

JCER/Nikkei Consensus Survey on Asian Economies

July, 2017

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■ A Brief Report: Philippine President Rodrigo Duterte's 1<sup>st</sup> Year

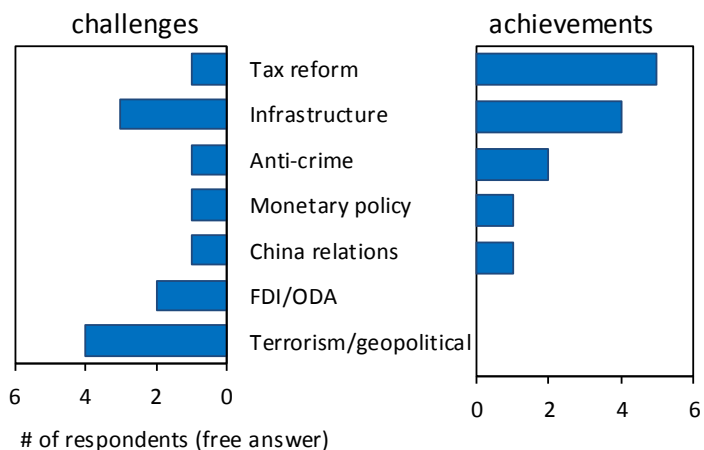
Infrastructure a Daunting Issue; Terrorism the Largest Challenge

With the passage of a year since the start of President Duterte's term, the survey asked economists to comment on the accomplishments and challenges of the administration

**Tax reform: an Achievement**

As shown in graph 1, the administration's most recognized achievement is tax reform. The first package of reforms was submitted to the Congress in September 2016 and passed the House in May of this year. The package includes measures to limit VAT exemptions and to increase excise taxes on fuel, sugary beverages and automobiles. While the new package creates inflationary pressure, as ING Bank's Jose Cuyegkeng and others point out, it will increase income for the government, which should be used for infrastructure.

Graph 1. Duterte Administration Achievements and Challenges



**Infrastructure Matters**

Respondents identified infrastructure as both an achievement and a challenge. It is understood as a key to realizing economic growth in the country. Metrobank's Paulline Revillas says the growth forecast "largely hinges on the realization of the government's infra spending plans." The Duterte administration promised to continue the economic strategy of the previous administration of Benigno Aquino, prioritizing infrastructure development. Some question the government's capability to pursue infrastructure projects.

**Anti-crime Policy and Terrorism**

The president's actions here have been controversial, but citizens' support remains strong. Alvin Ang of Ateneo de Manila University recognizes "instituting citizen oriented anti-crime and corruption mechanisms and commitment to [the] peace process" as an achievement of the administration so far, with the administration's "misunderstood way of implementing anti-drug policies" representing a challenge.

Table 1. Events Since Presidential Election in 2016

2016 May 9	Philippine presidential election
Jun 20	Duterte's 10-point socioeconomic agenda
Jun 30	Inauguration of President Duterte
Sep 6	The US president Obama cancels meeting with Duterte
Sep 26	Tax reform package submitted to Congress
2017 Feb 20	NEDA approves Philippine Development Plan 2017-2022
Apr 29	ASEAN summit hosted by the Philippines
	Soften stance on South China Sea dispute.
May 23	Declaration of martial law in Mindanao
May 31	The House passes tax reform package
Jul 3	Espenilla takes office as the new Governor of BSP

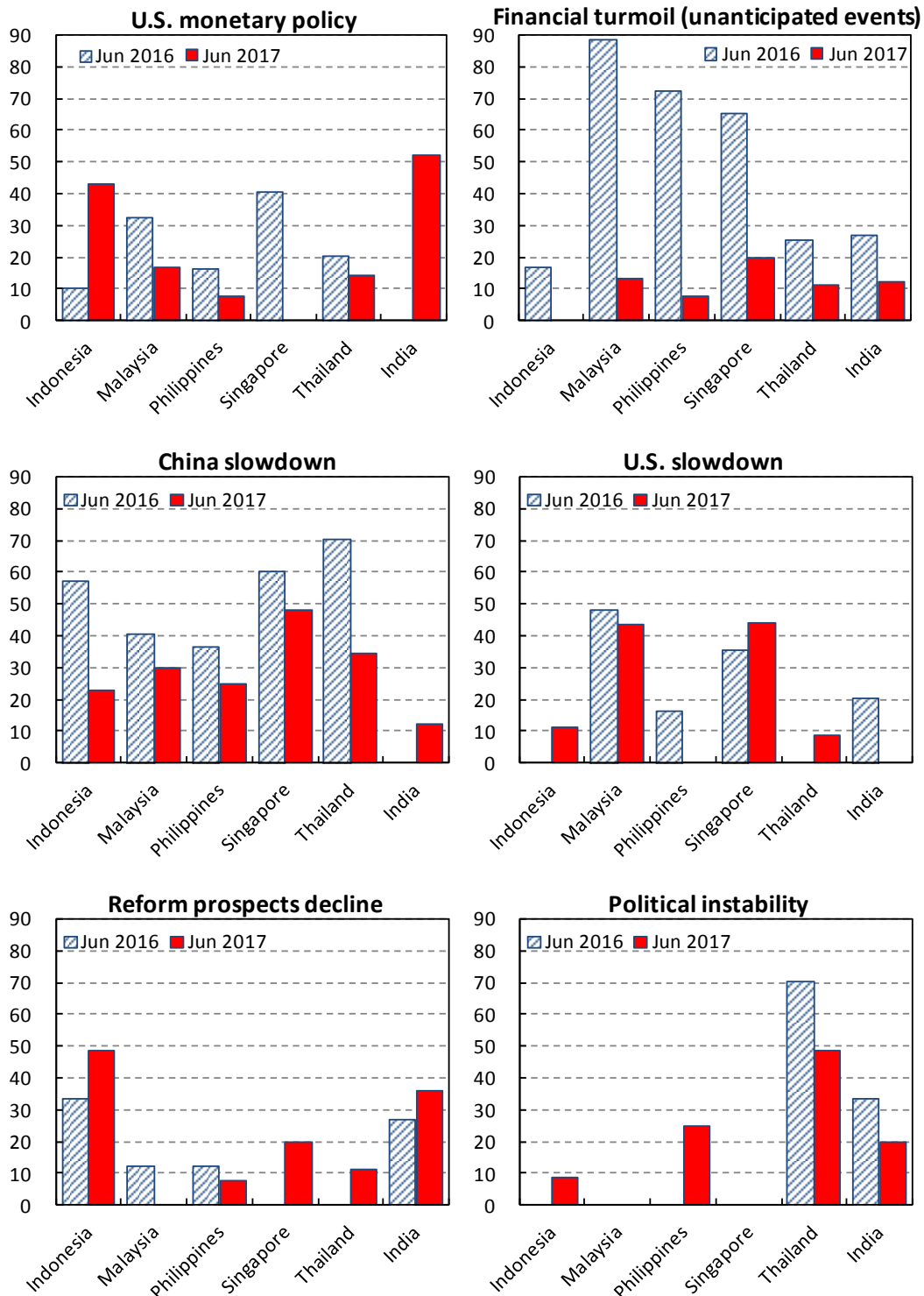
Worries surrounding terrorism increased rapidly in May after conflict arose in Mindanao and President Duterte declared martial law. Information is not always clear on the matter, and economists' comments are limited. Direct impact on the economy is limited so far, but the tension is "affecting the decision and implementation of investments in the short term," says Alvin Ang.

(by Kengo Tahara, Principal Economist)

■ Risk

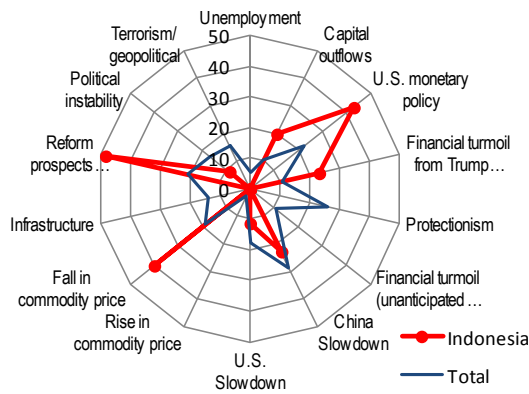
JCER’s new metric provides various data pertaining to risks for Asian economies. Changes in how economists identify major risks are scored by country. The degree of variation between the particular risks identified for one country versus the total average for all countries is also clarified.

Changes in the Identification of Major Risks (by countries)

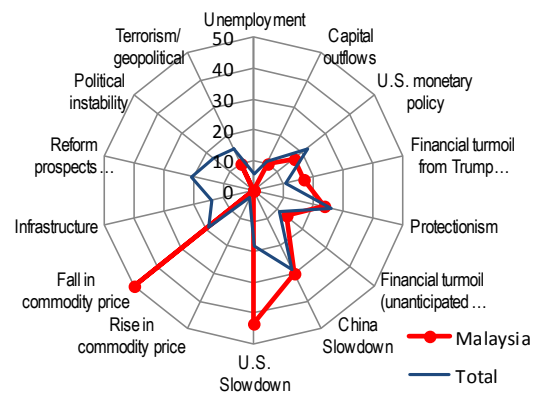


**Difference in Identification of Risks**

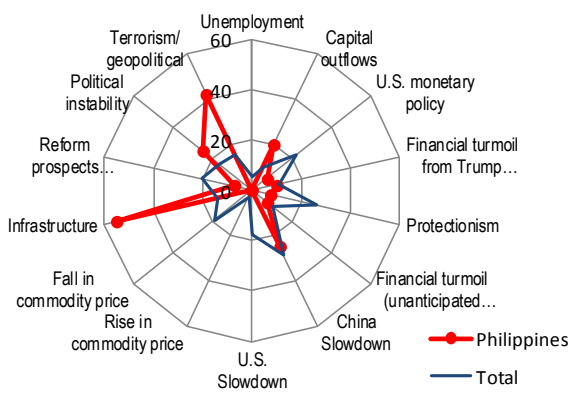
**Indonesia**



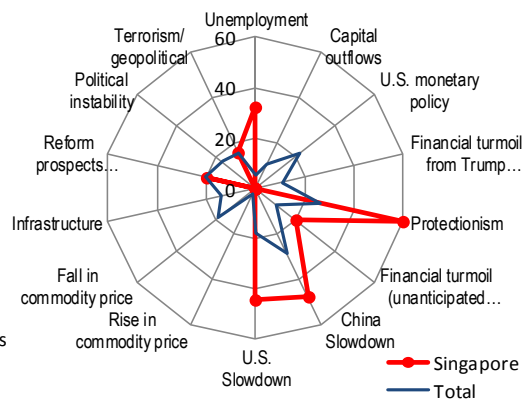
**Malaysia**



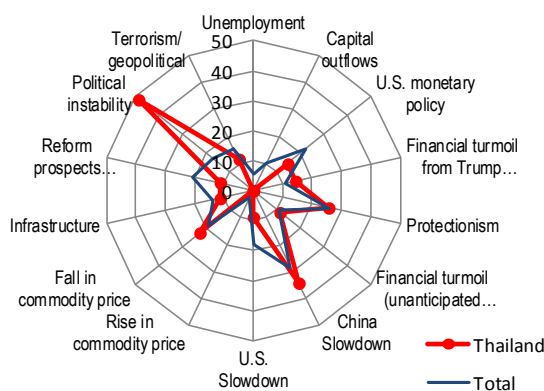
**Philippines**



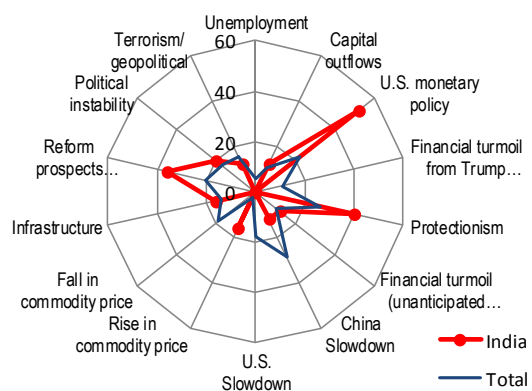
**Singapore**



**Thailand**



**India**



## ■ Economic Risks in the Coming 12 Months

	Indonesia	Malaysia	Philippines	Singapore	Thailand	India
Domestic currency depreciates		5				
Domestic currency appreciates					5	
Inflation accelerates/asset bubble	4		3			
Disinflation/deflation						
Rising unemployment				4		
Overheated labor market						
Rising government debt						
Fiscal austerity drags on growth						
Rising households or corporate debt						
Capital outflows/foreign investment slowdown						
Repercussions of U.S. monetary policy	2	5			5	1
Financial turmoil triggered by policies of U.S. president Donald Trump	4	5		5	5	
Rise of protectionism/slowdown or decrease in world trade		4		1	3	2
Financial turmoil triggered by unanticipated events outside of the U.S.						
Chinese economic slowdown	4	3	3	2	2	
U.S. economic slowdown		2		3		
Japanese economic slowdown						
Slowdown in other Asian countries						
Rise in commodity prices						5
Fall in commodity prices	3	1			4	
Infrastructure issues hinder economic activity			1			5
Economic reform prospects decline	1			5		3
Political instability			3		1	4
Terrorism/other geopolitical risks			2			
(Other)						
-EU problems					5	
-Demonetization						

-The figures show risk rankings for each economy.

-Ranks based on point system: 5 points for No.1 risk cited, 4 points for No. 2 risk, 3 points for No. 3 risk

## ■ Comments on U.S. President Trump's Policies (additional)

✓	We are still awaiting to see what development ... by Trump (Juniman, Maybank Indonesia)
✓	US withdrawal from TPP led to China's aggressive push for Regional Comprehensive Economic Partnership (RCEP), an alternative trade deal which could result in more Asian trade with China. (Suhaimi Ilias, Maybank Investment Bank)
✓	There is still no clear prospect of direction for policy management. (Yuma Tsuchiya, BTMU)
✓	Thailand therefore enjoys the benefit from not losing competitiveness to early joiners such as Malaysia and Vietnam. (Phacharaphot Nuntramas, Siam Commercial Bank EIC)
✓	Lower possibility of passing the tax package by this year. Less action towards trade protectionism measures (Nattaporn Triratanasirikul, Kasikorn Research Institute)
✓	Mr. Trump's unexpected move or unpredictable action on the U.S. economic policy and foreign policy could be key factors dampening market sentiment which may lead to financial market turmoil. (Somprawin Manprasert, Bank of Ayudhya)

## ■ Comments on Economies (additional)

### ➤ Overview, Growth Prospects

Country	Comment
Indonesia	We expect export growth to continue to be strong despite the possibility that Chinese demand may dampen in 2H17. (Arup Raha, CIMB Group)
Malaysia	We upgrade 2017 full-year growth forecast to +5.1% from +4.4% previously, mainly on firmer domestic demand growth as net external demand is expected to be a drag. (Suhaimi Ilias, Maybank Investment Bank)
	The stronger economic growth prospects should lead to a gradual improvement in the employment market in the period ahead. (Lim Chee Sing, RHB Research Institute)
Philippines	The economy is adjusting with the focus on infrastructure investments. (Alvin Ang, Ateneo de Manila University)
	GDP growth is expected to accelerate in line with increasing infrastructure spending and household spending on the back of tax reforms. (Angelo Taningco, Security Bank)
Singapore	2017 will be a better year due to export strength; however, the Singapore economy will remain constrained by structural considerations such as lacklustre productivity growth and a rising cost structure. (Manu Bhaskaran, Centennial Asia)
	GDP growth is being driven by very robust growth in semiconductor-related segments of manufacturing. This is helping to mask weakness of the broader economy. (Euben Paracuelles, Nomura)
	However, we believe momentum has peaked and expect growth to slow in the coming quarters. (Edward Lee, Standard Chartered)

Thailand	It is easily to find jobs in informal sector. Also, workers could freely move from agriculture to manufacturing sectors during off-season, and vice versa. (Thammarat Kittisiripat, KT ZMICO Securities)
India	We'll see near term slowdown in Q2 because of GST implementation, but from Nov 17 onward, base effect help growth above 8%. (Kentaro Konishi, Daiwa Capital Markets India)
	My overall impression is that substantial number of jobs is being created in the start-ups and new ventures that are being facilitated by the government. Infrastructure development is also providing solid conditions for job expansion. (Rajiv Kumar, Pahle India Foundation)

### Markets, Inflation

Country	Comment
Indonesia	Most of the inflationary pressure is cost-push due to rising global commodity prices but we expect prices to taper off this year. (Arup Raha, CIMB Group)
	Uncertainty over the pace of U.S. policy normalization has led BI to take a more cautious stance. (Edward Lee, Standard Chartered Bank)
Malaysia	Policy rate, however, would likely to be raised next year as growth outlook improves. (Lim Chee Sing, RHB Research Institute)
	Our bullish ringgit outlook also stems from the belief that improving fundamentals are increasingly outweighing the risk of further U.S. rate hikes or lack thereof. (Wan Suhaimie Wan Mohd Saidie, Kenanga IB)
Philippines	Prices are rising within the higher limit of the Central Bank because of adjustments in food prices. (Alvin Ang, Ateneo de Manila University)
Singapore	The expected rise in interest rates appears to be under way, albeit at a much slower pace than had earlier been anticipated. (Randolph Tan, SUSS)
Thailand	No need to hike the rate with the economy exhibiting slow growth and inflation below the central bank target. (Phacharaphot Nuntramas, Siam Commercial Bank EIC)
India	Greater inflow of foreign capital will keep Rupee relatively appreciated vis a vis Dollar. (Rajiv Kumar, Pahle India Foundation)

### ➤ Risk, Structural Issues

Country	Comment
Indonesia	The latest development of oil price, which is already below USD50 per barrel, may trigger other commodity prices lower, such as, crude palm oil, coal, and rubber. This commodity price movement increases risks for Indonesia because Indonesia is very dependent on commodity sector. (Dendi Ramdani, Bank Mandiri)
Malaysia	A further hit could come to growth if oil-related revenues disappoint and therefore force the government's hand into curtailing operating expenditures. (Arup Taha, CIMB Group)
Philippines	Infrastructure investment is likely to be a swing factor (Edward Lee, Standard Chartered Bank)

Singapore	The risk of structural unemployment from technological and industrial change is rising. (Euben Paracuelles, Nomura)
	The restructuring of the economy is still a major challenge, although there are signs that the strategy of moving away from excessive reliance on foreign manpower is beginning to gain traction. (Randolph Tan, SUSS)
Thailand	Recent THB/USD appreciation has raised concerns from the Thai exporters on their price competitiveness. (Nattaporn Triratanasirikul, Ksikorn Research Institute)
India	GST is likely to be a game-changer as it is a significant improvement on the current system. (Dharmakirti Joshi, CRISIL)
	[GST will bring] positive impact on reduction in transactions cost (Rajiv Kumar, Pahle India Foundation)
	Over a medium term we expect a positive impact [from GST] on growth (Anubhuti Sahay, Standard Chartered Bank)
	We would not rule out delays of up to two years in terms of reaching full-scale implementation of the GST across the country. (Tirthankar Patnaik, Mizuho Bank Limited)

These are additional comments on the table in pages 10 -12 of the report.  
See the list of survey respondents in page 25 of the report for official names and titles.



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