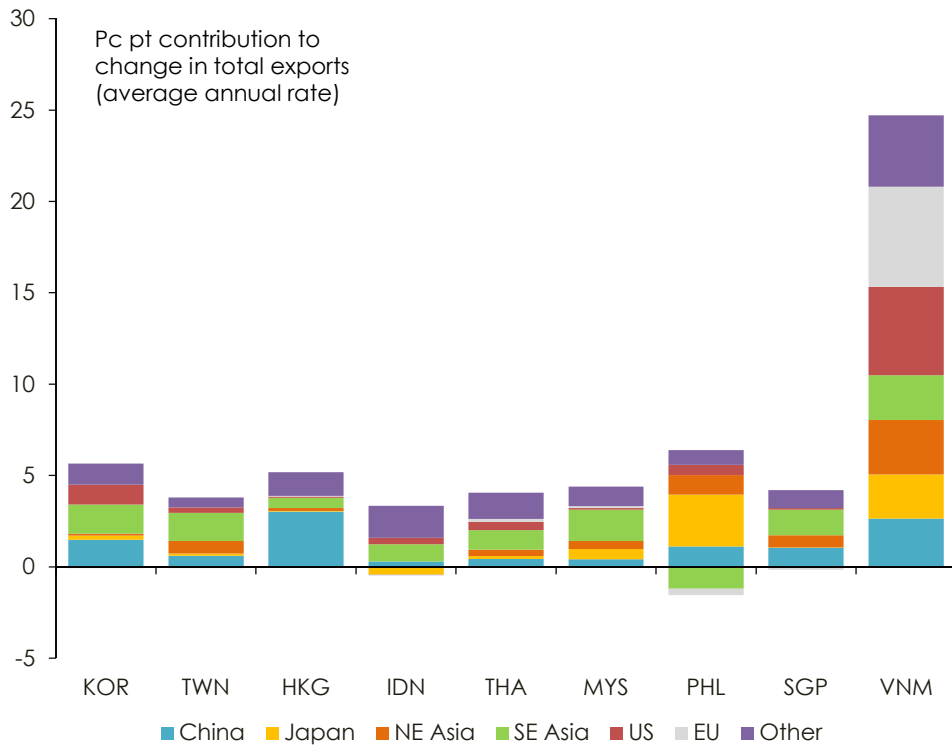


Sources: Asian Development Bank; IMF.

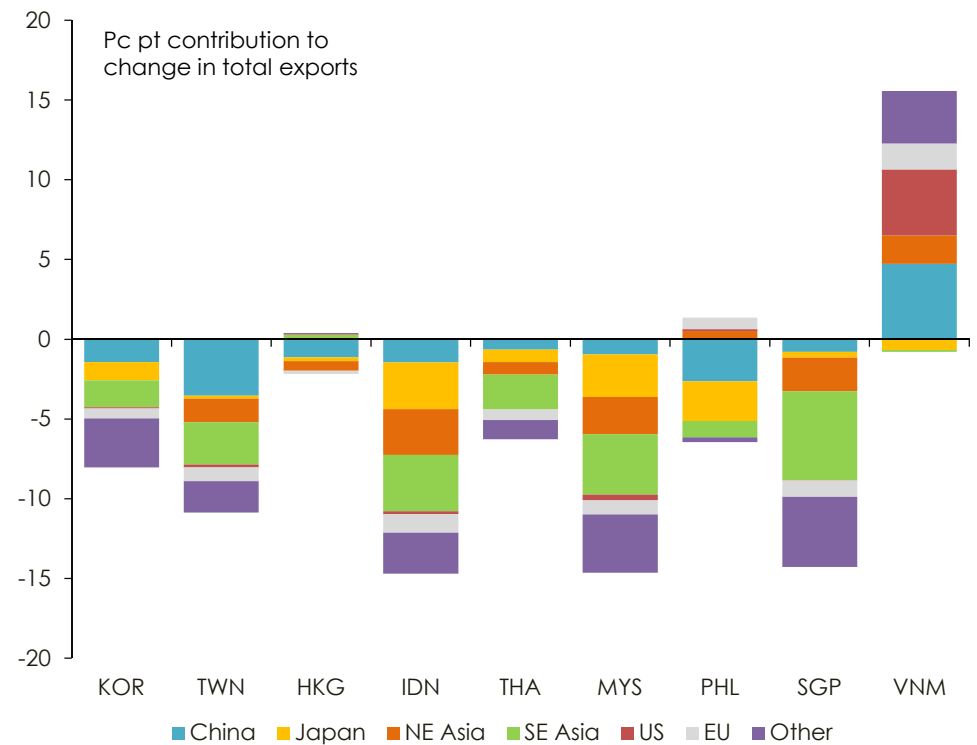
The 'Asian trade recession' largely reflects declines in intra-Asian trade and trade with other 'emerging' economies

Export destination contribution to change in total merchandise exports, 2010-2015

2010-2014



2015

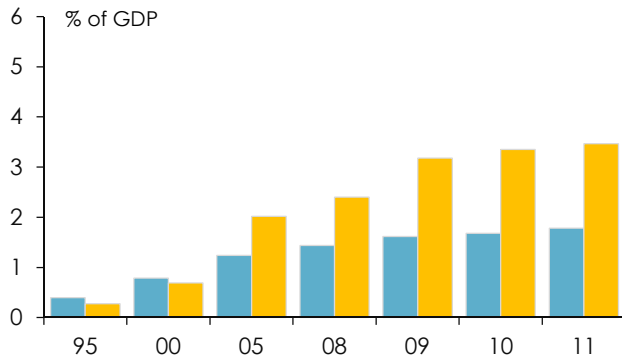


Sources: IMF, Direction of Trade Statistics; Thomson Reuters Datastream.

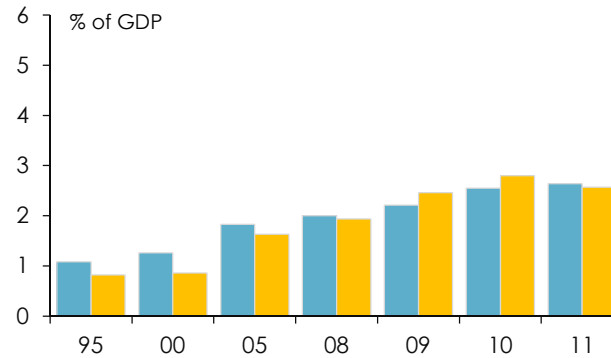
Asian economies differ significantly in terms of the magnitude and orientation of their trade exposure to China

Share of domestic value added in Asian economies' exports to China

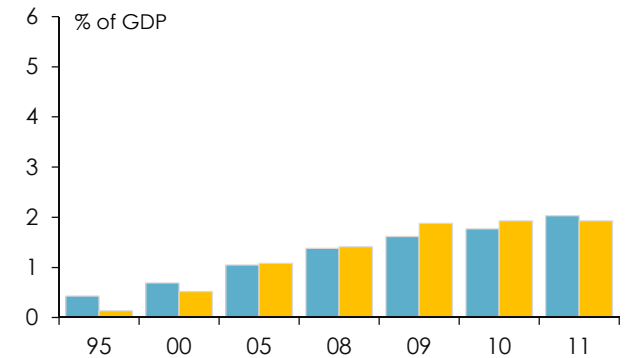
Korea



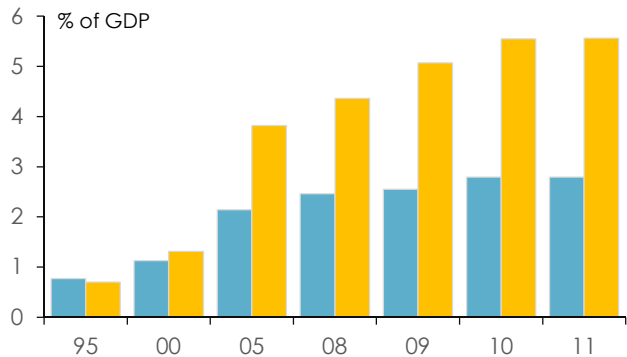
Hong Kong



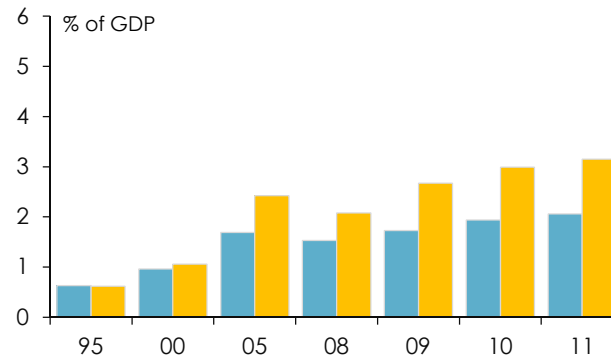
Thailand



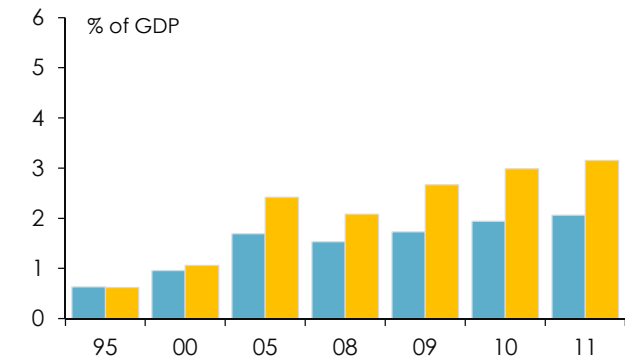
Taiwan



Singapore



Malaysia



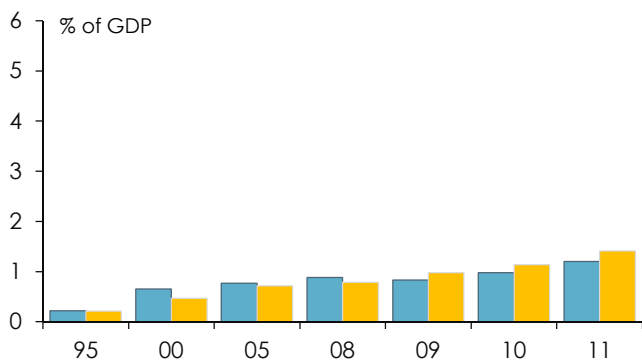
■ Domestic value added in Chinese consumption ■ Domestic value added in Chinese fixed investment

Source: Gee Hee Hong, Jaewoo Lee, Wei Lao and Dulani Seneviratne, *China and Asia in Global Trade Slowdown*, IMF Working Paper No 16/105, May 2016.

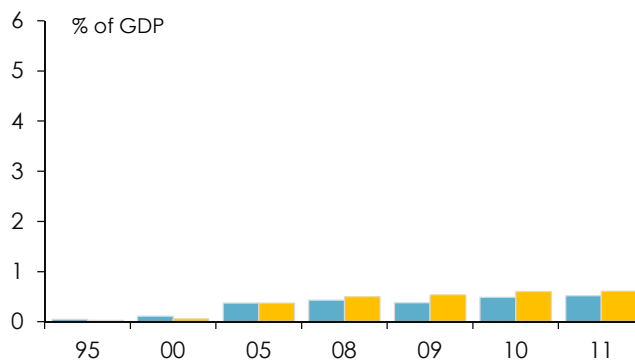
Asian economies differ significantly in terms of the magnitude and orientation of their trade exposure to China (continued)

Share of domestic value added in Asian economies' exports to China

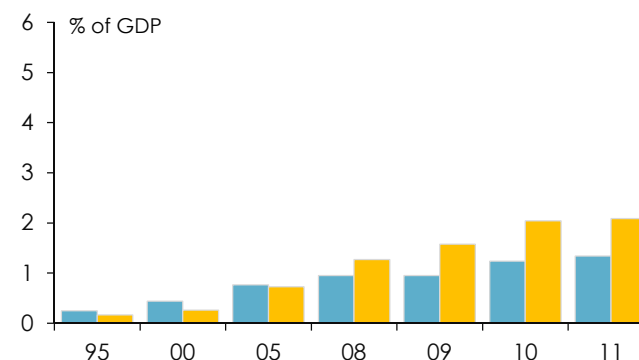
Indonesia



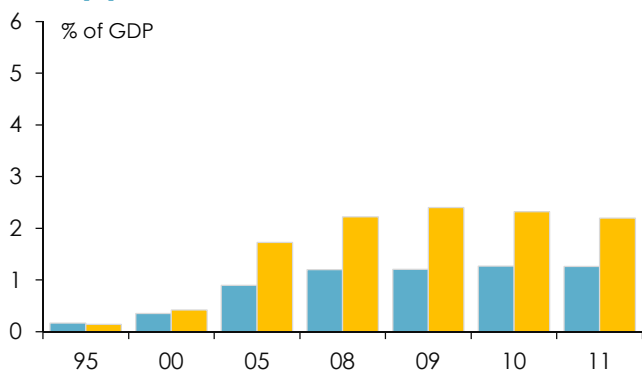
India



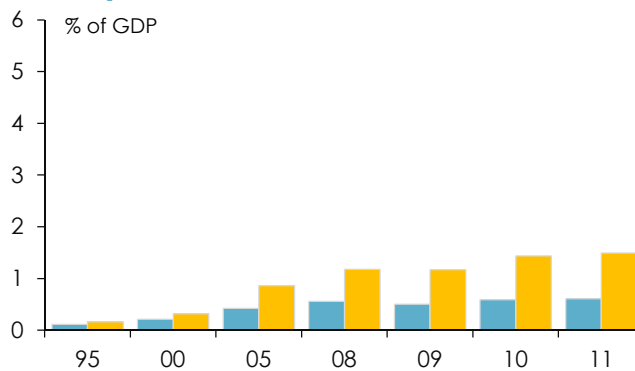
Australia



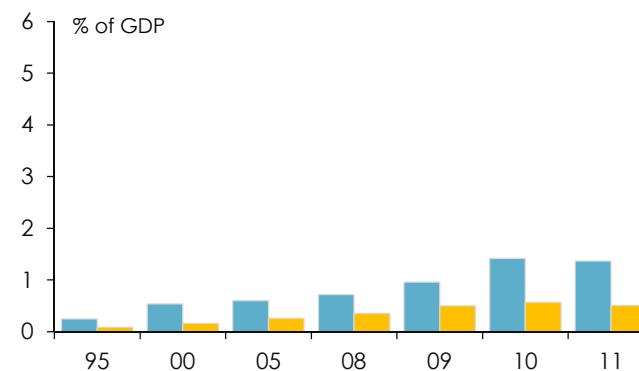
Philippines



Japan



New Zealand

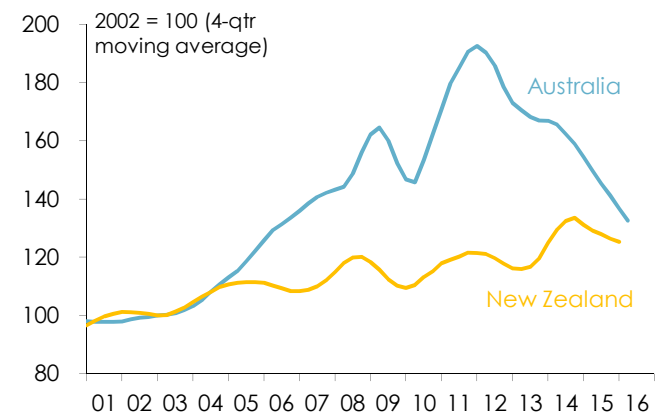
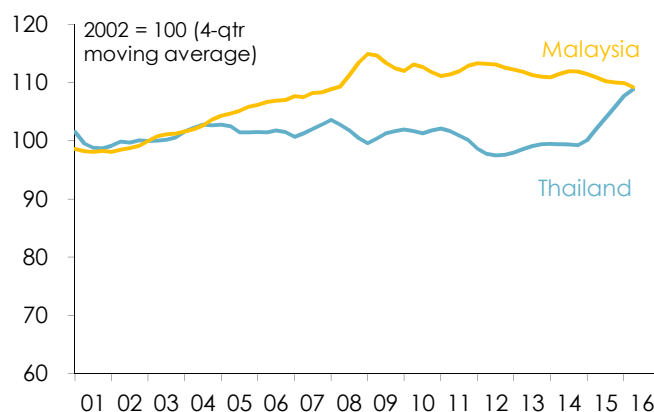
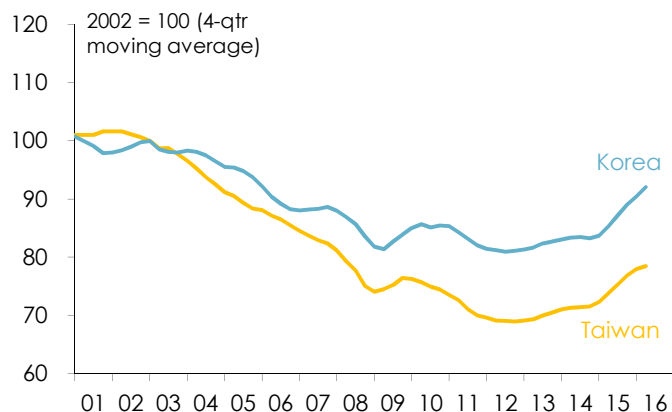
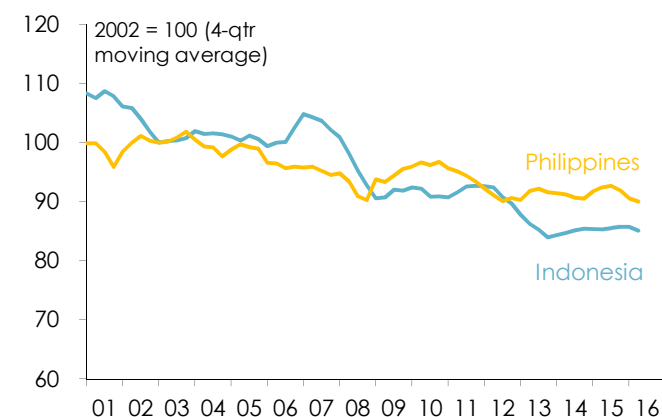
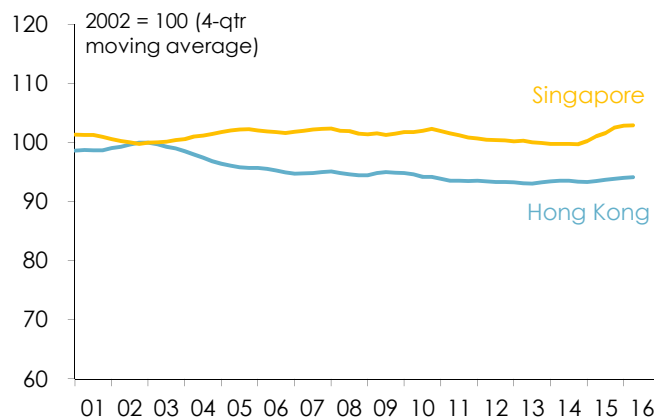
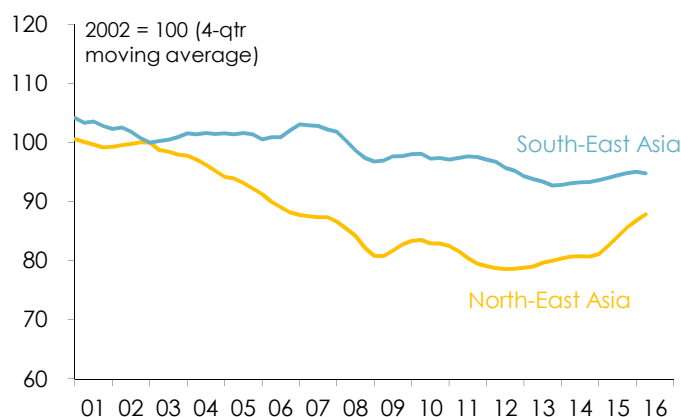


■ Domestic value added in Chinese consumption
 ■ Domestic value added in Chinese fixed investment

Source: Gee Hee Hong, Jaewoo Lee, Wei Lao and Dulani Seneviratne, *China and Asia in Global Trade Slowdown*, IMF Working Paper No 16/105, May 2016.

North-East Asian economies have experienced larger swings in their 'terms of trade' than South-East Asia

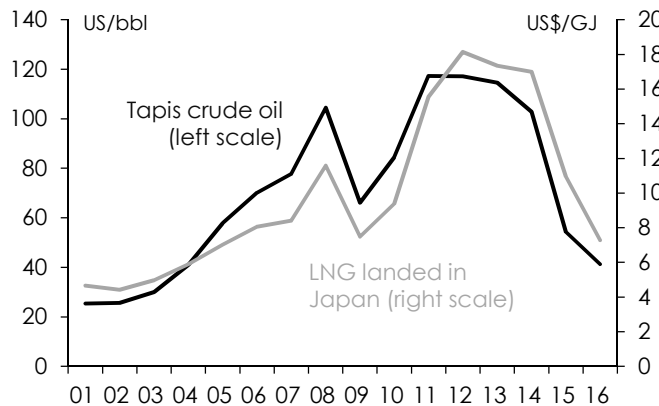
Asian economies terms of trade (ratio of export to import price deflators)



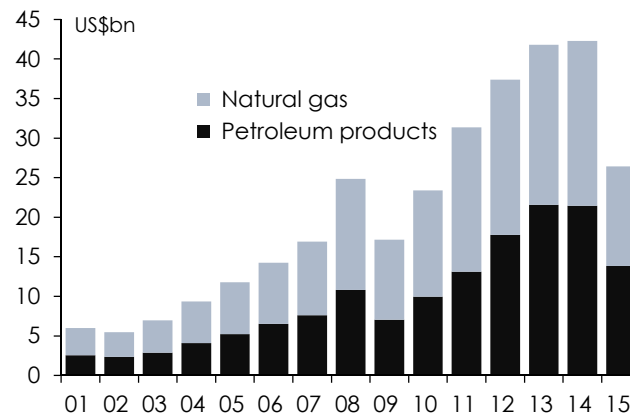
Sources: National statistical agencies and central banks.

Declining energy prices since 2011 have hurt Malaysia's and Indonesia's export incomes, but lowered Korea's and Taiwan's import bills

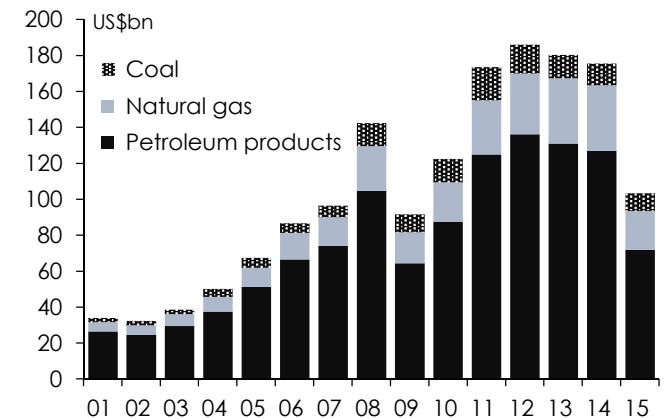
Asian oil and LNG prices



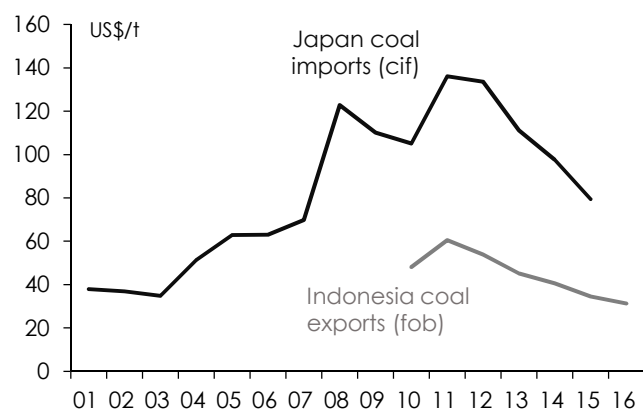
Malaysia energy exports



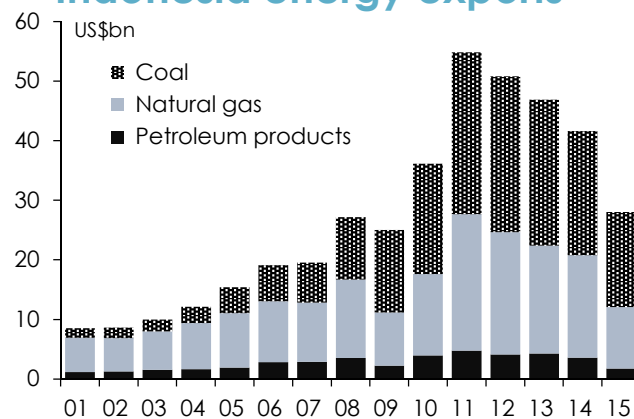
Korea energy imports



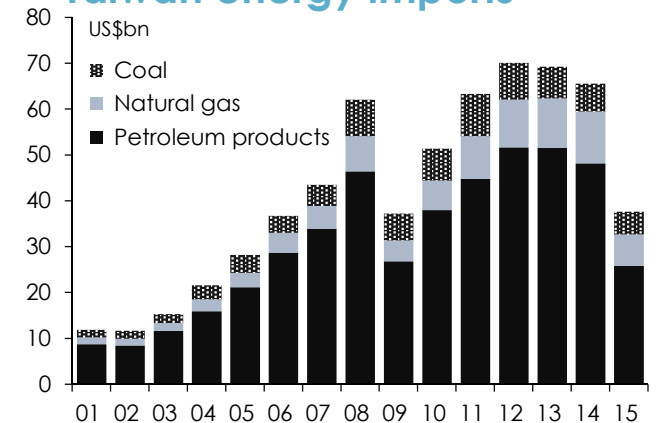
Asian thermal coal prices



Indonesia energy exports



Taiwan energy imports



Sources: Thomson Reuters Datastream; IMF; Malaysia Department of Statistics; Statistics Indonesia; Korea Statistical Information Service; Taiwan Ministry of Finance.

Asian countries are involved in over-lapping free trade agreement negotiations

Membership of proposed 'free trade' agreements

Trans-Pacific Partnership (TPP)

United States
Canada
Mexico
Peru
Chile

(signed February 2016 – needs to be ratified by at least 6 states with GDP ≥ 85% of GDP of all members)

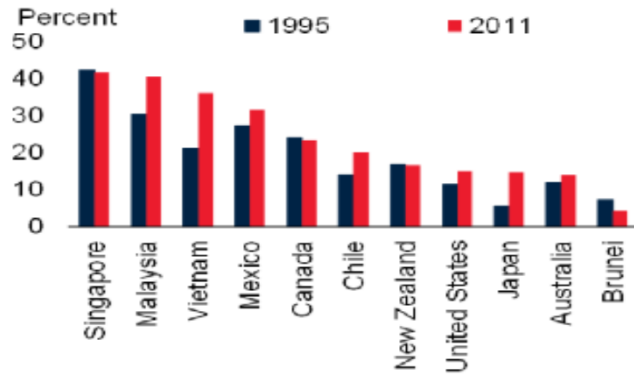
Regional Comprehensive Economic Partnership (RCEP)

China
Korea
Indonesia
Thailand
Philippines
Myanmar
Cambodia
Laos
India

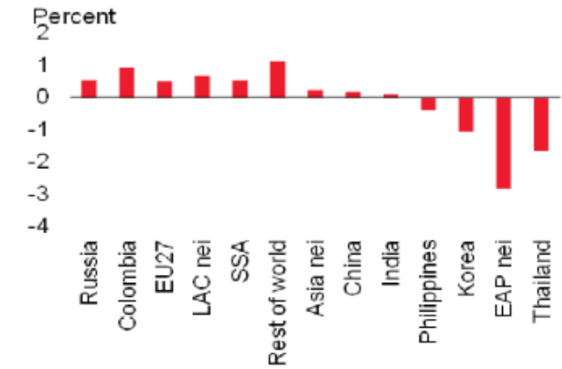
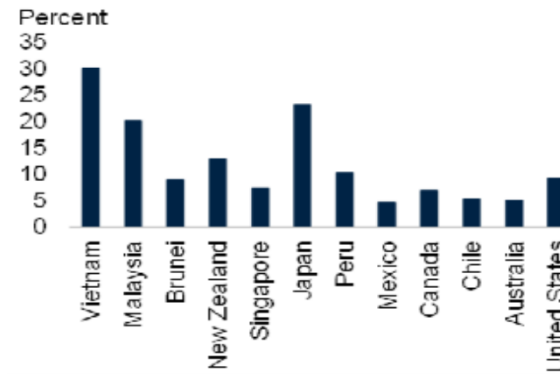
(targeting final agreement at meeting in Laos, September 2016)

Vietnam and Malaysia likely to be the biggest winners from TPP – non-members Korea and Thailand the biggest losers

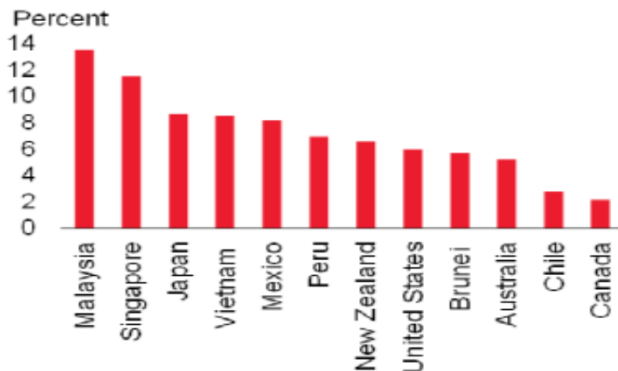
Foreign value-added share of exports



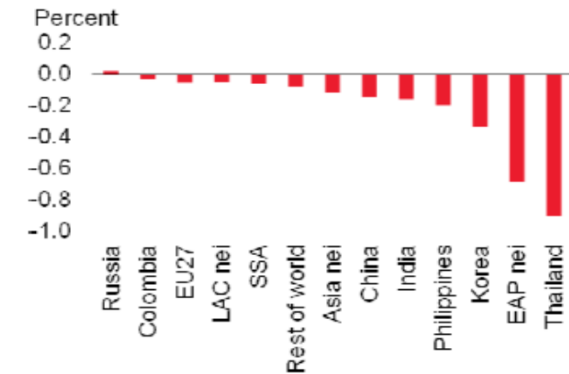
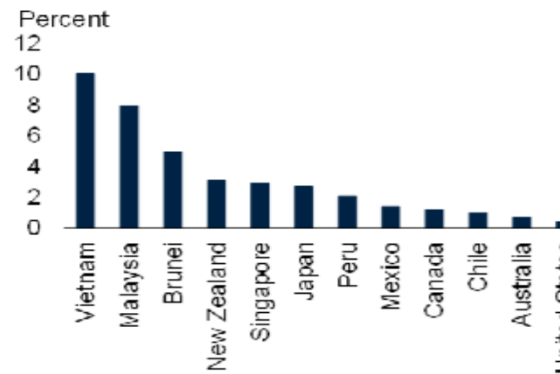
Change in exports by 2030



Average intra-TPP non-tariff barriers



Change in GDP by 2030



Source: The World Bank, 'Potential Macro-economic Implications of the Trans-Pacific Partnership, *Global Economic Prospects* (January 2016), pp. 222-227.

Differences between TPP and RCEP

❑ Who's in – and out

- TPP includes the US, but excludes China (and India)
- RCEP includes China (and India) but excludes the US
- RCEP also includes more less-developed Asian economies

❑ Scope

- TPP has greater emphasis on market access for services providers and regulatory convergence
- TPP includes provisions governing labour and environmental rules, intellectual property, and digital economy
- RCEP is more focused on goods – harmonizing tariffs and rules of origin, and establishing dispute settlement procedures

❑ Developed vs developing economies

- RCEP proposes differential treatment for developing vs developed economies, allowing the former longer periods for tariff liberalization and incorporating promises of development assistance
- TPP applies identical rules to both developed and developing countries

❑ Income gains

- ADB estimates global income gains from TPP of around US\$320-400bn annually, cf. \$260bn from RCEP

❑ Ink vs pencil

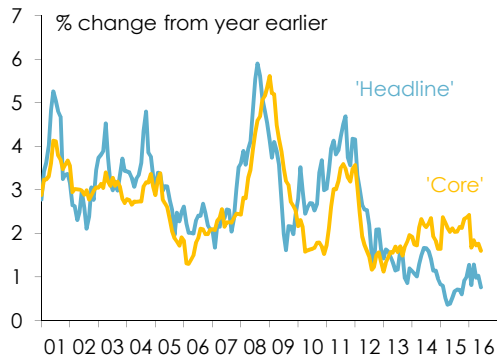
- TPP has been agreed and signed by 12 members – although whether it gets ratified remains in question, especially since both US Presidential candidates are opposed to it
- RCEP is yet to be agreed – target of September this year looks ambitious

Asia's disinflation

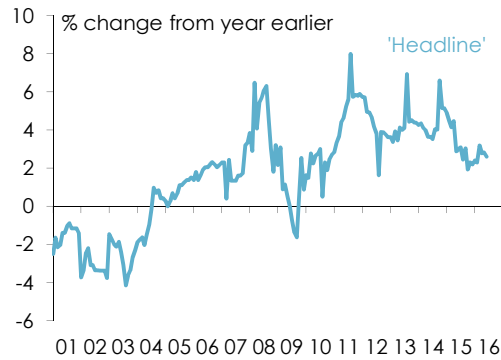
Asia is now experiencing very low inflation – partly the result of lower energy prices, but also structural declines in Indonesia and Philippines

'Headline' and 'core' consumer price inflation

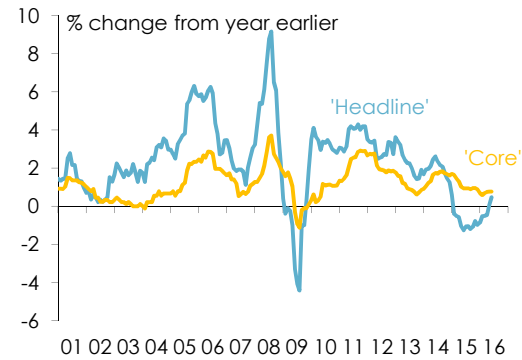
Korea



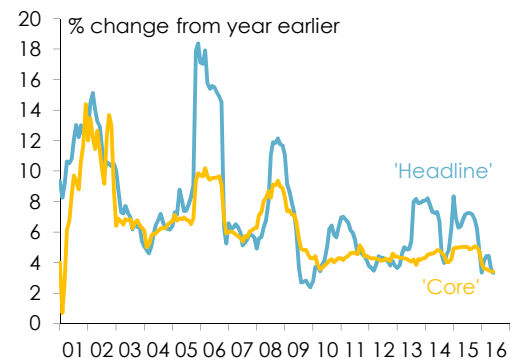
Hong Kong



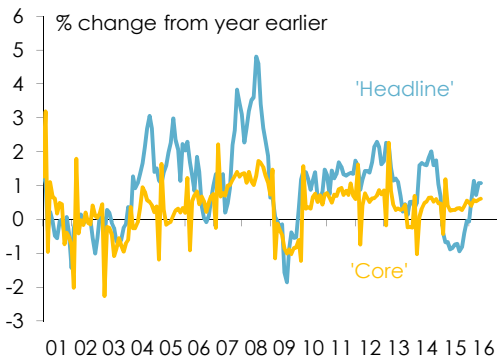
Thailand



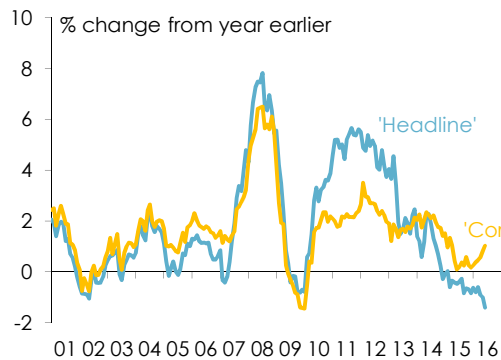
Indonesia



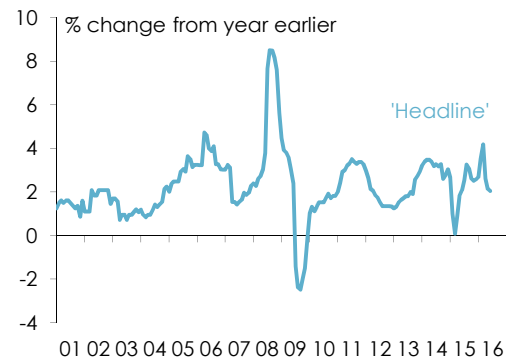
Taiwan



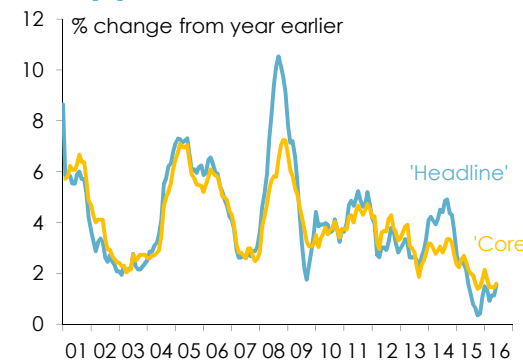
Singapore



Malaysia



Philippines



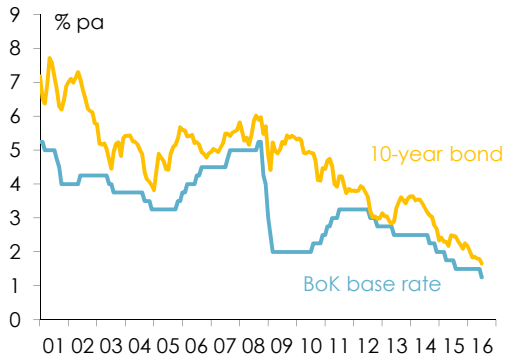
Sources: National statistical agencies and central banks.

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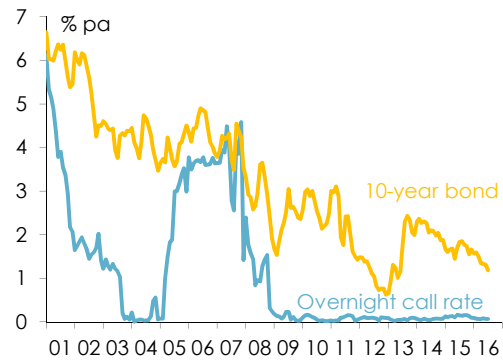
Asian interest rates at record lows in most economies

Monetary policy indicator or call rates and 10-year bond yields

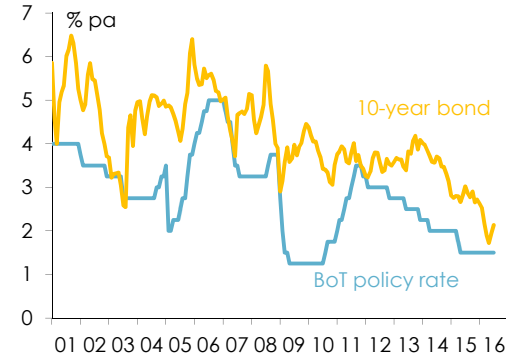
Korea



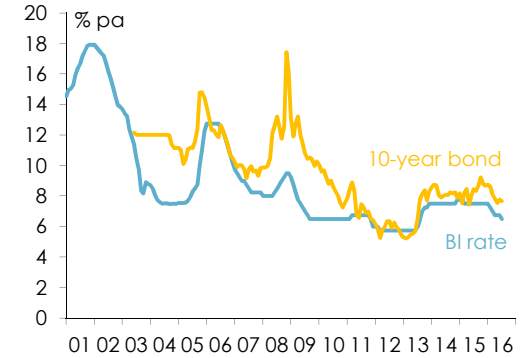
Hong Kong



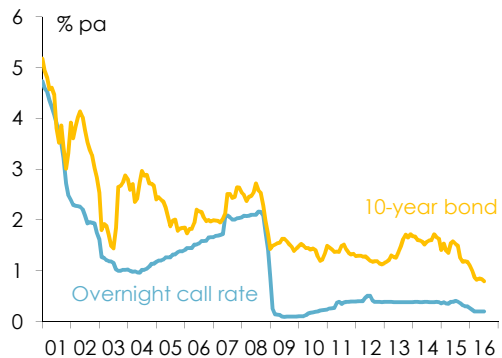
Thailand



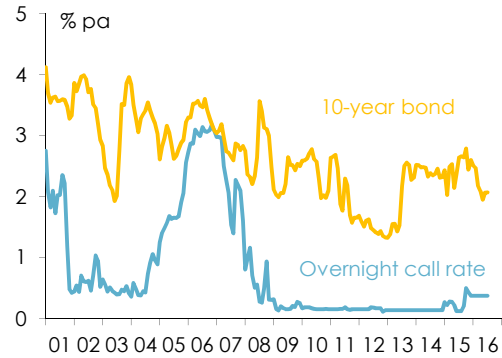
Indonesia



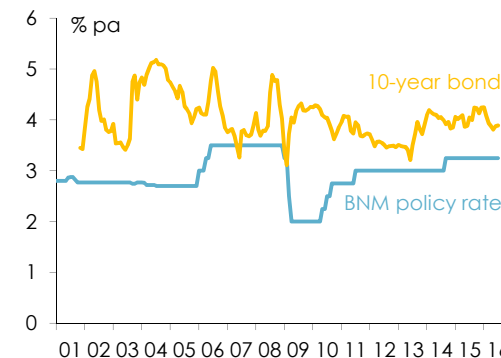
Taiwan



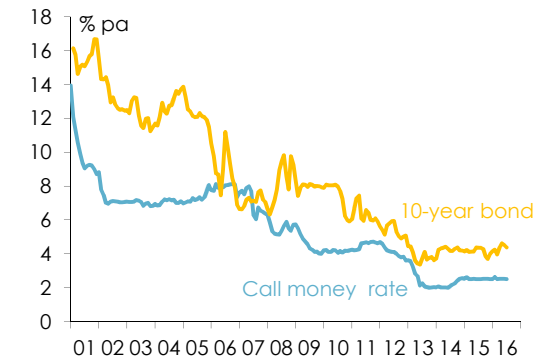
Singapore



Malaysia



Philippines



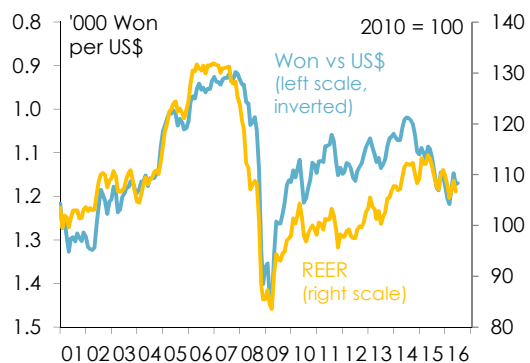
Sources: Thomson Reuters Datastream and national central banks.

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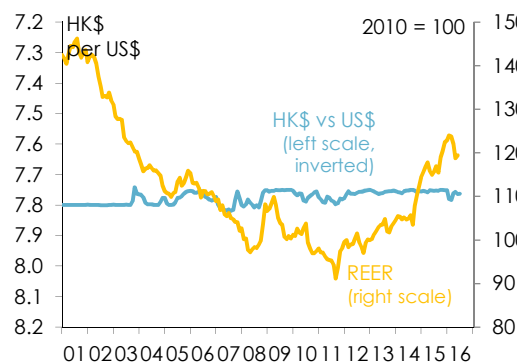
Malaysia aside, Asian real exchange rates have been stable or stronger despite weakening against US\$ and despite slower growth

Bilateral exchange rates vs US dollar and real effective exchange rates

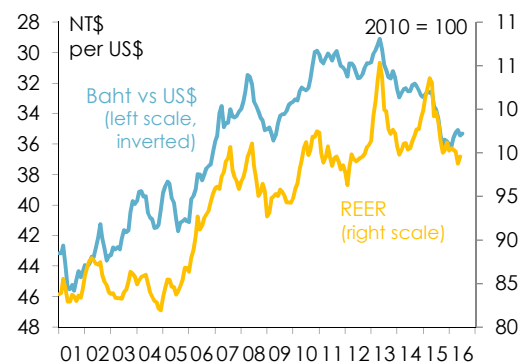
Korea



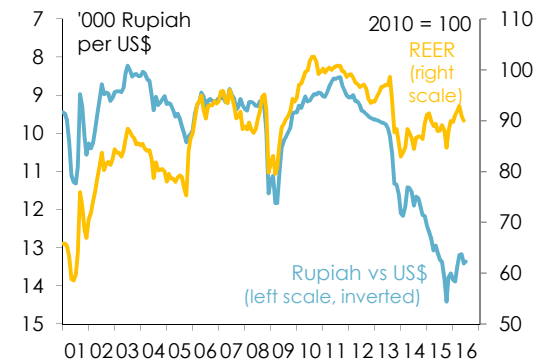
Hong Kong



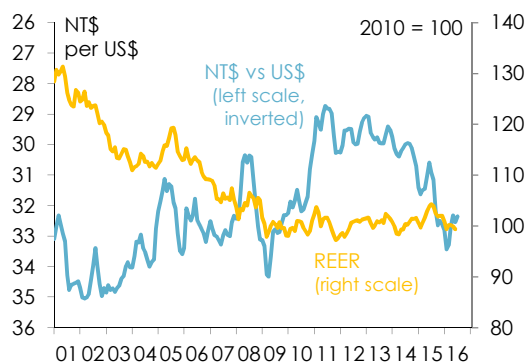
Thailand



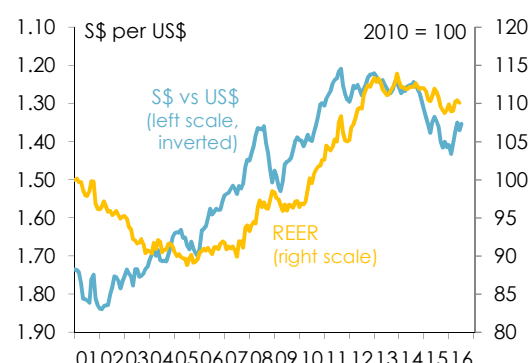
Indonesia



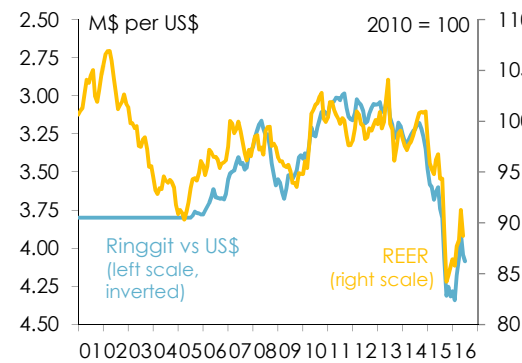
Taiwan



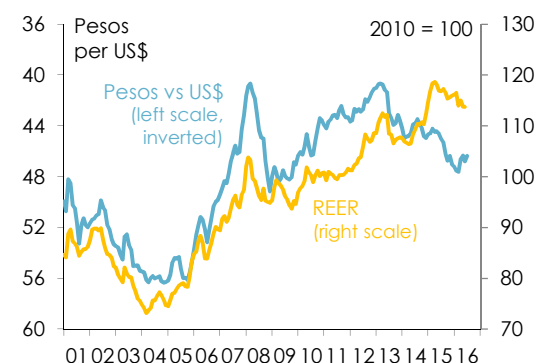
Singapore



Malaysia



Philippines



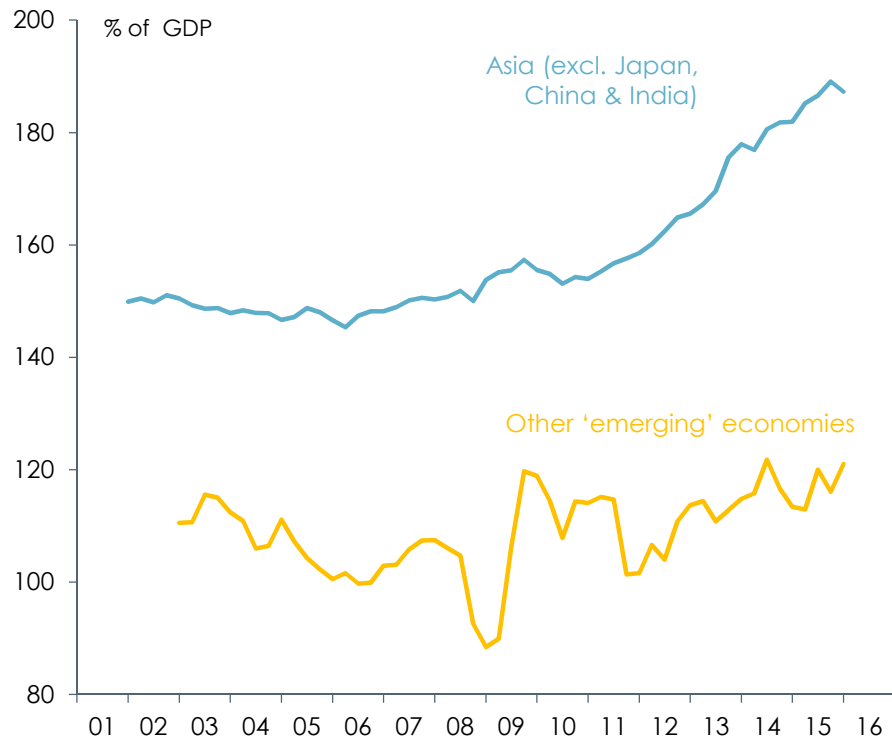
Sources: Thomson Reuters Datastream; Bank for International Settlements.

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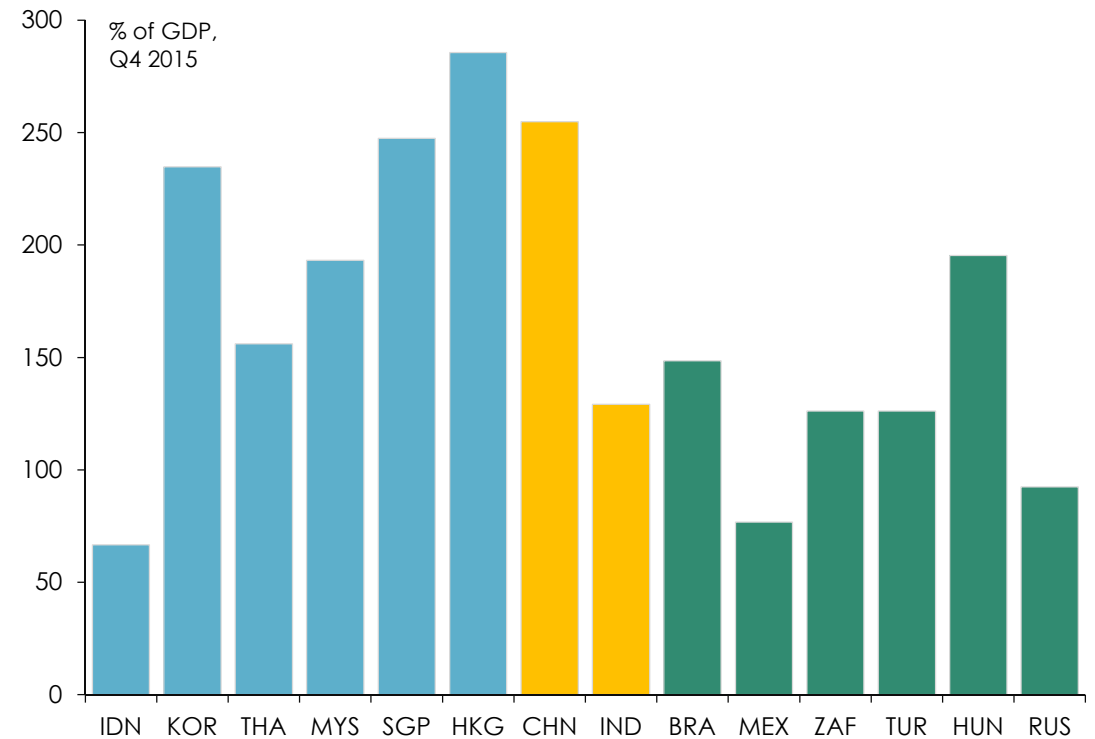
Asia's debt burdens

'Emerging' Asian economies are in most cases more heavily indebted than other 'emerging' economies

Total non-financial sector debt, Asia vs other emerging economies, 2000-2015



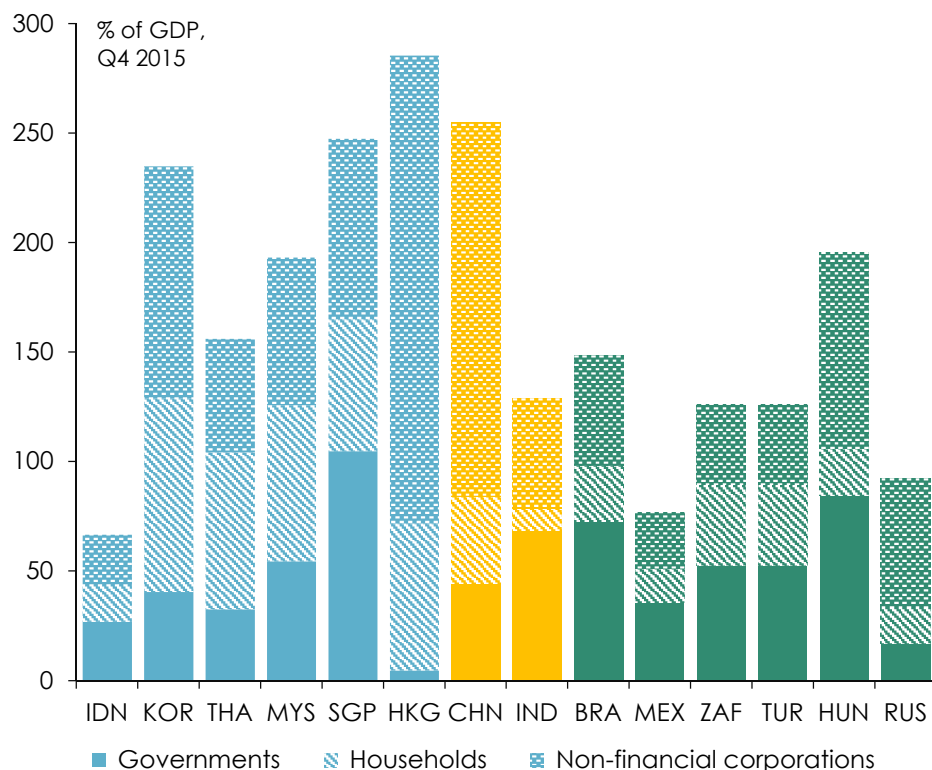
Total non-financial sector debt as a pc of GDP, 'emerging' economies, Q4 2015



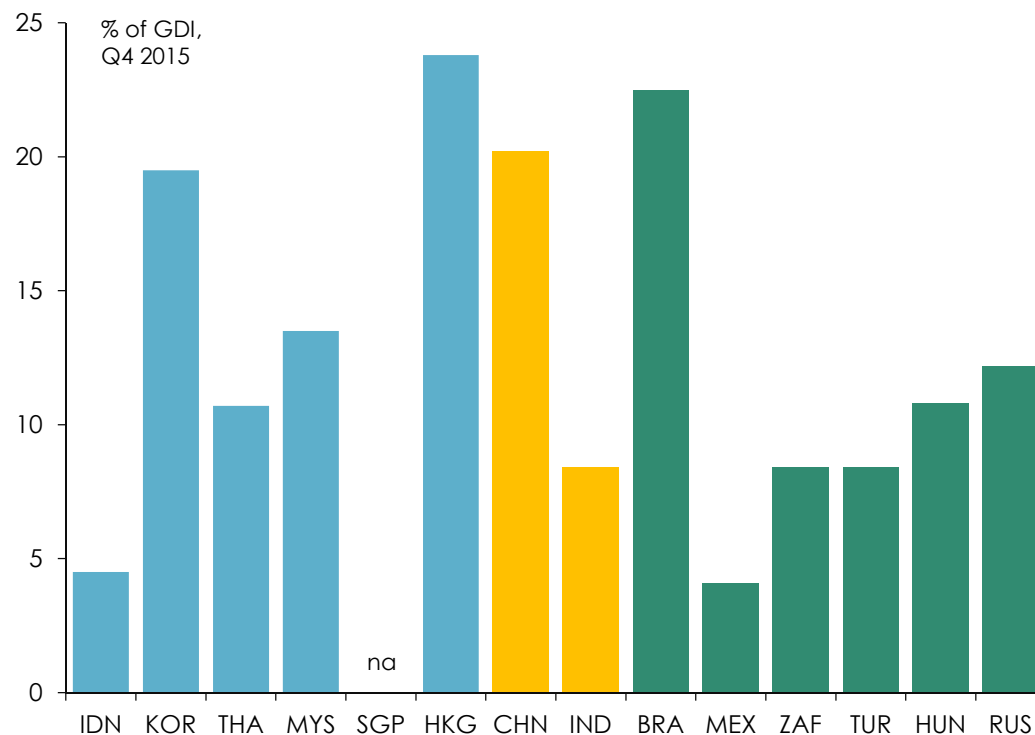
Source: Bank for International Settlements (BIS), Credit to the non-financial sector database, June 2016.

Relatively high Asian debt ratios largely reflect private, as opposed to public, sector debt – and debt service ratios are high too

Non-financial sector debt by sector, pc of GDP, Q4 2015



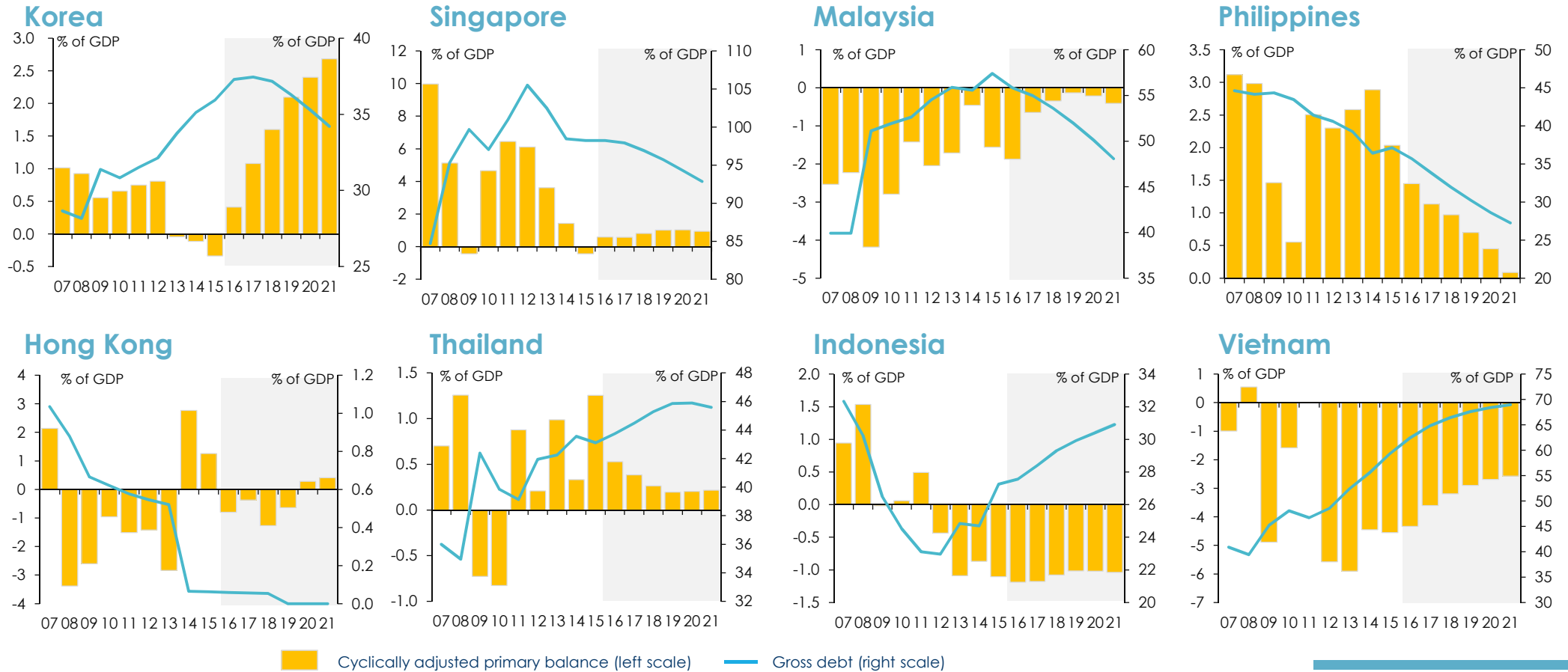
Private non-financial sector debt service ratios, Q4 2015



Note: 'GDI' = sum of household and private non-financial corporations sector gross disposable income.
 Source: Bank for International Settlements (BIS), Credit to the non-financial sector and debt service ratio databases, June 2016.

Asian governments – with the exceptions of Indonesia and Vietnam – are seeking to run budget surpluses and reduce debt

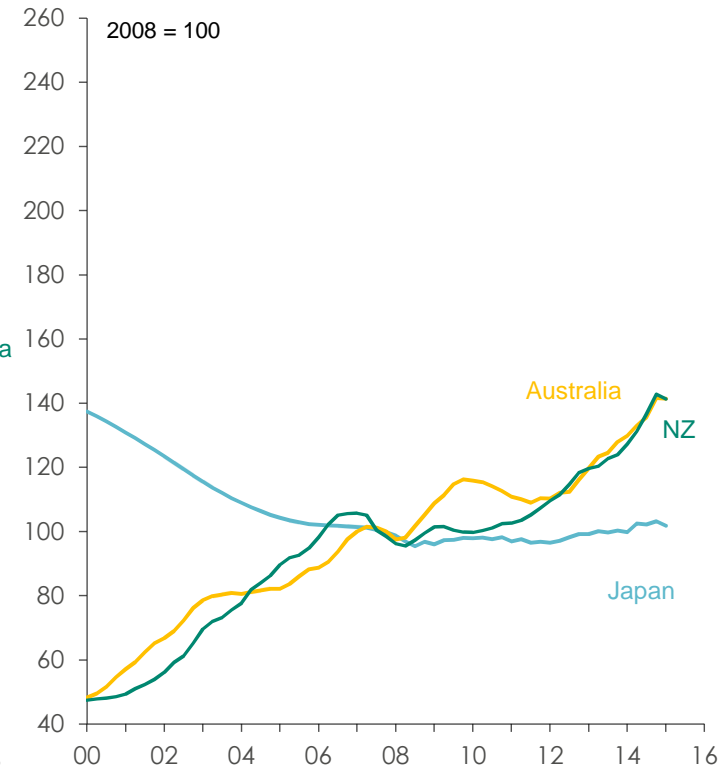
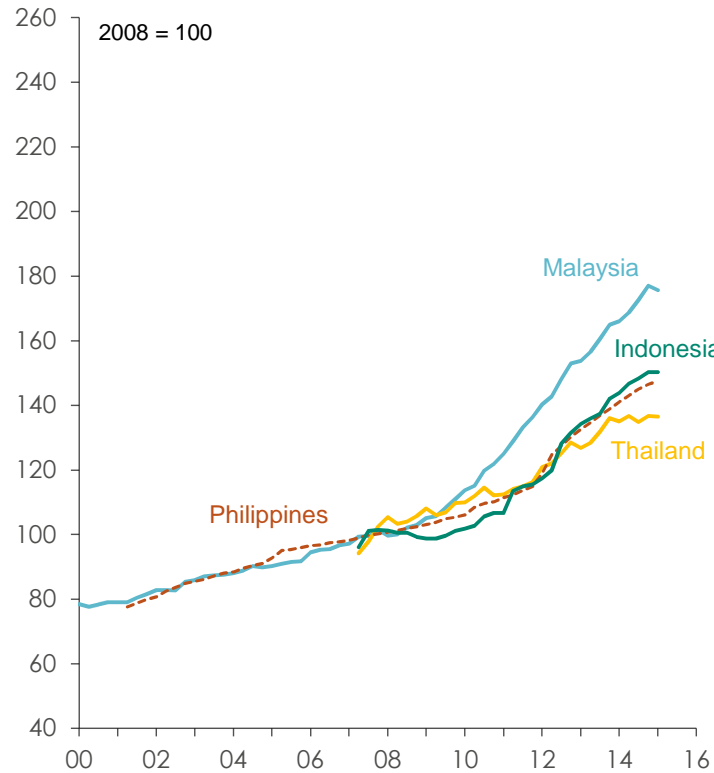
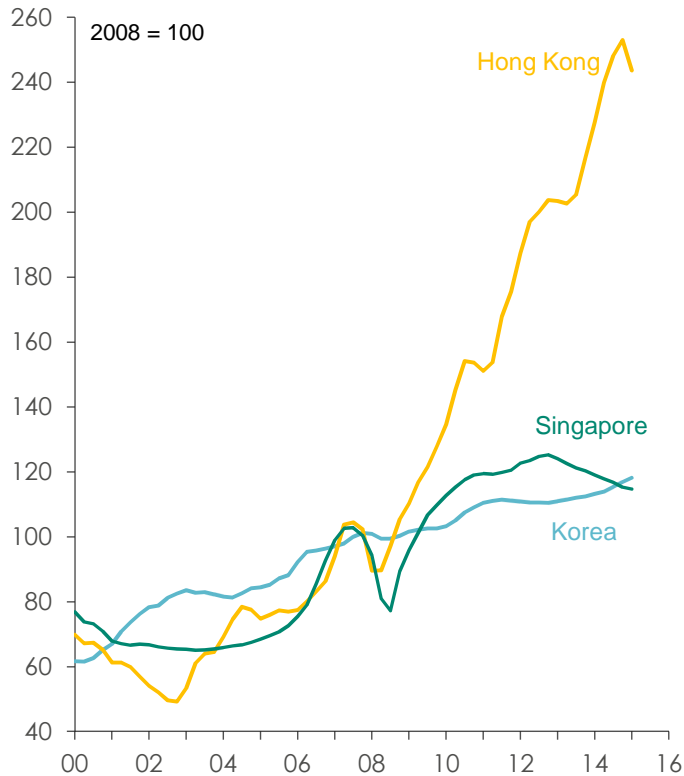
General government cyclically-adjusted primary balance and gross debt



Note: Taiwan not available. Primary balance data for Vietnam are not cyclically adjusted. Source: IMF, *Fiscal Monitor* (April 2016).

Urban residential property prices have risen by 40-70% across Asia since 2008 – a lot more in HK, rather less in Japan, Korea and Singapore

Asian residential property prices

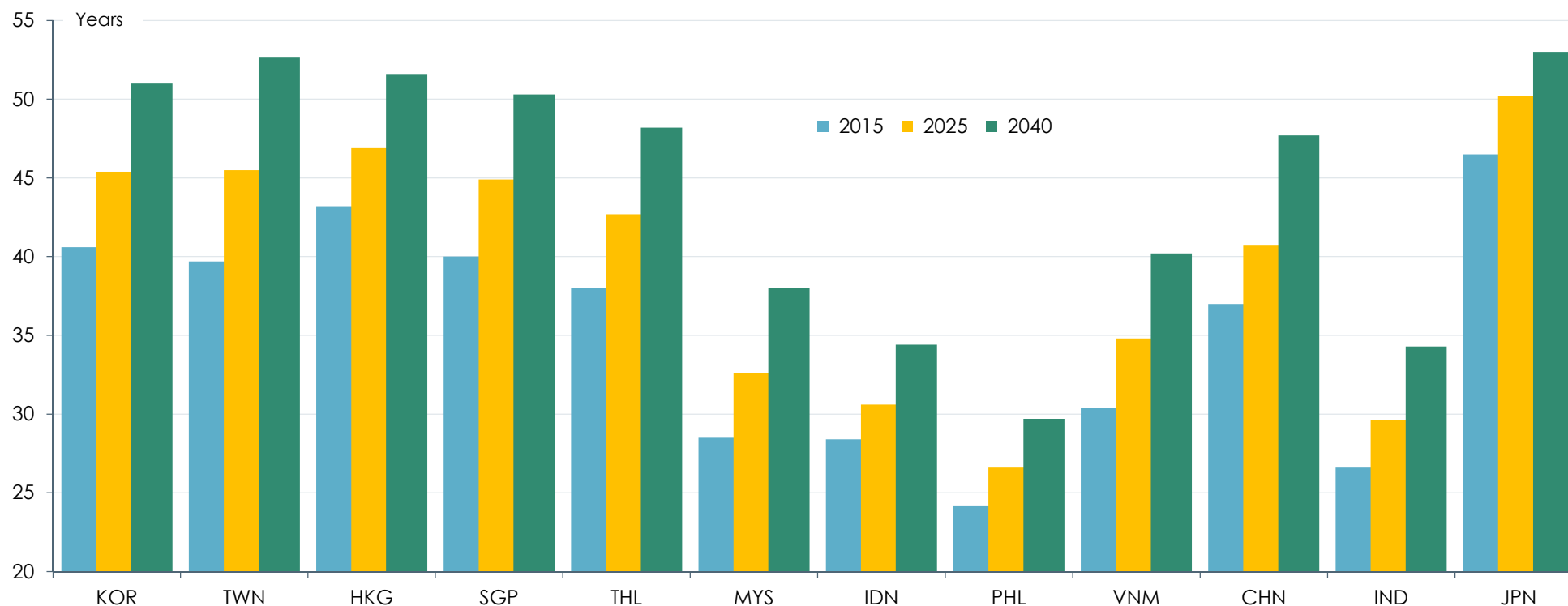


Sources: Bank for International Settlements; CoreLogic.

Asia's demographic challenge

Asian societies are getting older – with adverse consequences for both potential growth and for public finances

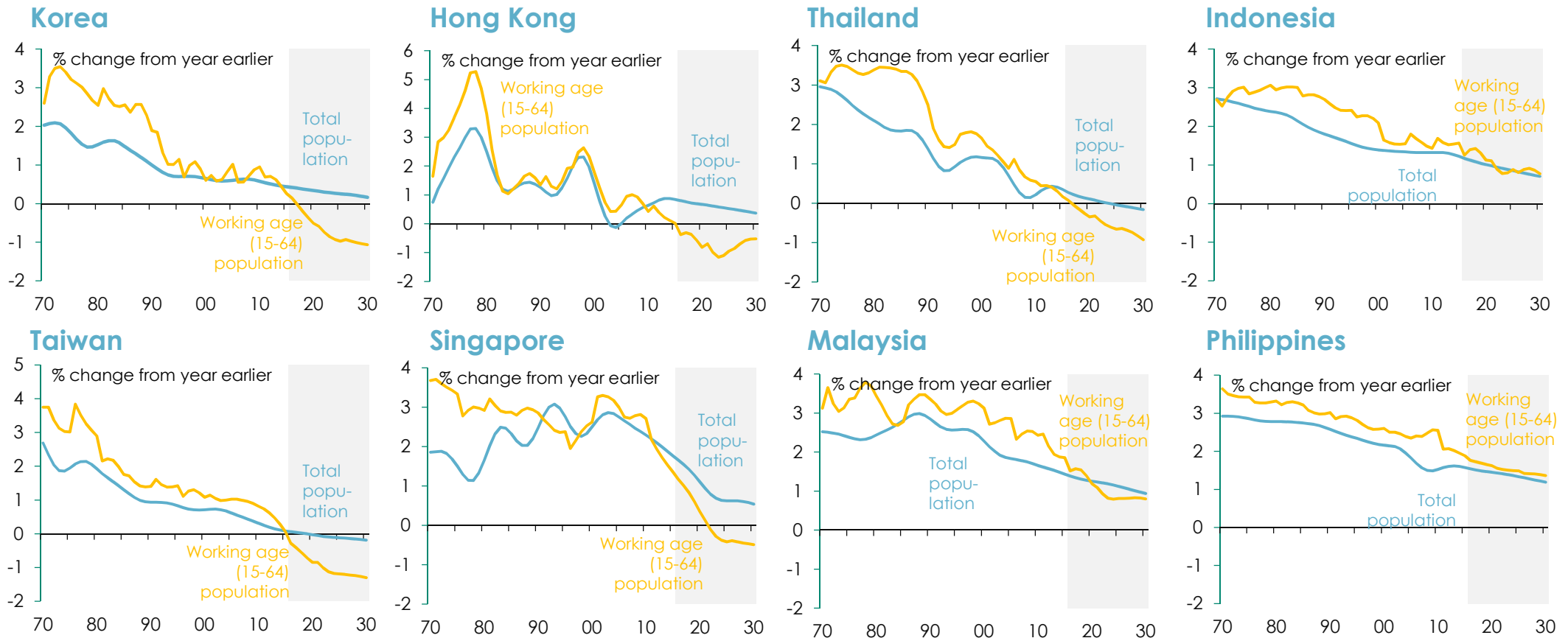
Median age – Asian countries



Source: United Nations Economic & Social Affairs Division, Population Branch, *World Population Prospects – The 2015 Revision*.

Richer north-east Asian economies, Singapore & Thailand have more challenging demographic profiles than other south-east Asian economies

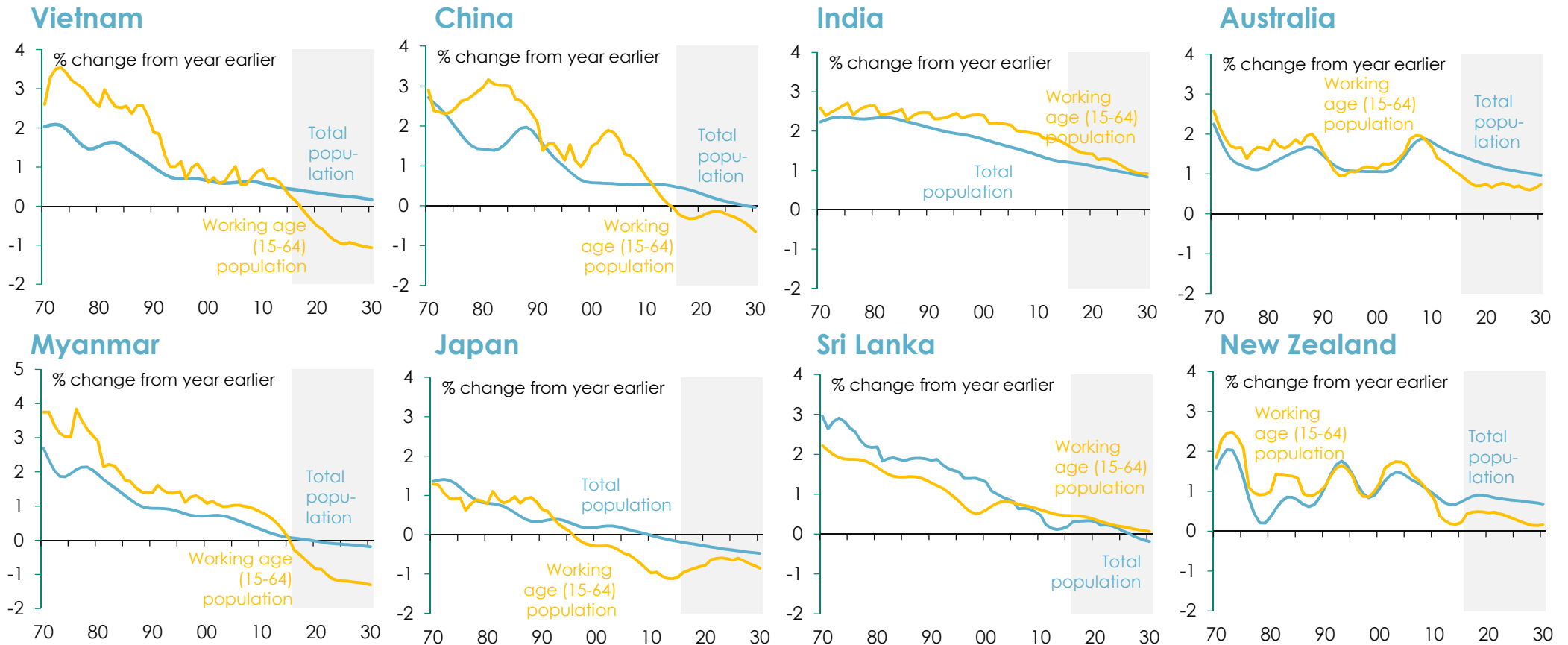
Historical and projected growth in working-age and total populations



Source: United Nations Economic & Social Affairs Division, Population Branch, *World Population Prospects – The 2015 Revision*.

Vietnam and Myanmar also have challenging demographics (as do China and Japan) – in marked contrast to India

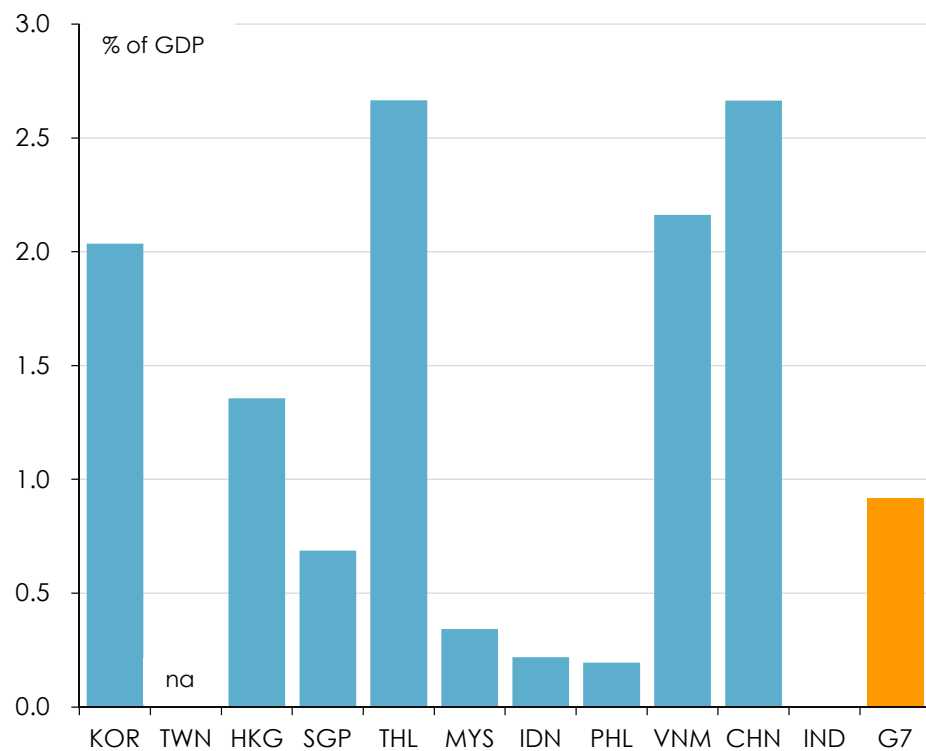
Historical and projected growth in working-age and total populations



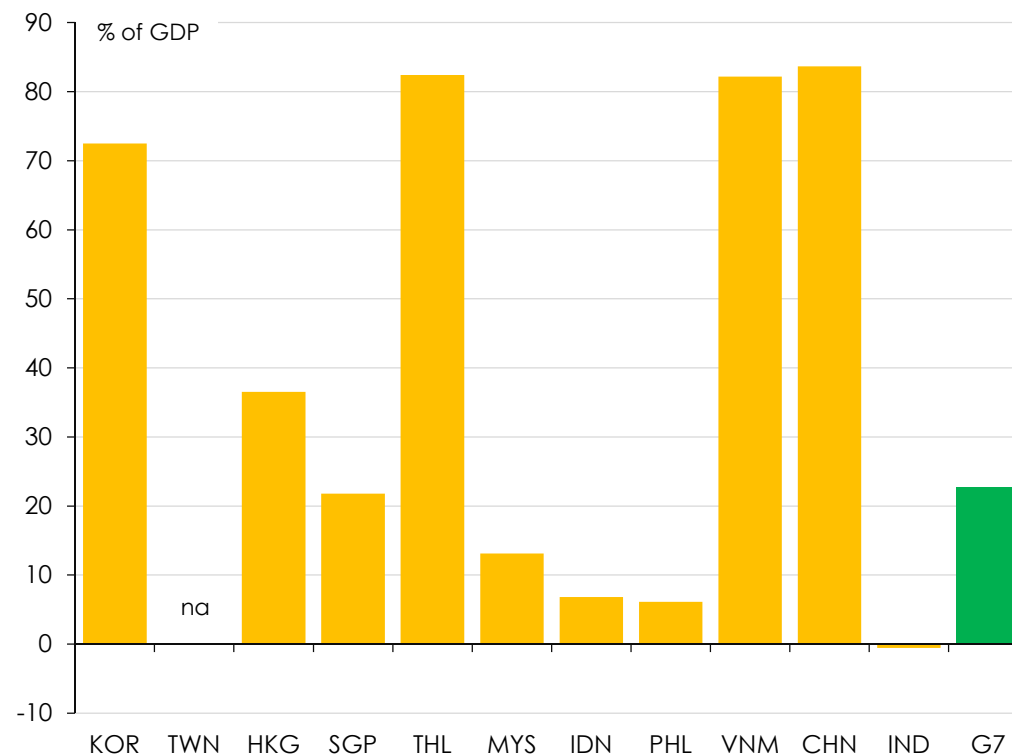
Source: United Nations Economic & Social Affairs Division, Population Branch, *World Population Prospects – The 2015 Revision*.

North-East Asian economies, Singapore & Thailand face significant fiscal costs arising from rapid ageing

Projected change in pension spending 2015-50 as pc of GDP



Net present value of pension spending change 2015-50 as pc of GDP



Source: IMF, Fiscal Monitor, April 2016.

Asia's governance challenge

Asian has some of the world's best governance systems and structures – and some of the world's worst

	Form of government	'Freedom status' (2015)	'Press freedom' ranking (2016)	'Rule of Law' Index ranking (2015)	Corruption perceptions Index ranking (2015)	'Doing Business' ranking (2016)	'Economic freedom' ranking (2016)	Global Competitiveness Index ranking (2015)	Gender Inequality Index ranking (2014)
China	Communist dictatorship	Not free	176	71	= 83	96	144	28	40
Japan	Parliamentary democracy	Free	72	13	= 18	27	22	6	26
South Korea	Presidential democracy	Free	70	11	37	10	27	26	23
Taiwan	Presidential democracy	Free	51	na	30	19	14	15	na
Hong Kong	Limited democracy	Partly free	69	17	= 18	2	1	7	na
Mongolia	Presidential democracy	Free	60	47	72	76	100	104	63
Macao	Limited democracy	na	na	na	na	na	37	na	42
Indonesia	Presidential democracy	Partly free	130	52	88	120	99	37	110
Philippines	Presidential democracy	Partly free	138	51	95	108	70	47	89
Vietnam	Communist dictatorship	Not free	175	64	112	99	131	56	60
Thailand	Military dictatorship	Not free	136	56	= 76	21	67	32	76
Myanmar	Transitioning to democracy	Not free	143	92	147	182	158	131	85
Malaysia	~ Parliamentary democracy	Partly free	146	39	54	9	29	18	
Cambodia	One-party state	Not free	128	99	150	137	112	90	104
Laos	Communist dictatorship	Not free	173	na	= 139	159	155	83	na
Singapore	~ Parliamentary democracy	Partly free	154	9	8	1	2	2	13
East Timor	Parliamentary democracy	Partly free	99	na	123	172	167	136	na
Brunei	Absolute monarchy	Not free	155	na	na	59	51	na	na
India	Parliamentary democracy	Free	133	59	= 76	134	123	55	130
Pakistan	Presidential democracy	Partly free	147	98	117	110	126	126	121
Bangladesh	Presidential democracy	Partly free	144	93	= 139	130	137	100	111
Nepal	Parliamentary democracy	Partly free	105	48	130	105	151	107	108
Sri Lanka	Presidential democracy	Partly free	141	58	= 83	85	93	68	72
Bhutan	Parliamentary democracy	Partly free	94	na	27	141	97	105	97
Australia	Parliamentary democracy	Free	25	10	13	14	5	21	19
Papua New Guinea	Parliamentary democracy	Partly free	55	na	= 139	113	140	na	140
New Zealand	Parliamentary democracy	Free	5	6	4	3	3	16	32

Note: 'Freedom status' based on assessment of political rights and civil liberties. Sources: Freedom House, *Freedom in the World* 2015; Reporters Without Borders, *World Press Freedom Index* 2016; World Justice Project, *Rule of Law Index* 2015; Transparency International, *Corruption Perceptions Index* 2015; The World Bank, *Doing Business* 2016; World Economic Forum, *Global Competitiveness Report* 2015-16; United Nations Development Program, *Human Development Report* 2015.

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Some important recent and prospective political developments in Asia

❑ Taiwan

- DPP (pro-independence party)'s Tsai Ing-Wen elected President in January 2016 (after 8 years of KMT rule), taking office in May, also gained parliamentary majority for the first time (unlike in 2000)
- potential for tensions with China, Tsai yet to acknowledge 'there is one China' formula

❑ Korea

- President Park Geun-hye's conservative Saenuri ('New Frontier') Party lost its parliamentary majority in April elections

❑ Myanmar

- NLD Presidential nominee Htin Kyaw assumed office in March 2016 following comprehensive NLD victory in 2015 elections (Aung San Suu Kyi barred from Presidency but is 'power behind the throne' as 'State Counsellor')
- Military retain about 25% of seats in both houses of Pyidaungsu Hluttaw (similar to post-Pinochet Chile)

❑ Philippines

- Rodrigo Duterte (formerly Mayor of Davao) elected President in May 2016 (took office on 30 June)
- outspoken advocate of extra-judicial killing of criminals & drug traffickers, and critic of Church influence in Philippines
- key test looming with ICJ ruling on Philippines case against China's activities in South China Sea

❑ Thailand

- 7th August referendum on military-sponsored constitution giving 'National Council for Peace and Order' sweeping powers over future elected governments, 'no' campaigns banned
- risk of political instability when King Bhumibol Adulyadej (aged 89, on throne since 1946) passes away

❑ Malaysia

- long-running scandal over administration of 1MDB (a government-backed development fund) – including questions as to how US\$681mn turned up in PM Najib's personal bank account
- Najib has strengthened his political position and may bring forward elections not due till August 2018

The South China Sea – a geo-political flashpoint?

China's land claims and construction of military facilities in the South China Sea is escalating tensions with South-East Asian neighbours



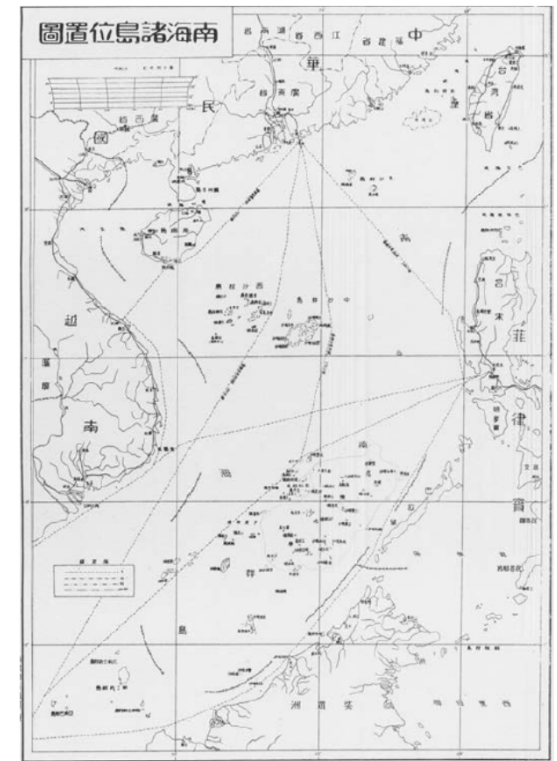
Source: The Economist.

The 'nine-dash line' – a brief history

- ❑ In 1935, the (Nationalist) Republic of China's Land and Maps Inspection Committee published a 'Map of Chinese Islands in the South China Sea'.
- ❑ In November 1946, the Nationalist Government sent naval ships to reclaim the islands in the South China Sea following the Japanese surrender, and in December 1947 published a map showing an '11-dash line' delineating its claims
- ❑ In 1958, the People's Republic of China formally asserted its claims to "the Penghu Islands, the Dongsha Islands, Xisha Islands, Zhongsha Islands, the Nansha Islands and other islands belonging to China", and republished the 1947 map but with two 'dashes' removed



- ❑ Chinese maps published since 1984 have included a tenth 'dash' east of Taiwan
- ❑ Taiwan asserts the same claims to the islands and waters of the South China Sea as the PRC
- ❑ Vietnam, the Philippines and Malaysia each assert claims to islands in the South China Sea and surrounding waters, while Brunei and Indonesia also have territorial waters claims overlapping with China's
- ❑ In recent years China has 'built' at least seven new islands in the Spratly Islands, and established airstrips, port and other facilities on these and existing islands
- ❑ The International Court of Justice will hand down a ruling on the Philippines' case against Chinese actions on 12th July



Source: US State Department, Office of Ocean and Polar Affairs, *Maritime Claims in the South China Sea*, No. 143, December 2014.

China would appear to have the capacity to impose its will in the South China Sea, unless the US and its allies are prepared to intervene

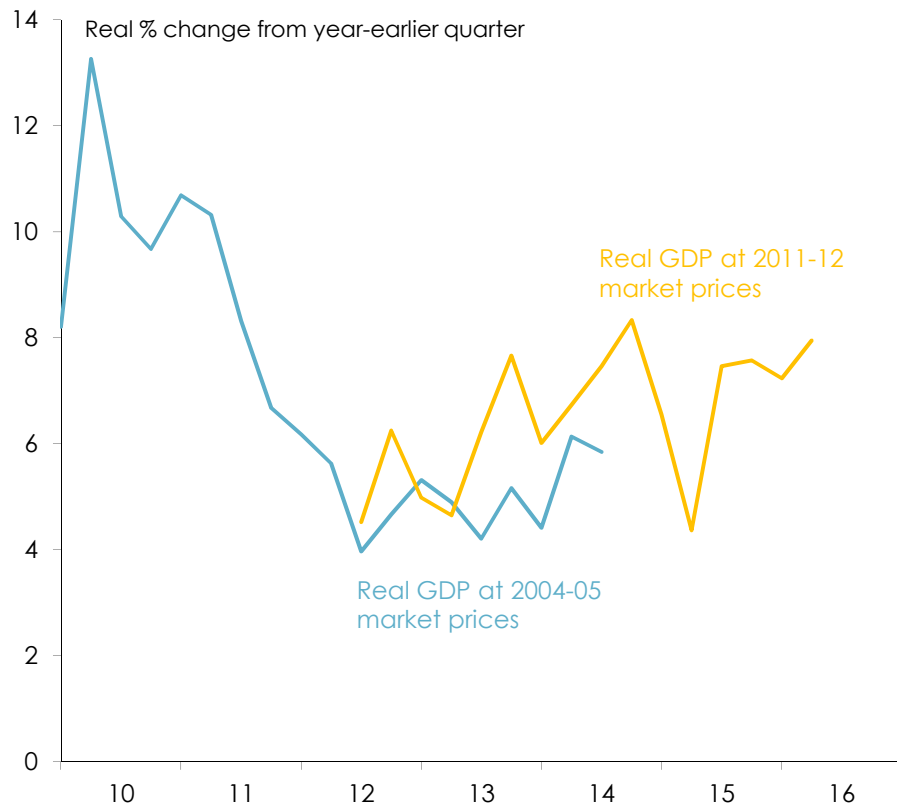
	Military spending			Military personnel (000)	Naval vessels	Military aircraft	'Military strength' ranking
	US\$ bn 2015	% change 2010-15	% of GDP 2015				
China	214.8	48.6	1.9	2,335	714	2,942	3
Japan	40.9	-0.4	1.0	250	131	1,590	7
North Korea	na	na	na	1,190	967	944	25
South Korea	36.4	14.6	2.6	625	166	1,451	11
Taiwan	9.8	3.2	1.9	300	87	815	19
Indonesia	7.6	81.6	0.9	476	221	420	14
Philippines	3.9	35.7	1.3	220	119	135	51
Vietnam	4.6	35.6	2.3	415	65	289	17
Thailand	5.7	13.2	1.6	310	81	551	20
Myanmar	2.2	7.3	3.9	250	122	246	33
Malaysia	4.5	26.5	1.5	110	61	227	34
Singapore	9.4	2.9	3.2	72	40	262	64
Brunei	0.4	6.6	3.7	9	na	na	na
India	51.3	5.5	2.3	1,325	295	2,086	4
Pakistan	9.5	29.6	3.4	620	197	923	13
Bangladesh	2.7	27.7	1.3	400	89	150	52
Nepal	0.3	13.2	1.4	95	na	22	98
Sri Lanka	1.8	10.7	2.3	162	40	91	84
Australia	23.6	10.4	1.9	60	47	417	23
New Zealand	2.1	2.2	1.0	9	11	51	101
United States	596.0	-21.4	3.3	1,400	415	13,444	1

Note: 'Military strength' ranking is an assessment of a nation's potential conventional war-making capacity across land, sea or air based on over 50 factors including weapon diversity, available manpower, logistical flexibility, natural resources, and strength of local industry. Sources: Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015; Global Firepower 2016 World Military Strength Rankings.

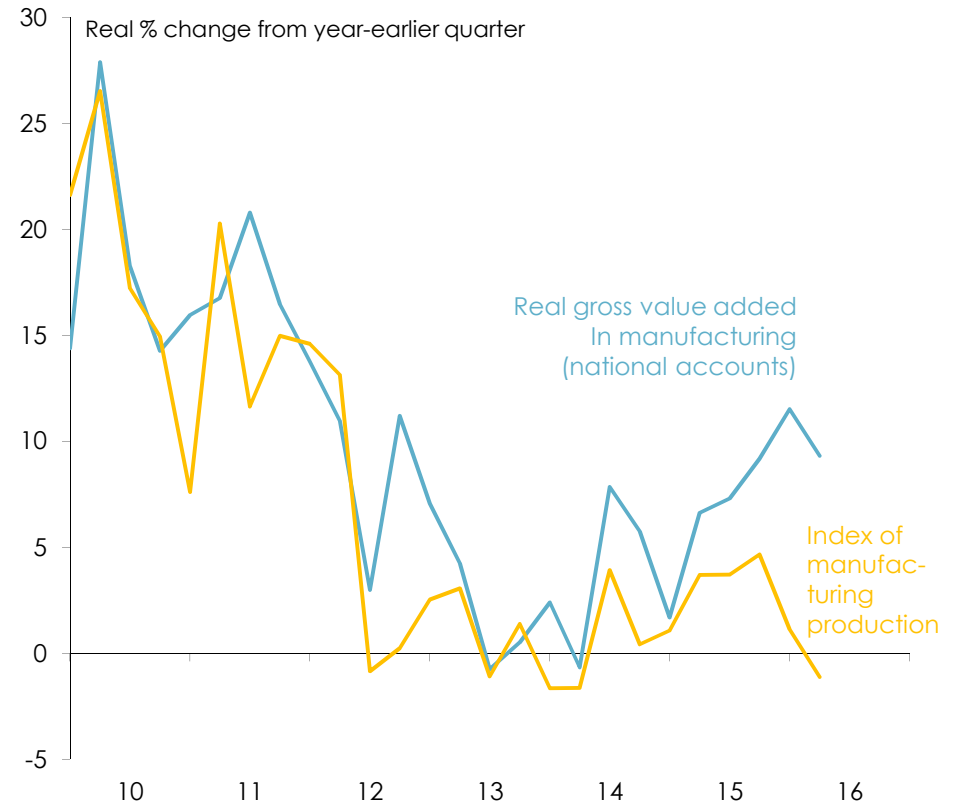
**India – the only BRICS economy
where growth is accelerating- or is it?**

There's some doubt as to whether India's economy is really growing as rapidly as the new GDP data suggest

Old and new measures of real GDP



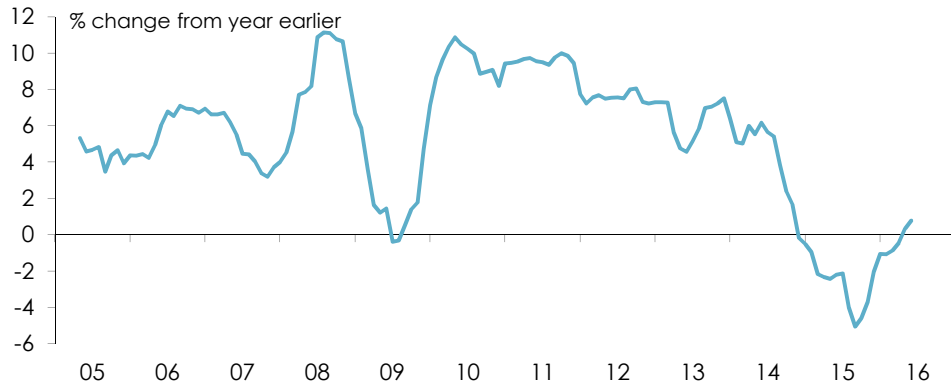
Alternative measures of factory output



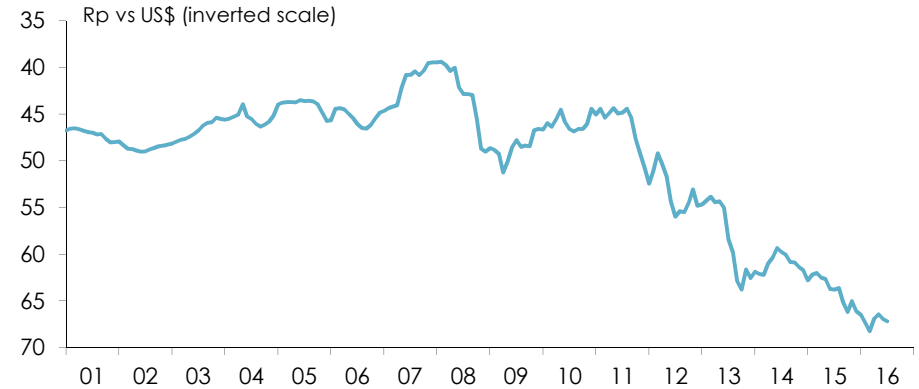
Source: Indian Central Statistical Office.

Raghuram Rajan got inflation down, and stabilized the rupee – but didn't cut interest rates by 'enough', and didn't win PM Modi's confidence

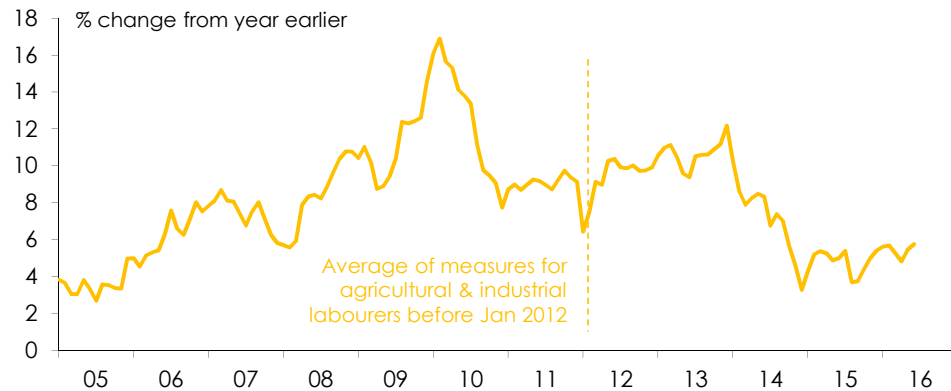
Wholesale price inflation



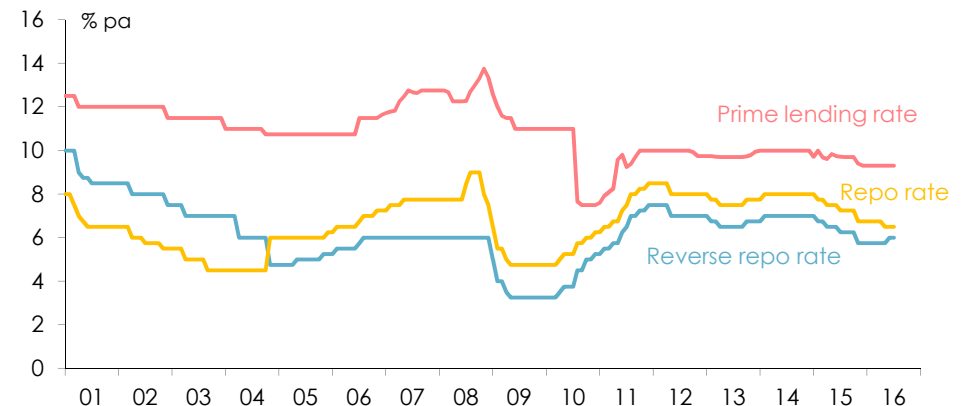
Rupee vs US\$



Consumer price inflation



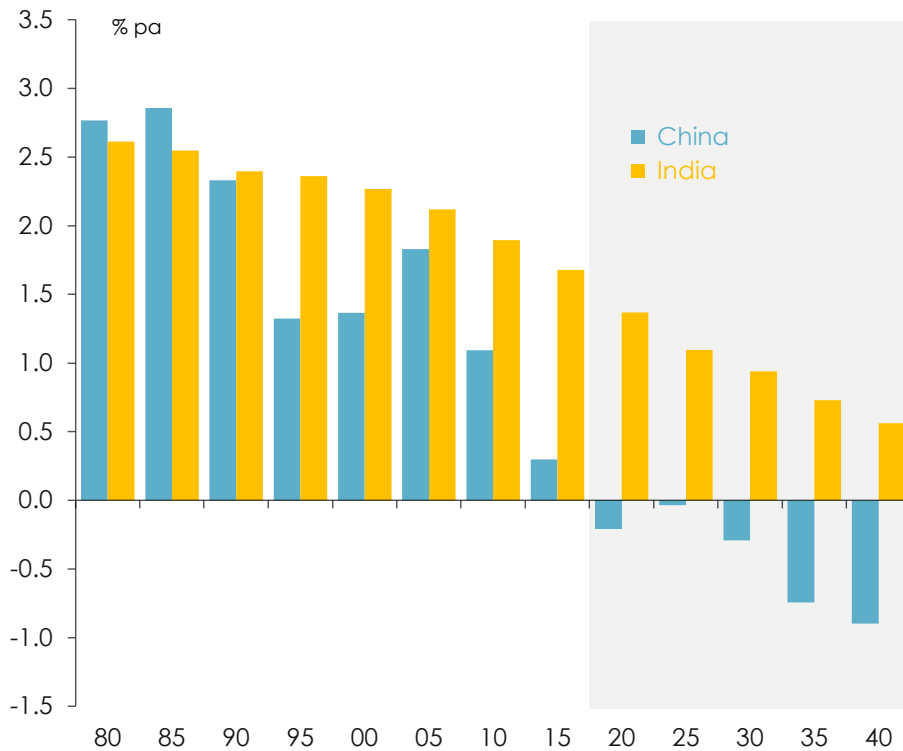
Interest rates



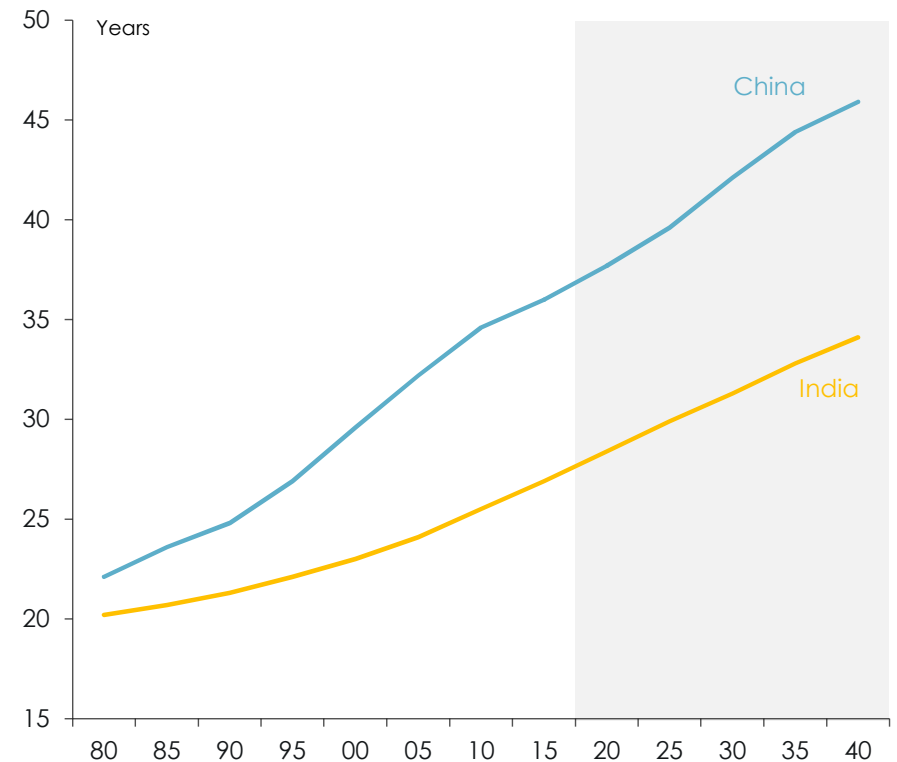
Sources: India Central Statistical Office; Reserve Bank of India.

India's demographic profile is much more conducive to rapid economic growth than China's

India and China – working age population growth rate



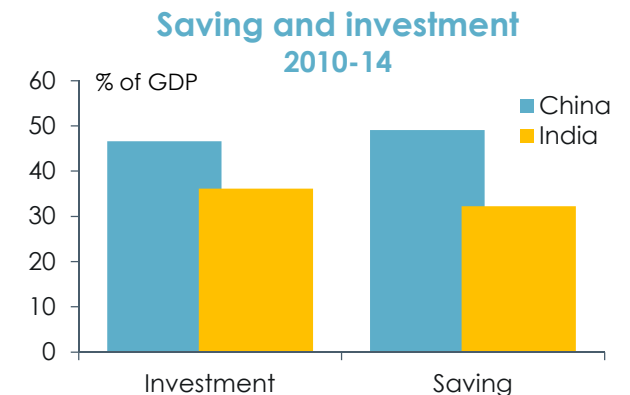
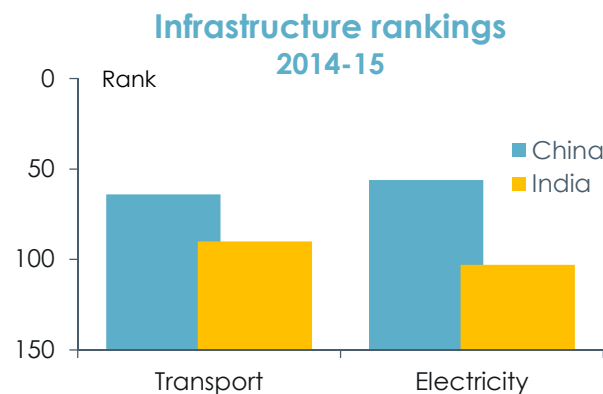
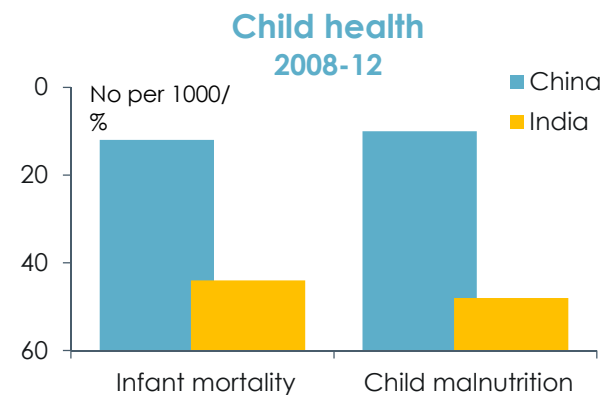
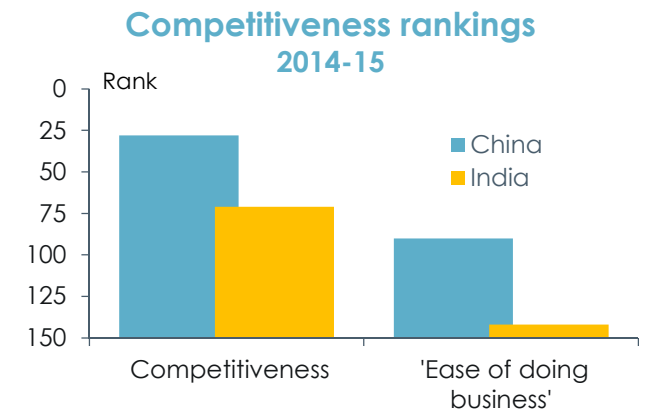
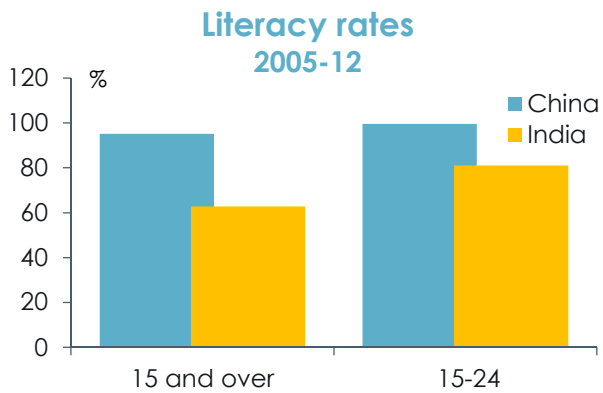
India and China – median age



Source: United Nations Economic & Social Affairs Division, *Population Prospects*.

But on most other 'fundamental' indicators of development prospects, India is less well placed than China

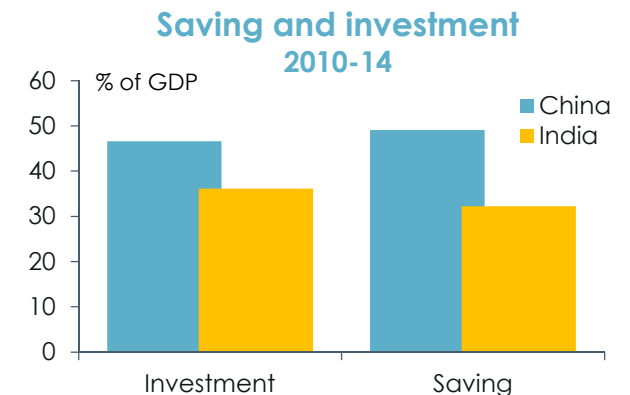
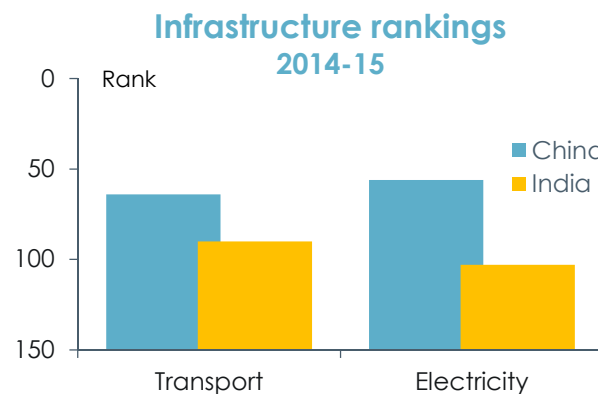
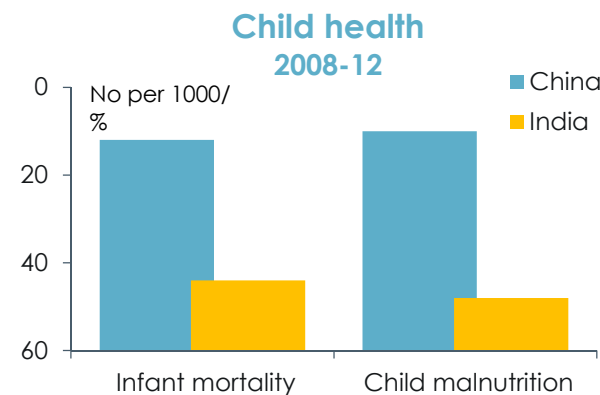
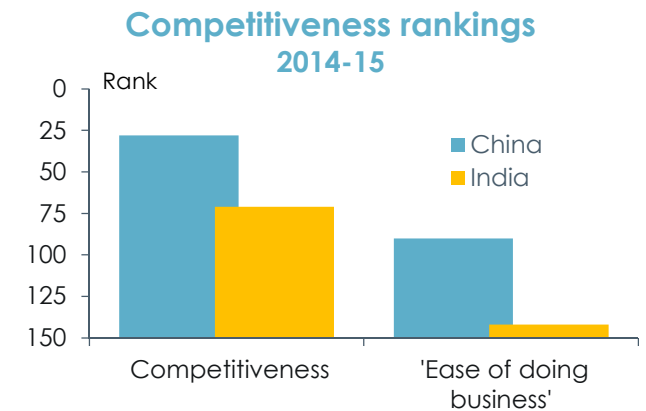
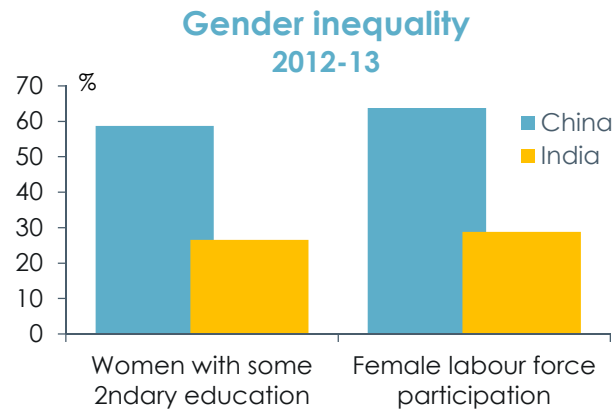
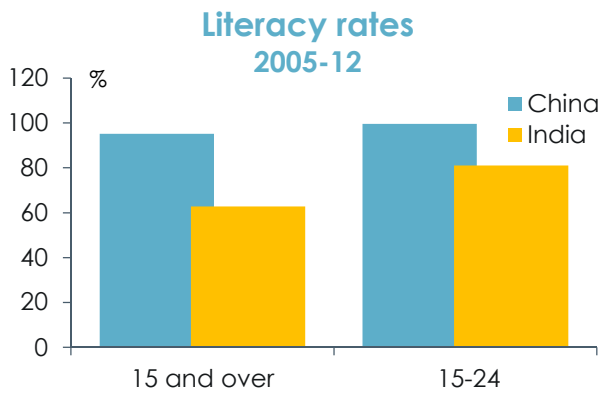
Development indicators – China and India compared



Sources: United Nations Human Development Program, *Human Development Report 2014*; World Economic Forum, *The Global Competitiveness Report 2014-15*; The World Bank, *Doing Business 2015*; International Monetary Fund, *World Economic Outlook October 2015*.

But on most other 'fundamental' indicators of development prospects, India is less well placed than China

Development indicators – China and India compared

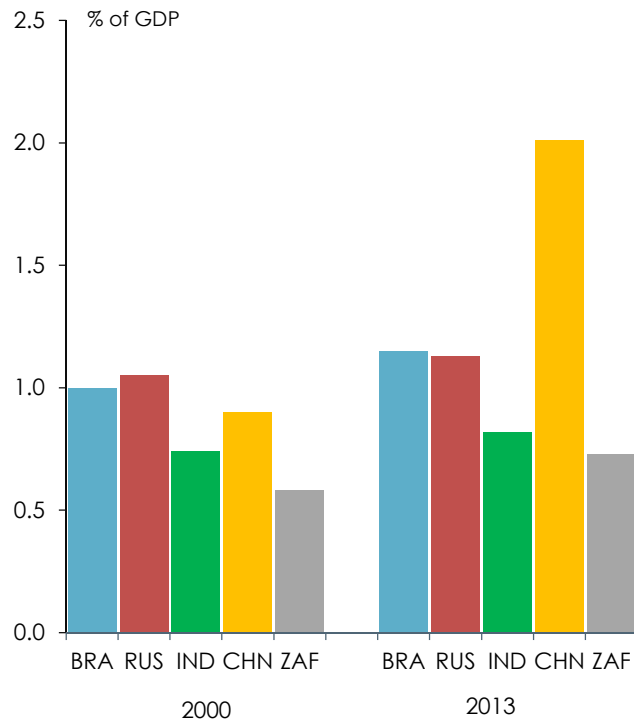


Sources: United Nations Human Development Program, *Human Development Report 2014*; World Economic Forum, *The Global Competitiveness Report 2014-15*; The World Bank, *Doing Business 2015*; International Monetary Fund, *World Economic Outlook October 2015*.

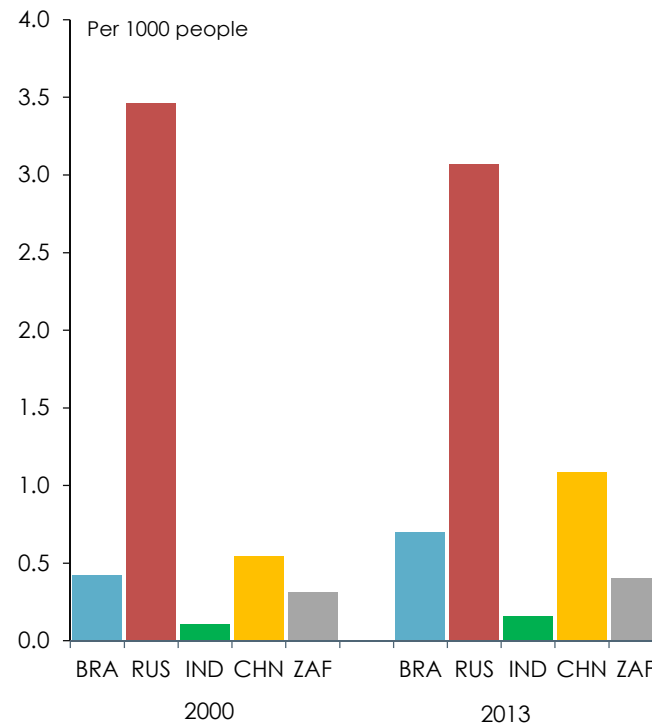
India lags a long way behind other 'BRICS' on innovation

Quantitative indicators of innovation in BRICs, 2000 and 2013

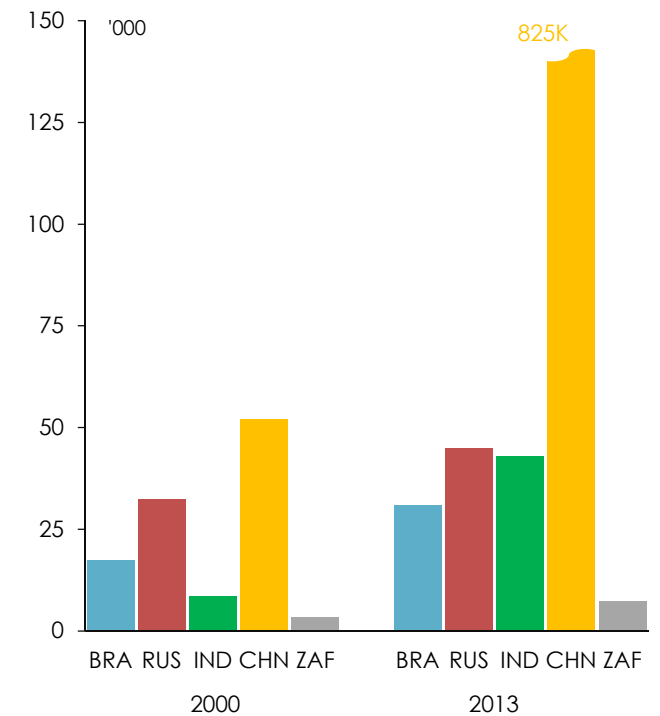
R & D spending



Researchers



Patent applications



Sources: IMF, Fiscal Monitor, April 2016; World Bank, World Development Indicators.

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

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