

'PERIPHERAL ASIA'

PRESENTATION TO THE INTERNATIONAL CONFERENCE OF
COMMERCIAL BANK ECONOMISTS (ICCBE)

7TH JULY 2021

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CORINNA ECONOMIC ADVISORY

'Peripheral Asia' is Korea, Taiwan, Hong Kong, Singapore, Indonesia, Thailand, the Philippines, Malaysia, Vietnam, Myanmar, Cambodia, Laos, India, Australia, and New Zealand

2.2 bn people (30.5% of world total) (2020)

GDP of US\$25.1 trn at PPPs (17.7% of world total) (2020)

Merchandise exports of US\$3.5 trn (18.2% of world total) (2019)

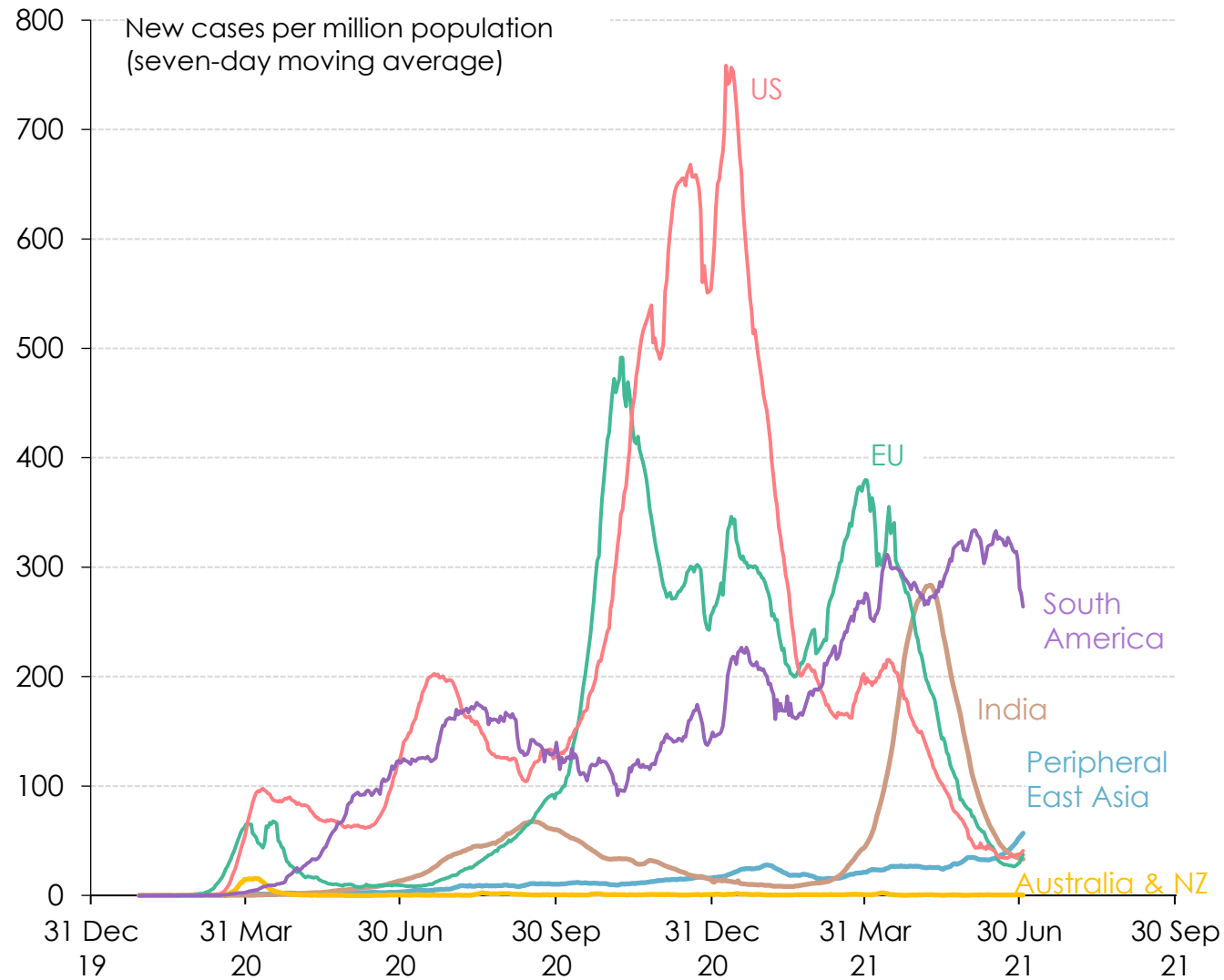
Services exports of US\$1.0 trn (16.1% of world total) (2019)

FX reserves of US\$ 2.6 trn (19.3% of world total) (Mar 2021)

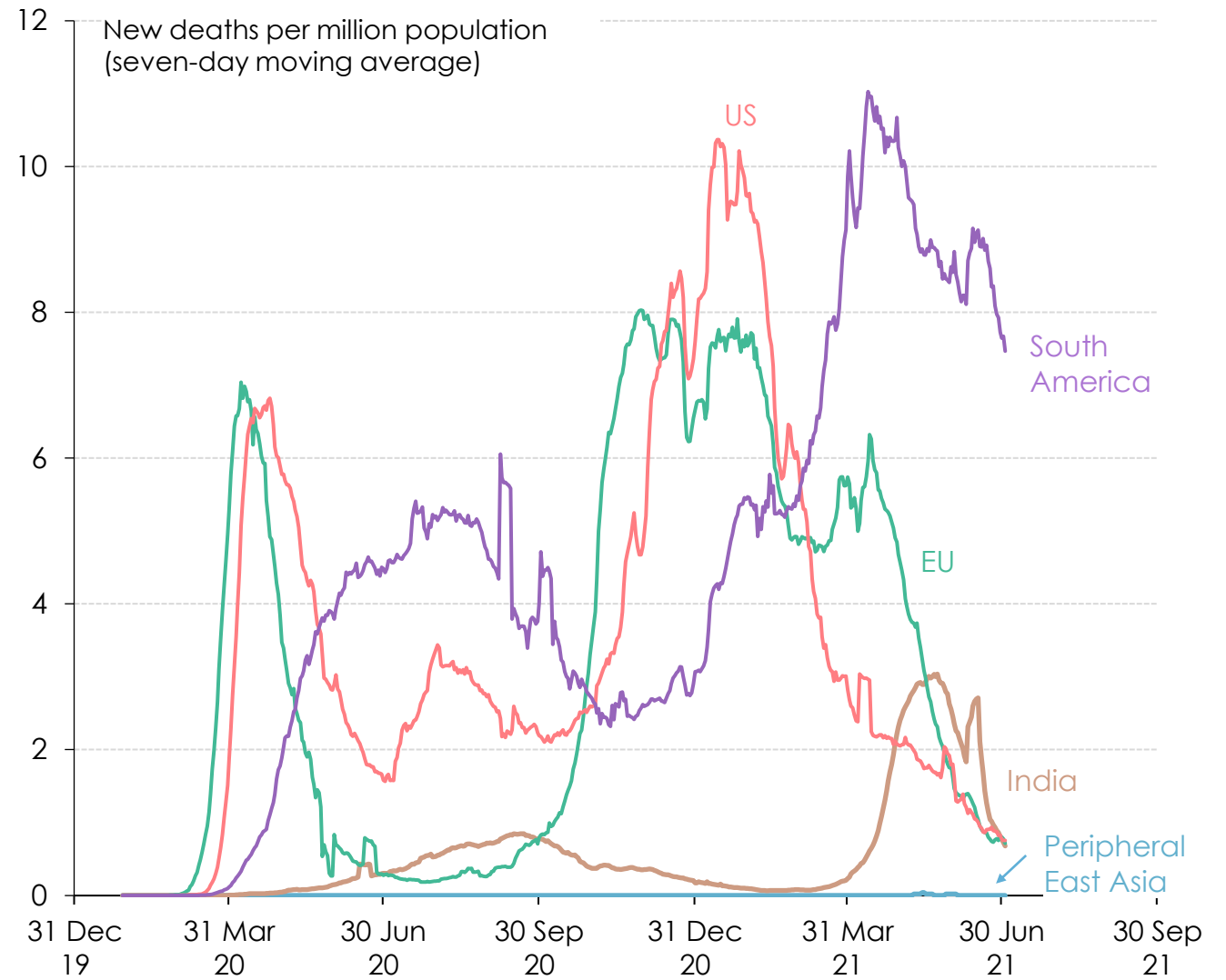
US\$21 trn of non-financial sector debt (9.5% of world total) (Mar 2021)

'Peripheral Asia' (as a region) has been more successful than most at suppressing the virus

New Covid-19 infections per million population



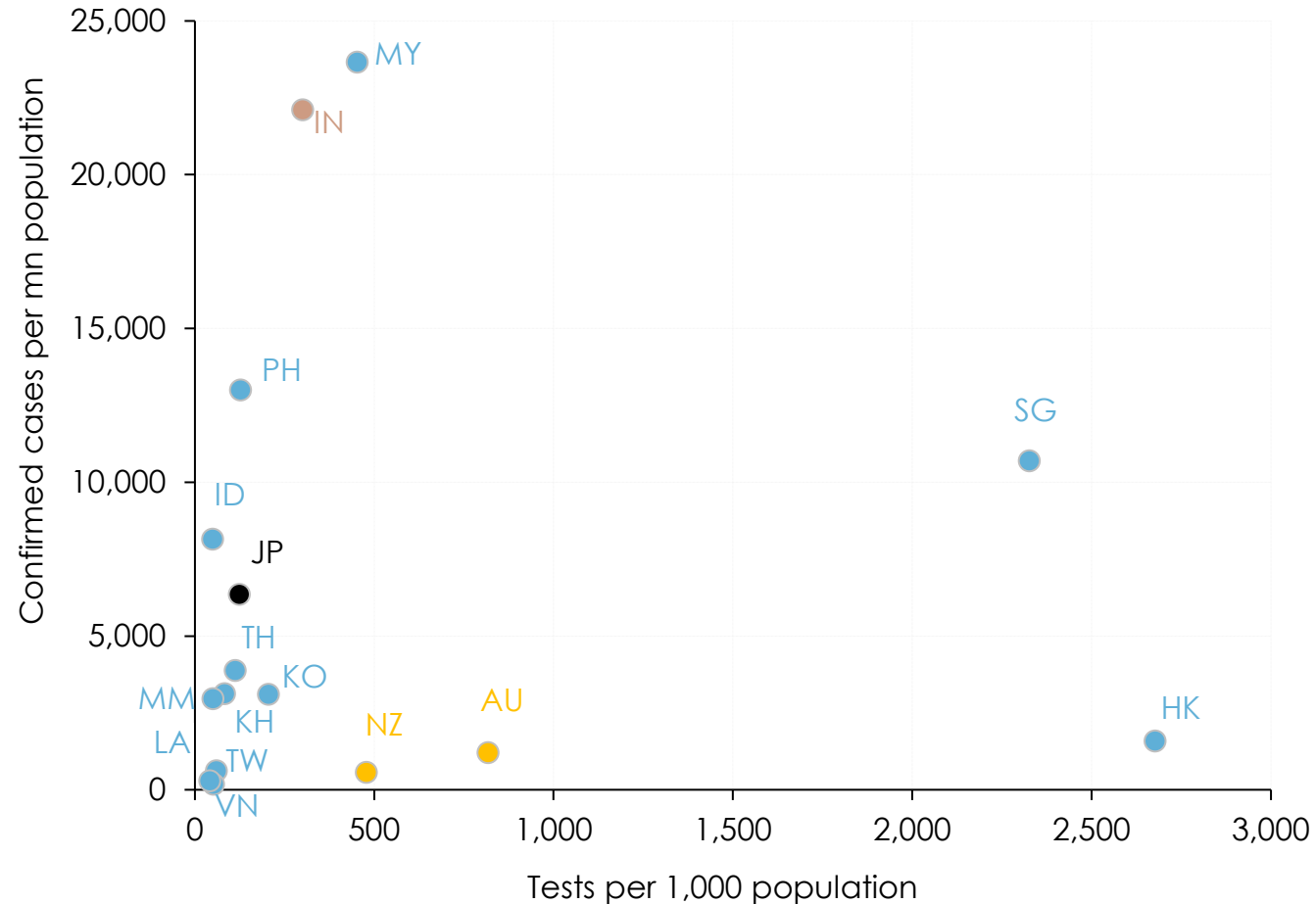
New Covid-19-related deaths per million population



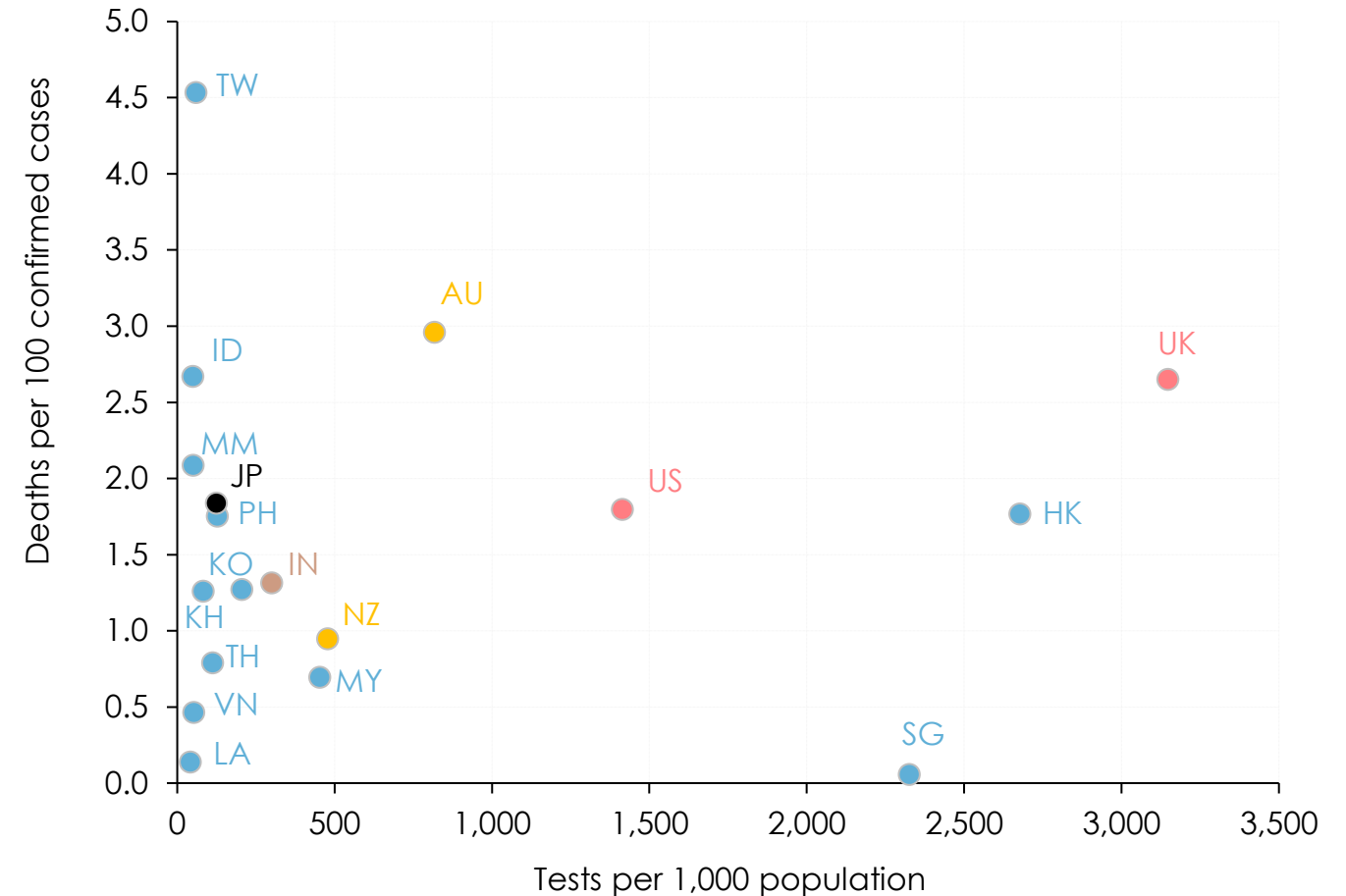
Note: Data up to 2nd July. Source: University of Oxford, [Our World in Data](#); Corinna.

It seems plausible that, in a number of Asian countries, actual infection rates are higher than those suggested by confirmed case numbers

Testing and apparent infection rates



Testing and apparent death rates



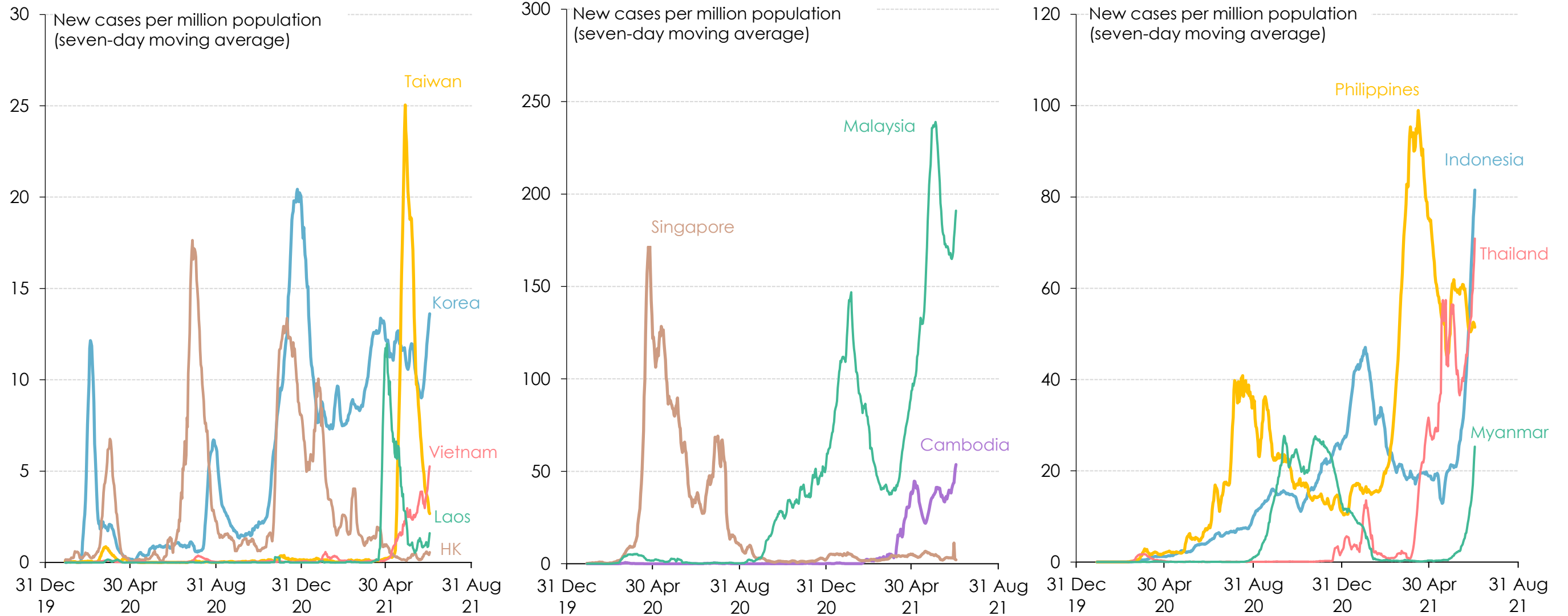
❑ Apparently low infection rates (confirmed cases per mn population) may in fact reflect relatively low rates of testing ...

❑ ... especially if accompanied by relatively high apparent death rates (which *prima facie* suggest tests are only picking up the most serious cases)

Note: Data up to 2nd July. Source: University of Oxford, [Our World in Data](#); Corinna.

In general, the richer and/or more authoritarian countries were better at 'suppression' than the poorer, larger and less well-governed ones

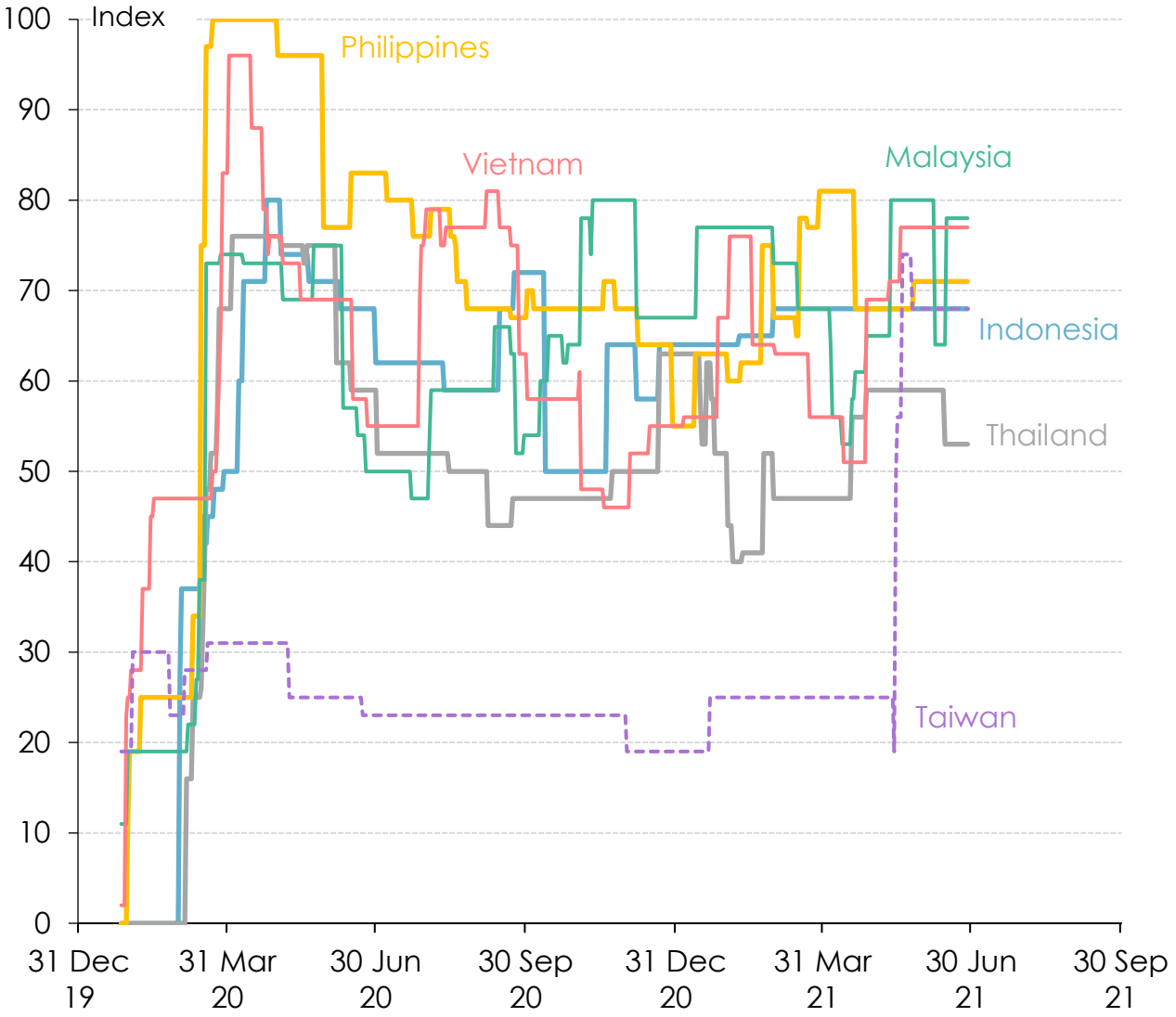
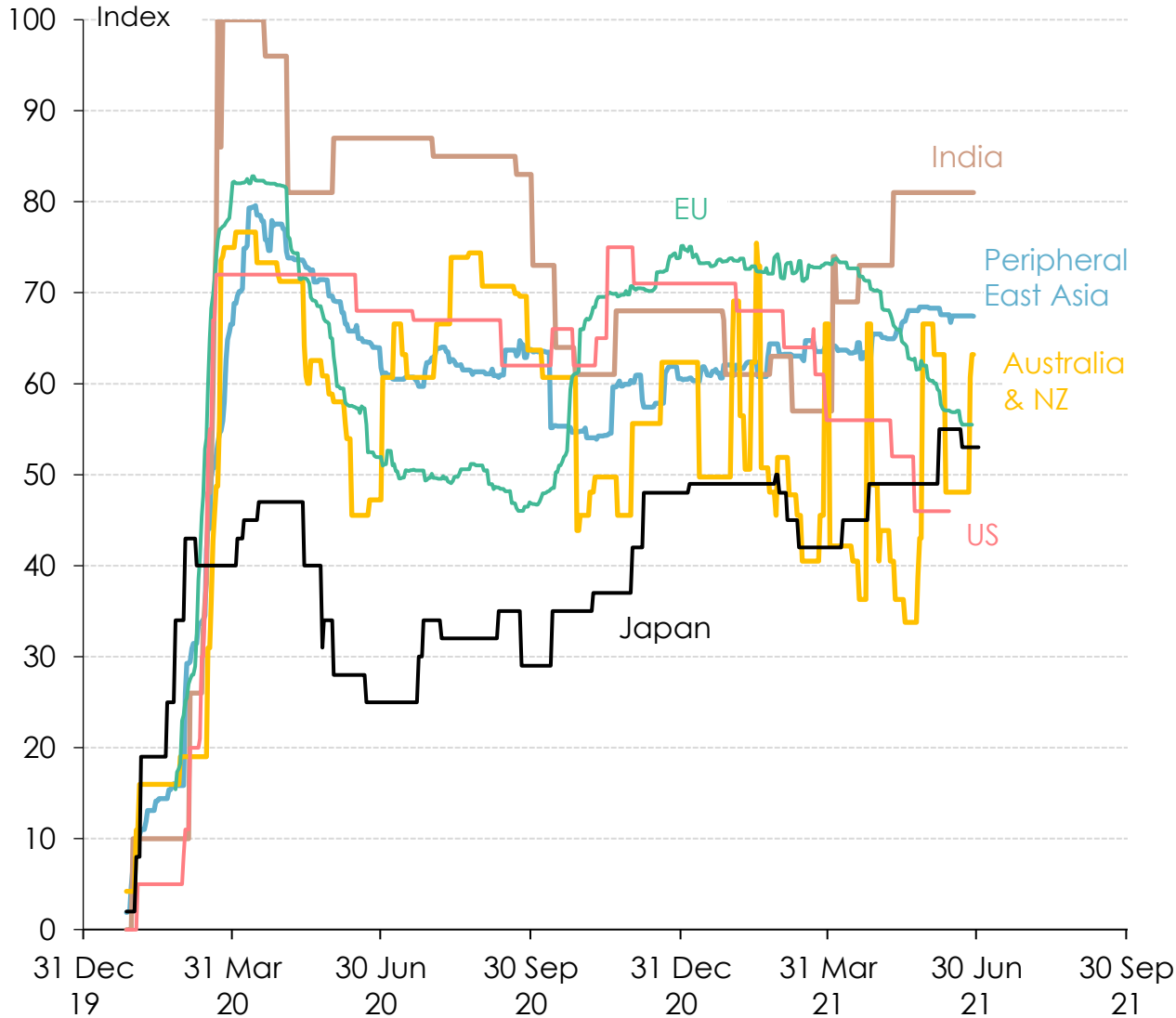
New cases per mn population – 'peripheral' Asian economies



Note: Data up to 2nd July. Source: University of Oxford, [Our World in Data](#); Corinna.

Suppression was in most cases (other than Taiwan) achieved through very stringent restrictions, introduced sooner than elsewhere

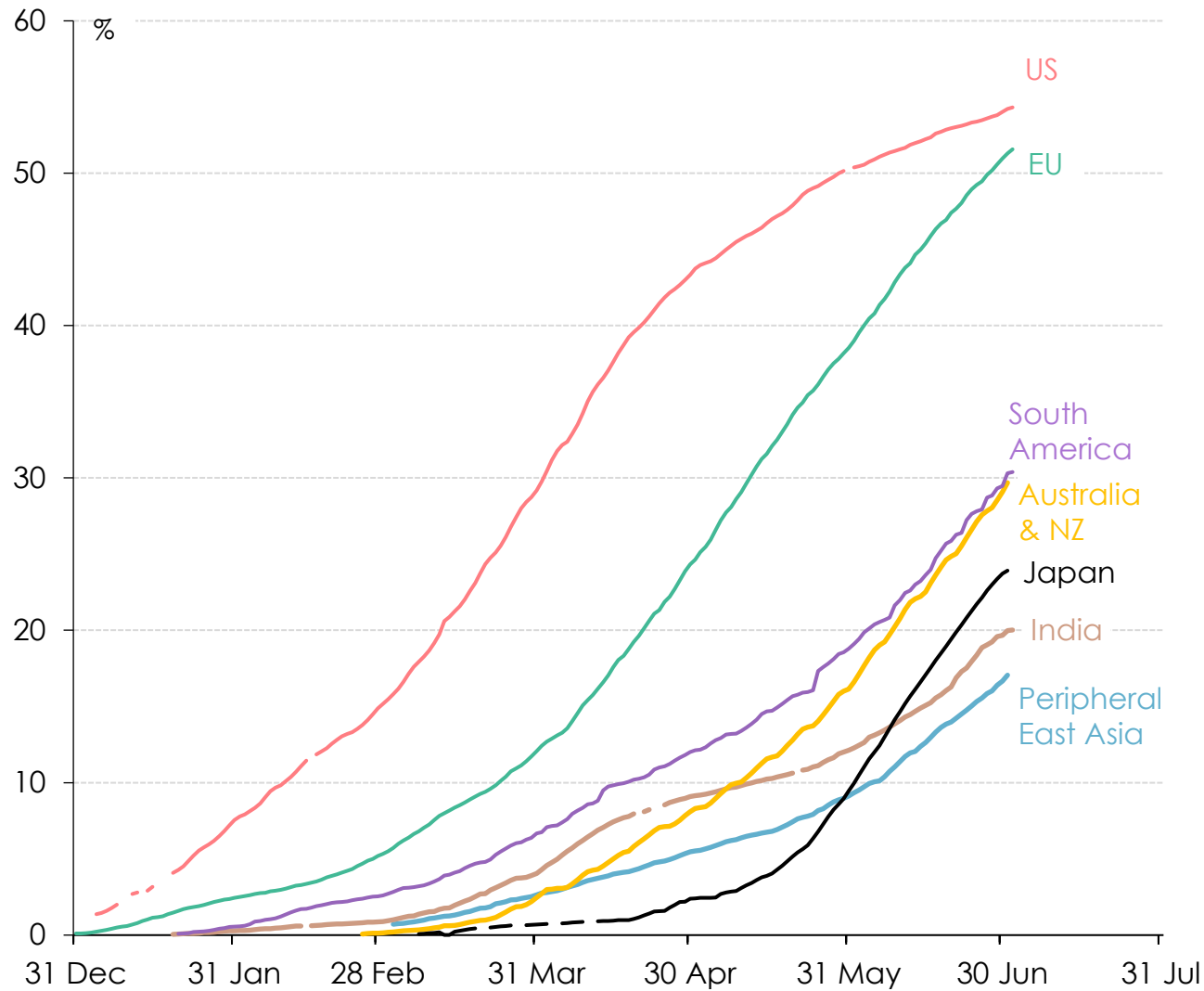
Oxford stringency index



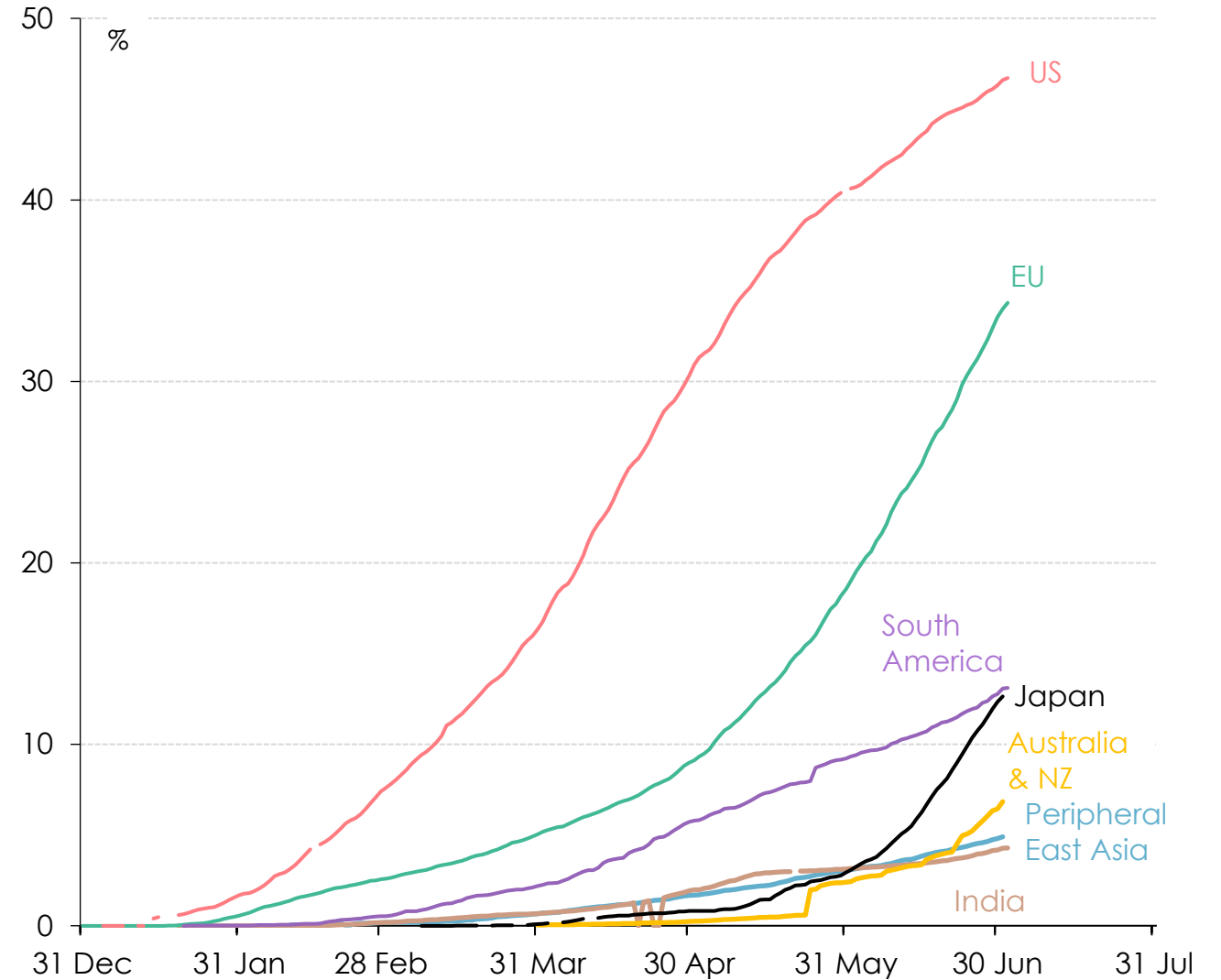
Note: 'Peripheral' Asia and EU indices are population-weighted averages of indices for individual countries. Data up to 2nd July.
 Source: University of Oxford, [Our World in Data](#); Corinna.

However, 'peripheral Asia' has (with the exception of Singapore) *not* done well at vaccinations

Percentage of population with at least one shot



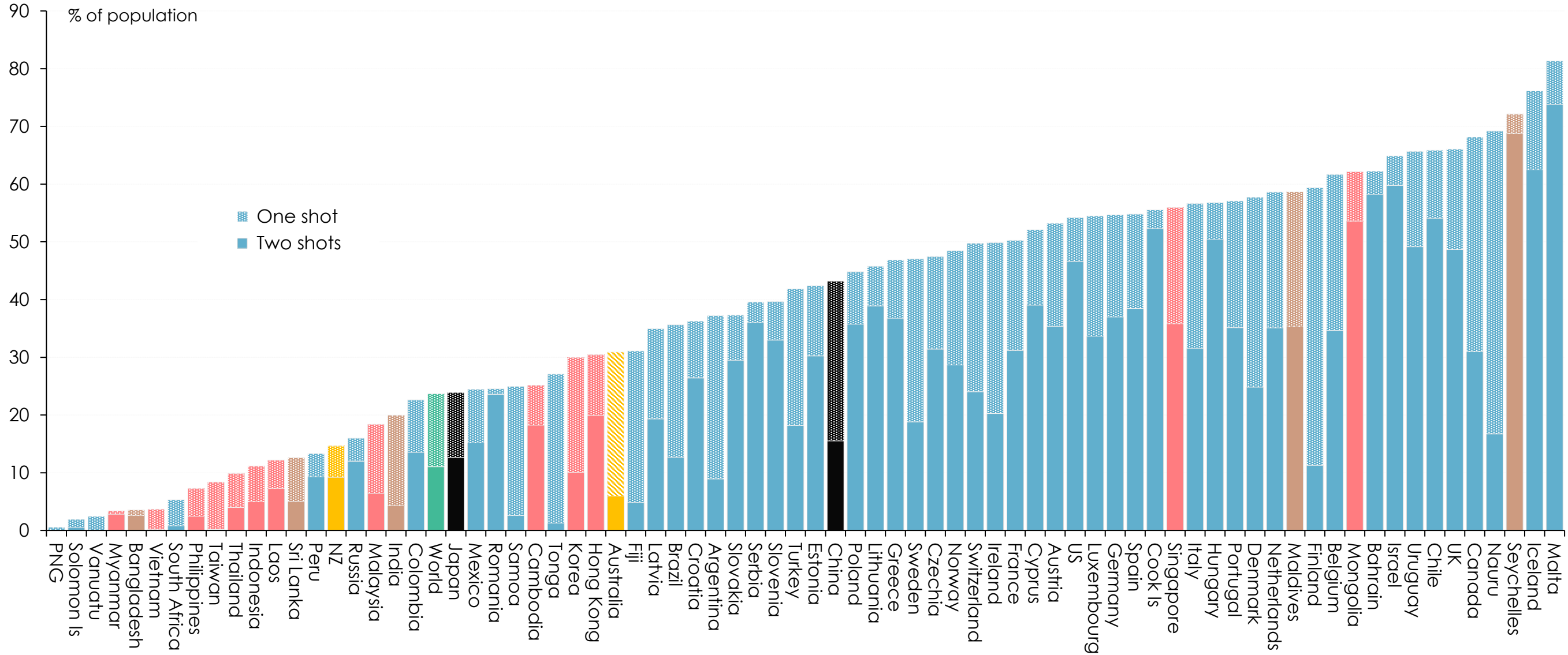
Percentage of population fully vaccinated



Note: 'Peripheral Asia' in the above charts excludes Myanmar. 'Missing' data for individual countries has been interpolated in order to construct the 'Peripheral East Asia' totals. Data up to 2nd July. Source: University of Oxford, [Our World in Data](#); Corinna.

Singapore and Mongolia are the only Asian economies to have vaccinated more than 50% of their populations as of end-June/early July

Percentage of population who have had at least one vaccination shot as at 28th June – 1st July

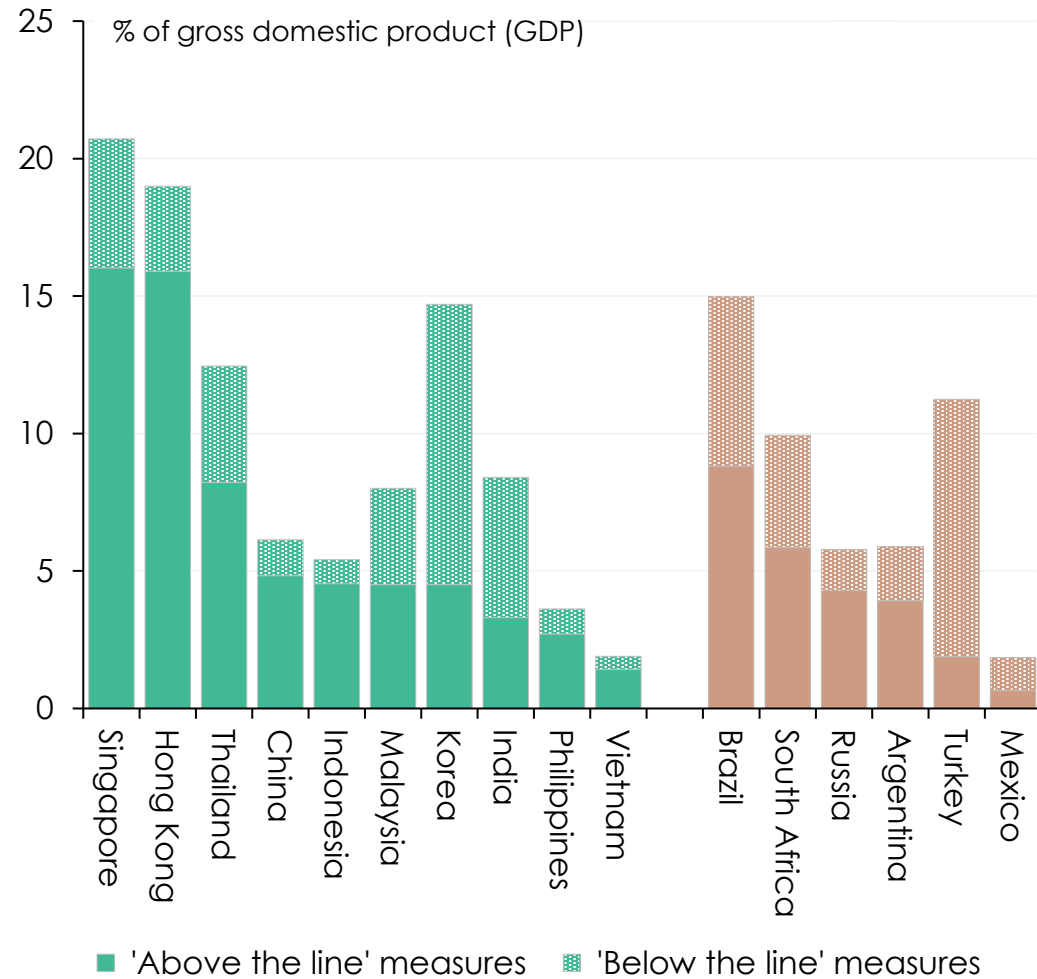


Note: Data for China is 10th June; Serbia 20th June; Vanuatu 21st June. In some cases (including Denmark, Finland and Switzerland) data for the proportion of the population who are fully vaccinated is a few days older than that for the proportion who have had one shot. Sources: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#); [covid19data.com.au](#).

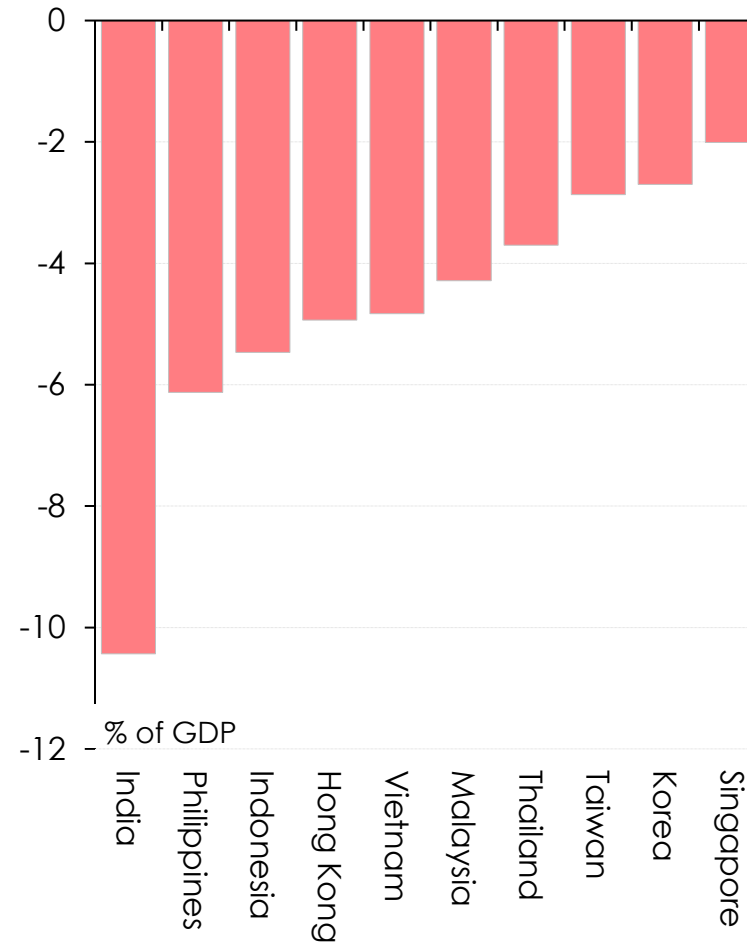
The 'smaller' economies of East Asia

Apart from Singapore, Hong Kong and Thailand, Asian governments' discretionary fiscal responses to Covid-19 have been relatively modest

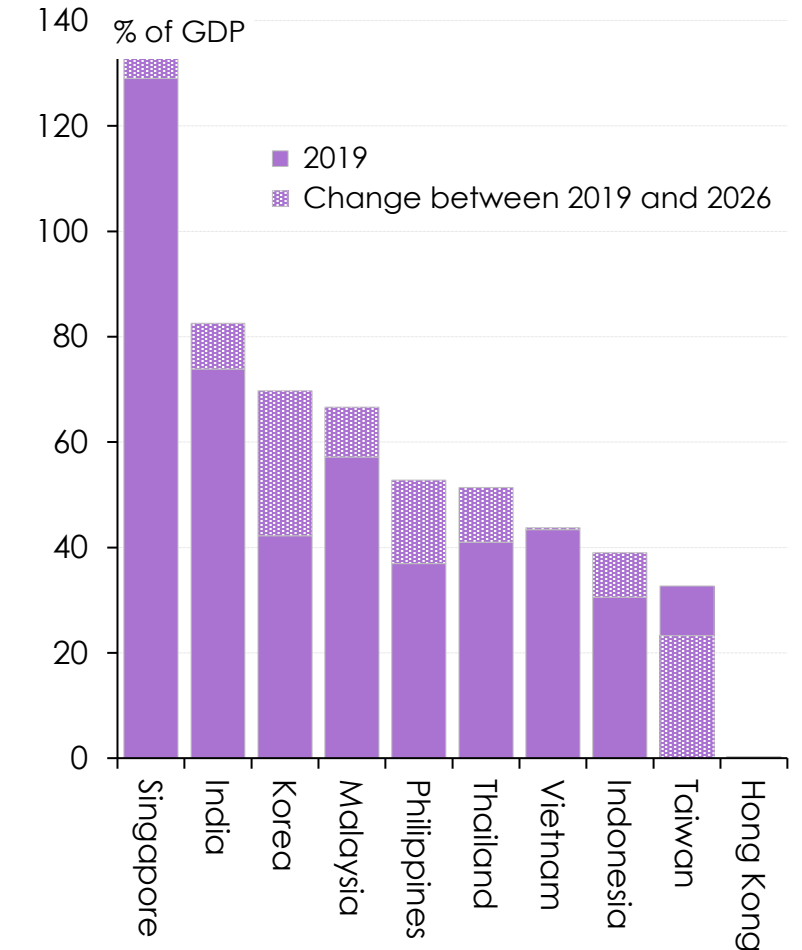
Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



Budget balances – Asian economies 2020-2022



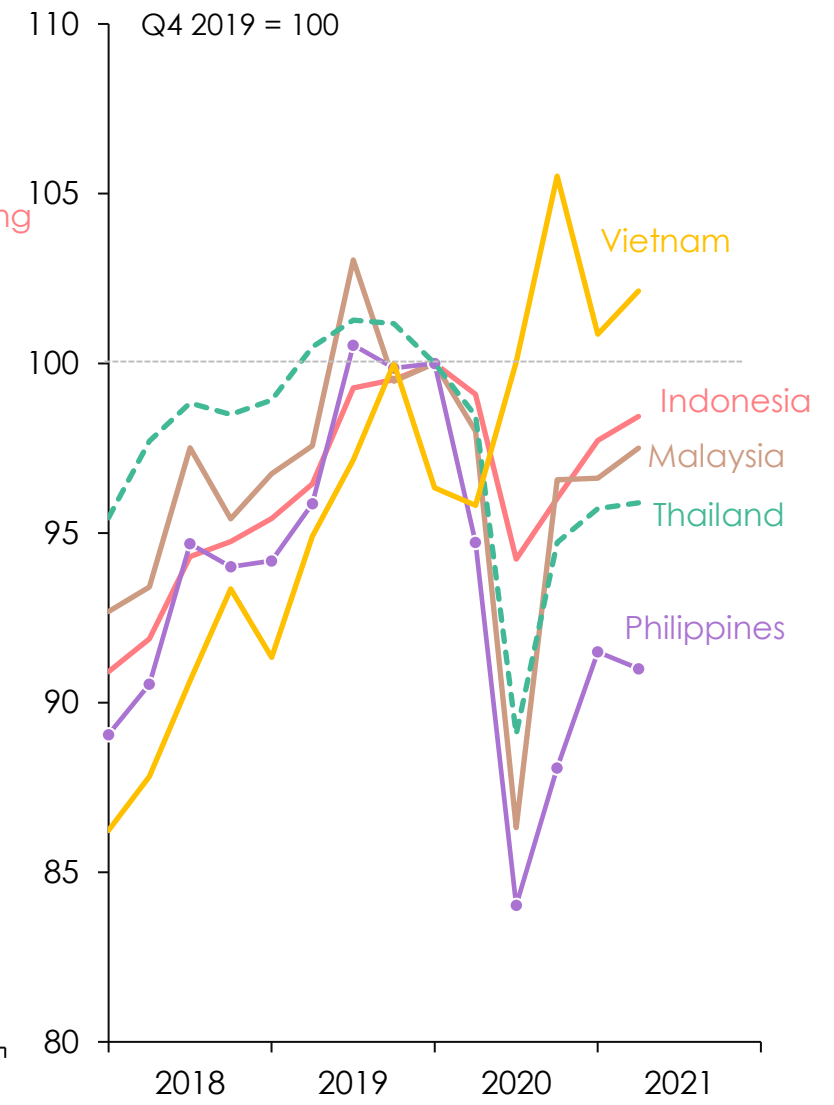
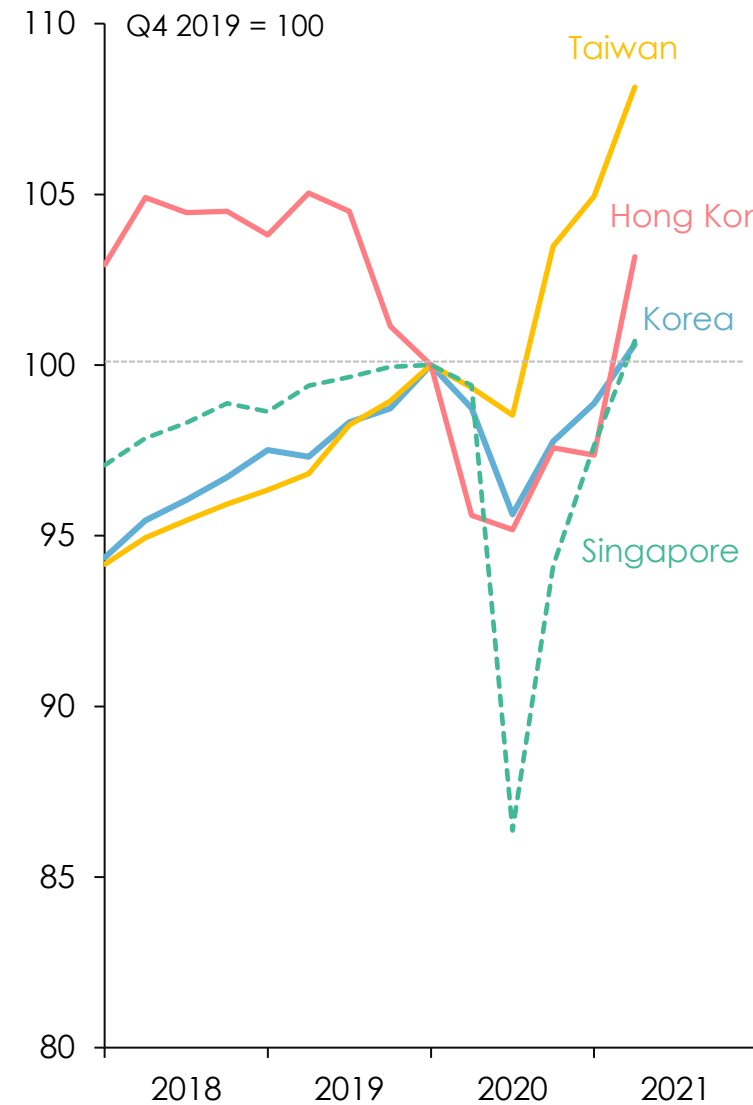
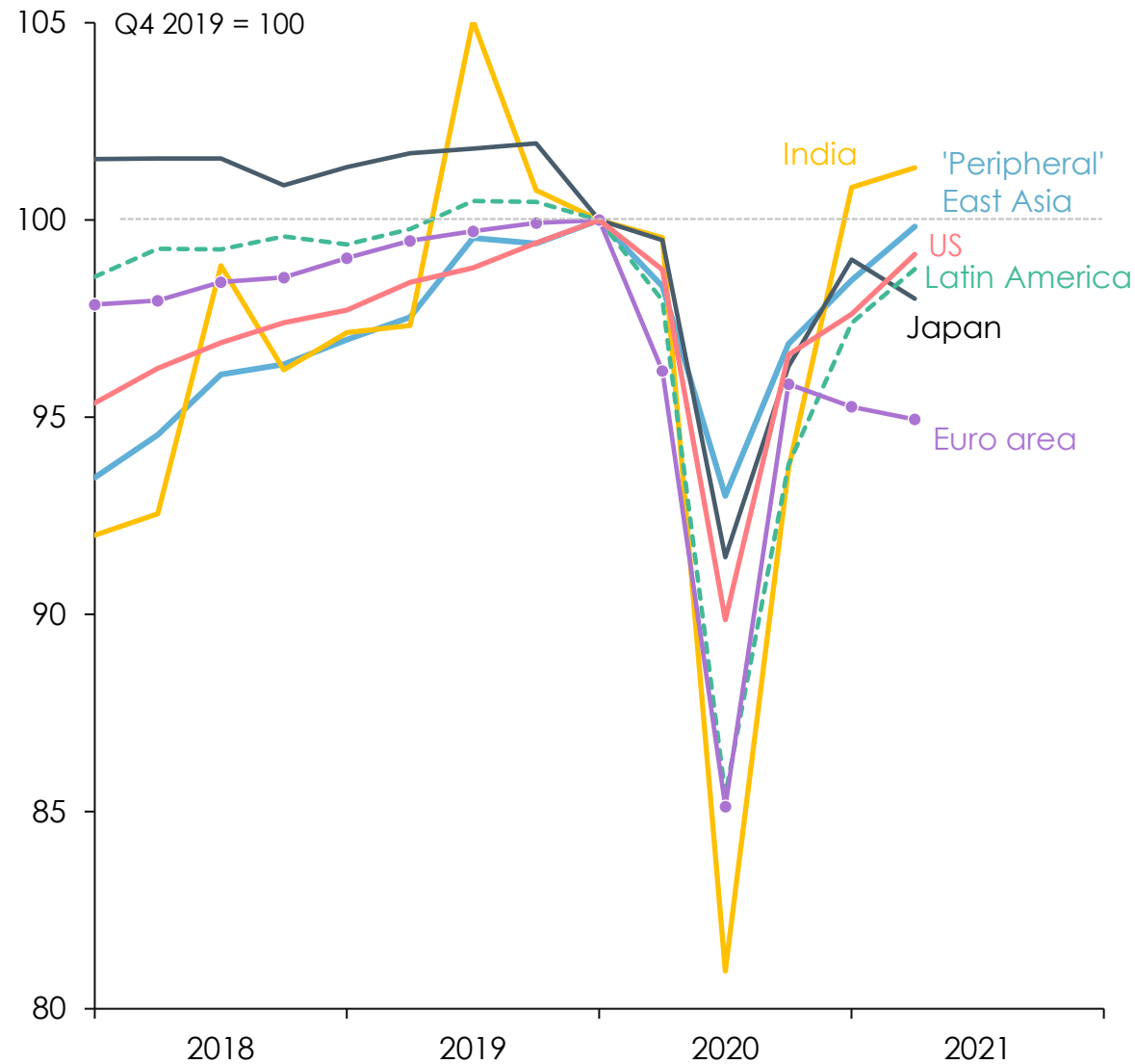
Gross government debt – Asian economies 2019-26



Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMS' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 17th March 2021. Singapore's apparently very large gross debt is offset by substantial financial asset holdings. Taiwan's gross debt is projected to decline as a percentage of GDP between 2019 and 2026. Sources: IMF, [Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic](#) and [Fiscal Monitor](#), April 2021.

'Peripheral Asia' and India have had stronger economic recoveries than other regions (with the exception of China)

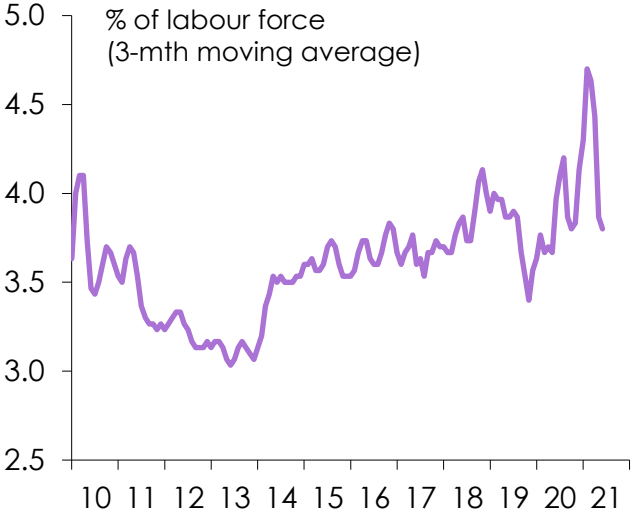
Level of real GDP (indexed to Q1 2020 = 100)



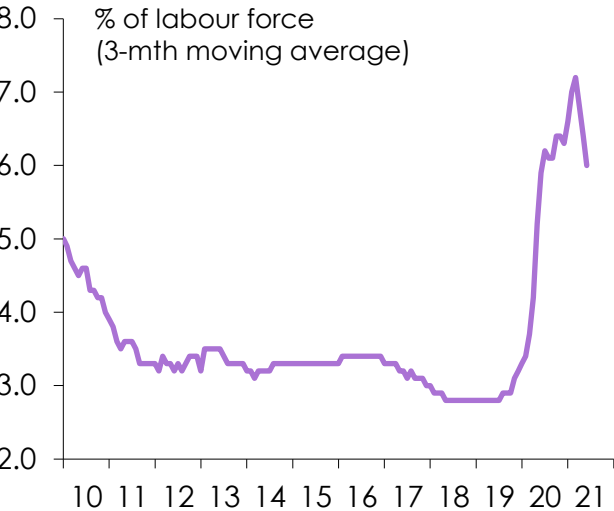
Source: Refinitiv Datastream (Refinitiv Comparable Economics); Corinna. Note: RCE estimates for Vietnam for Q1 and Q2 2021 have been adjusted by Corinna to conform to the y-o-y growth rates reported by the General Statistics Office of Vietnam.

Unemployment rose sharply in most Asian economies last year (except for Taiwan and Thailand) but is now falling in most of them

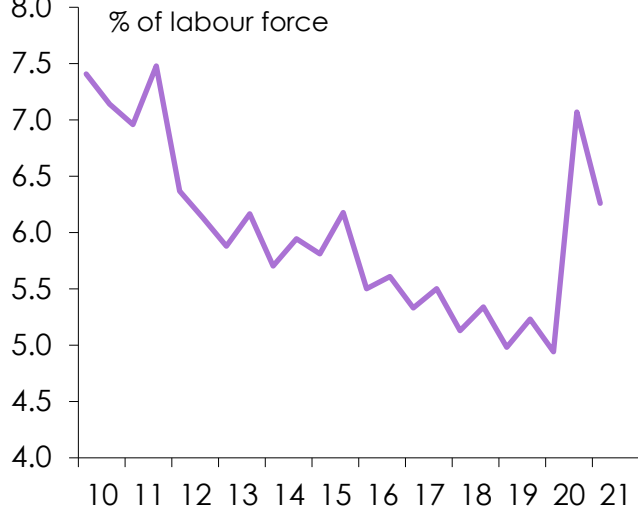
Korea



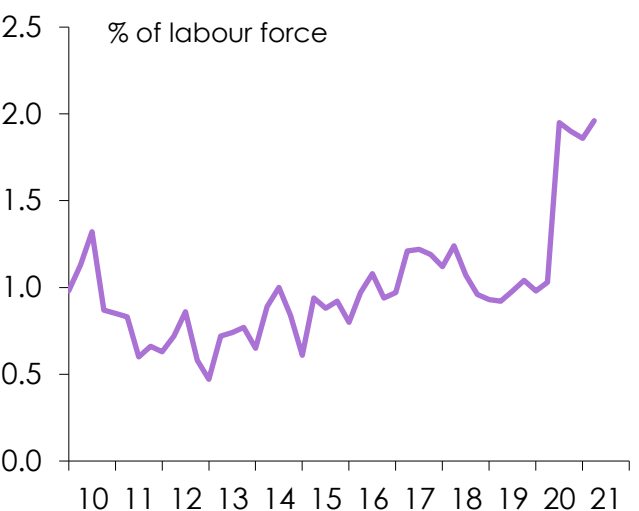
Hong Kong



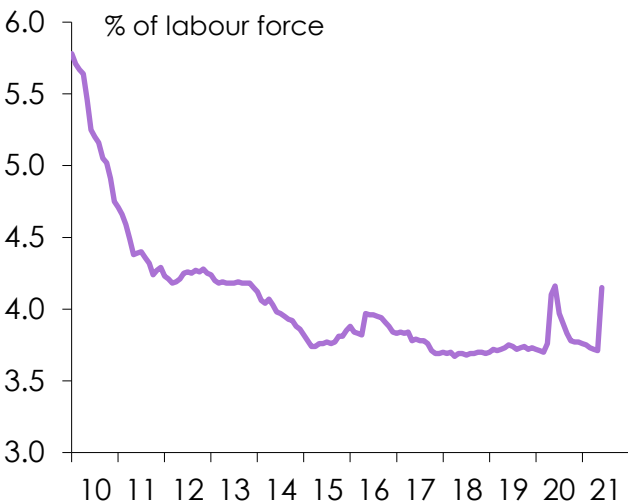
Indonesia



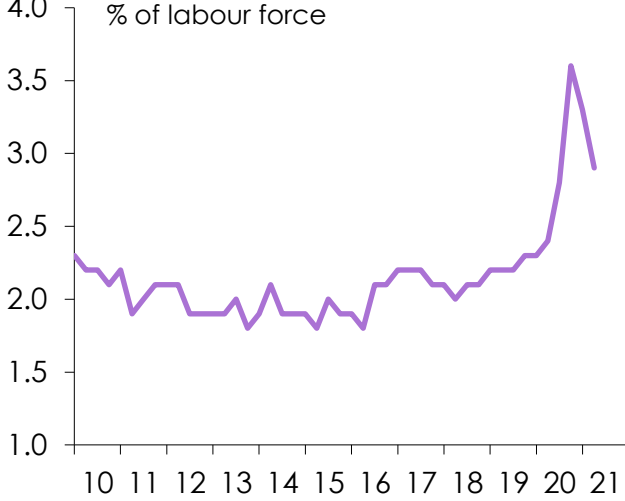
Thailand



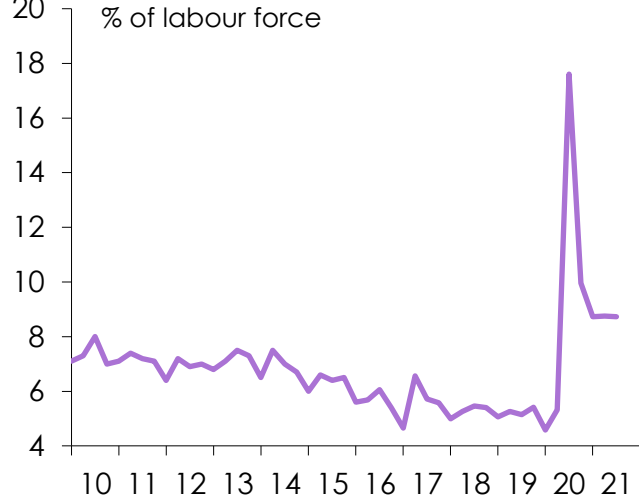
Taiwan



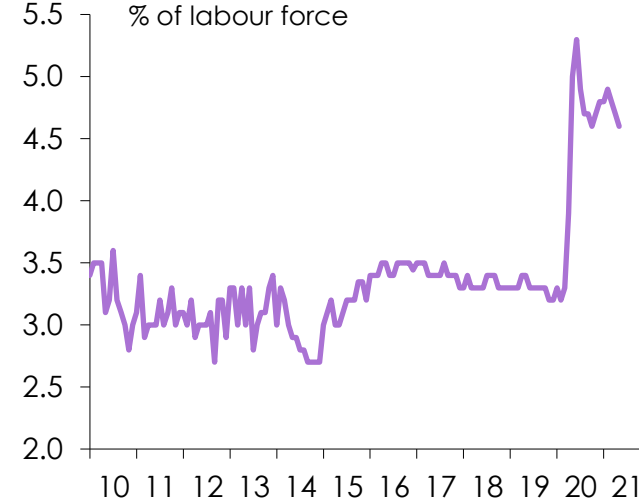
Singapore



Philippines



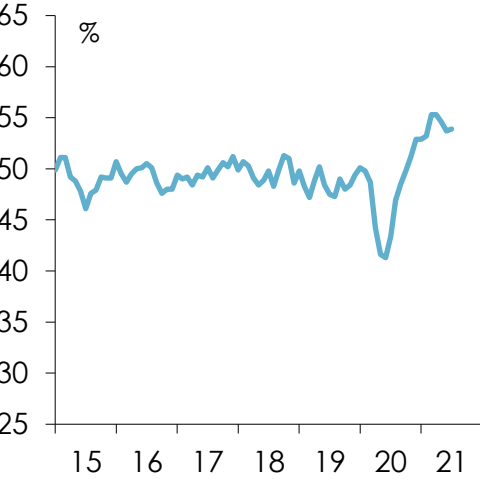
Malaysia



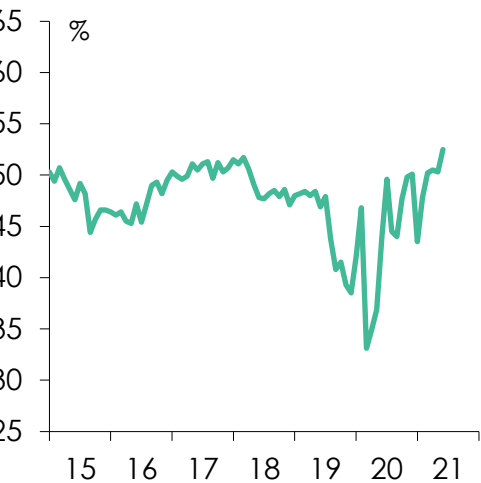
Note: Unemployment data is published monthly in Korea, Taiwan, Hong Kong, Thailand and Malaysia; quarterly in Singapore and the Philippines; and semi-annually (February and August) in Indonesia. Sources: national statistical agencies.

PMIs for June show the impact of renewed virus outbreaks on manufacturing activity in Taiwan, Malaysia and Vietnam

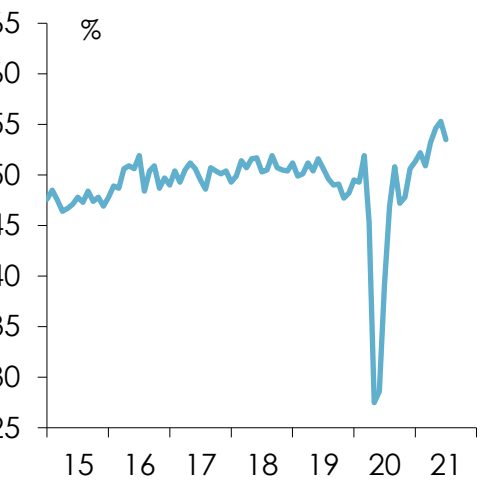
Korea



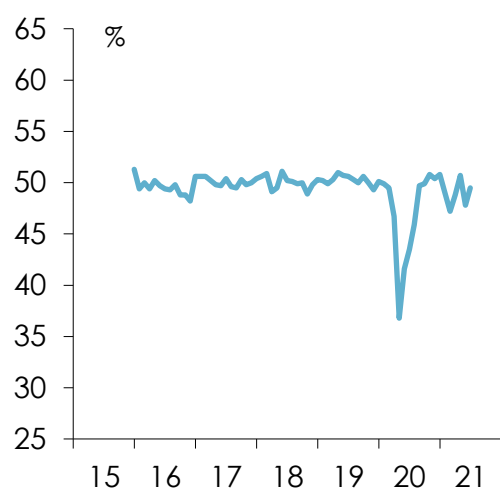
Hong Kong



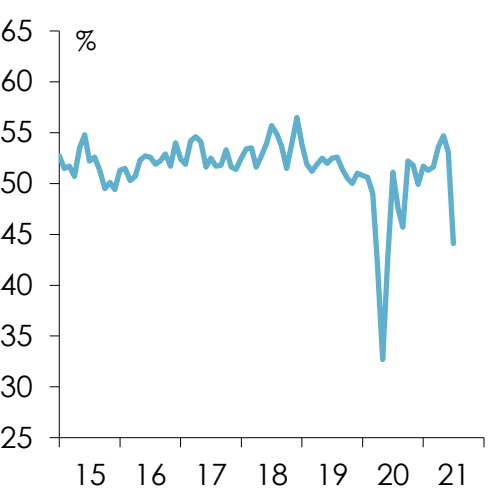
Indonesia



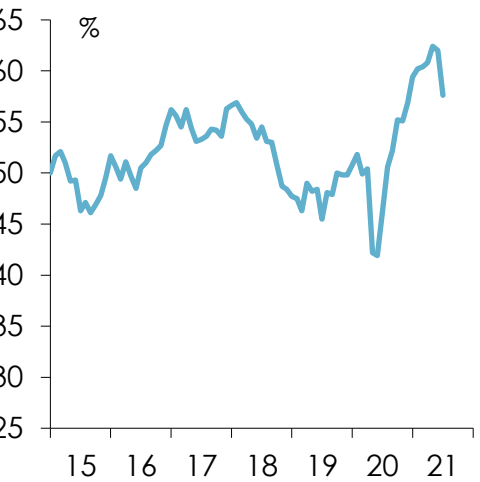
Thailand



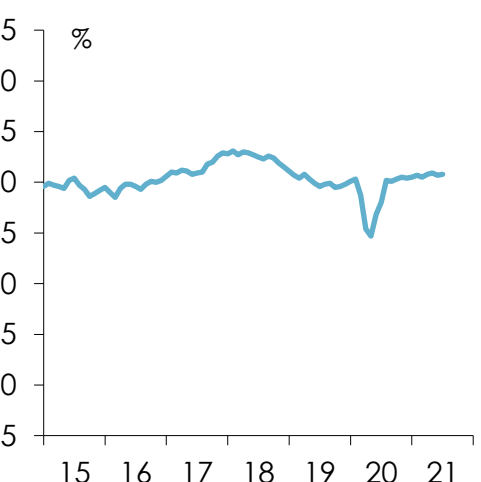
Vietnam



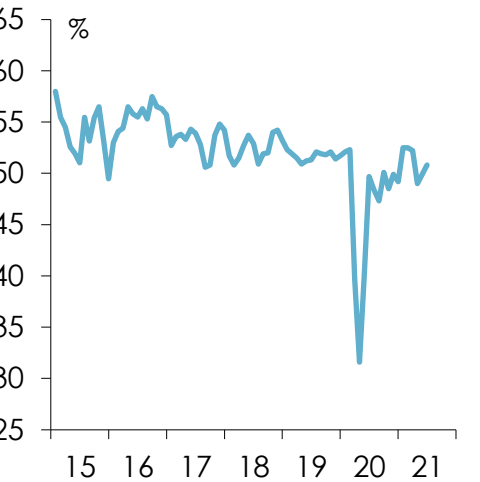
Taiwan



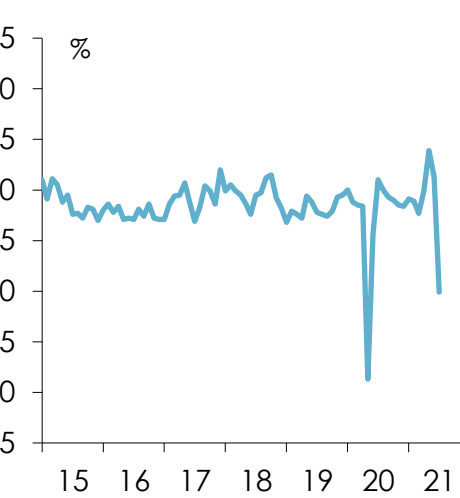
Singapore



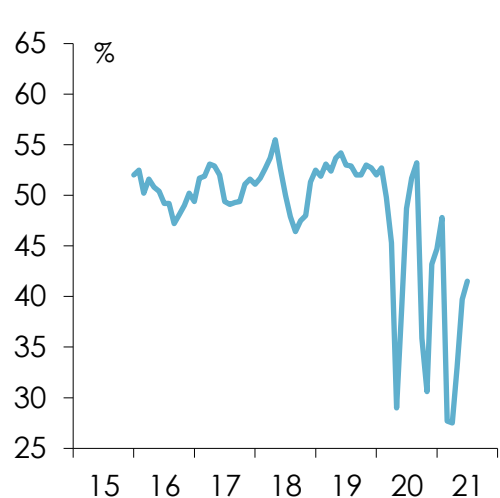
Philippines



Malaysia



Myanmar

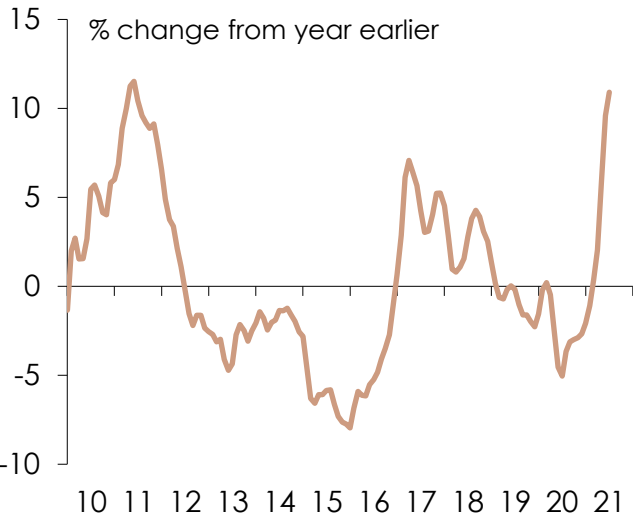


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Hong Kong data is "whole economy". Latest data are for June.

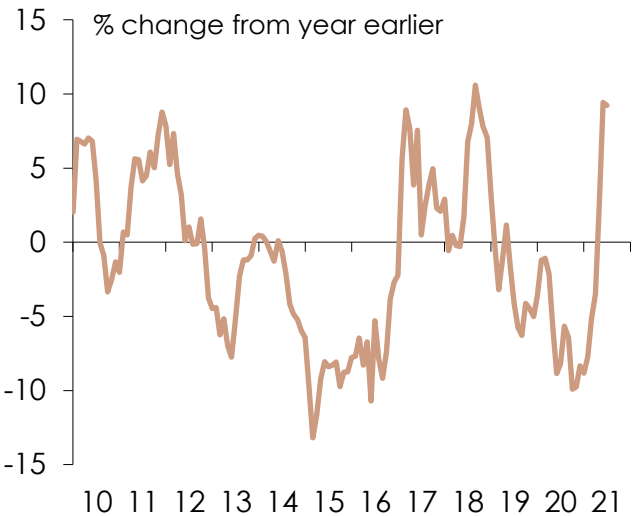
Sources: [IHS Markit](#); [Singapore Institute of Purchasing and Materials Management](#); Refinitiv Datastream.

Manufacturing-oriented 'peripheral' East Asian economies are seeing the same 'upstream' PPI inflation pressures as in 'advanced' economies ...

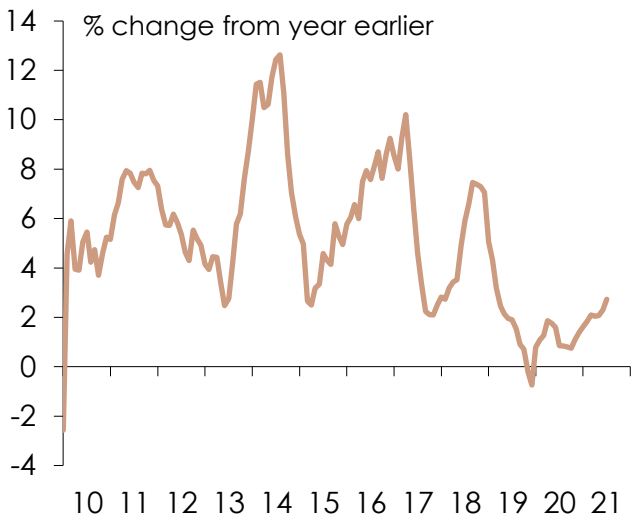
Korea



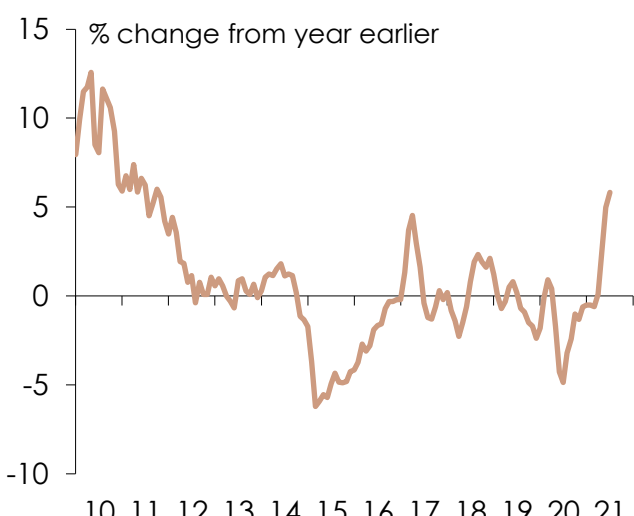
Singapore



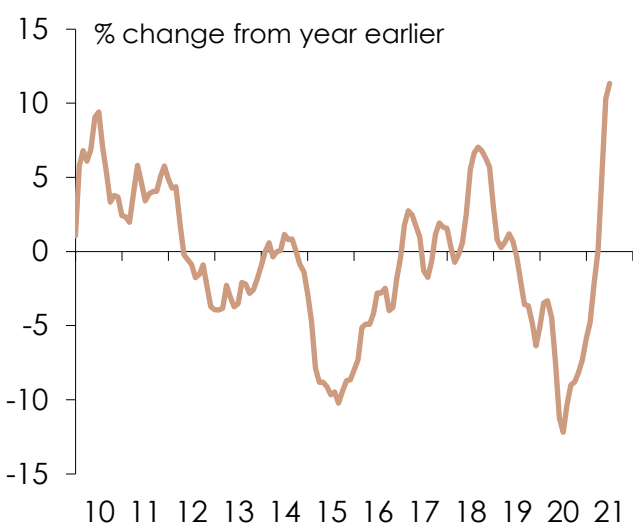
Indonesia



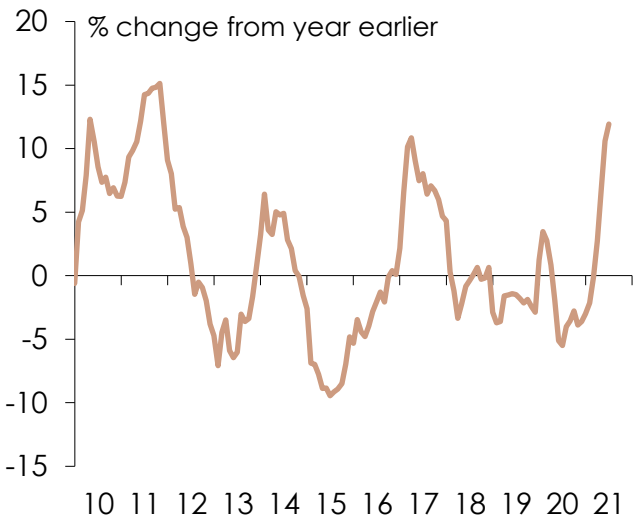
Thailand



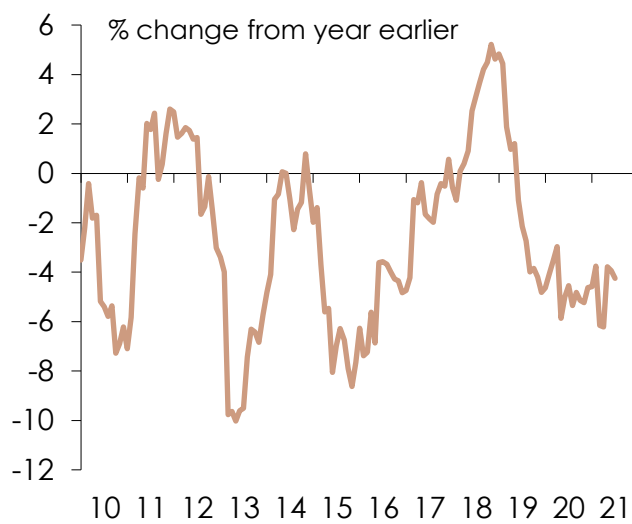
Taiwan



Malaysia

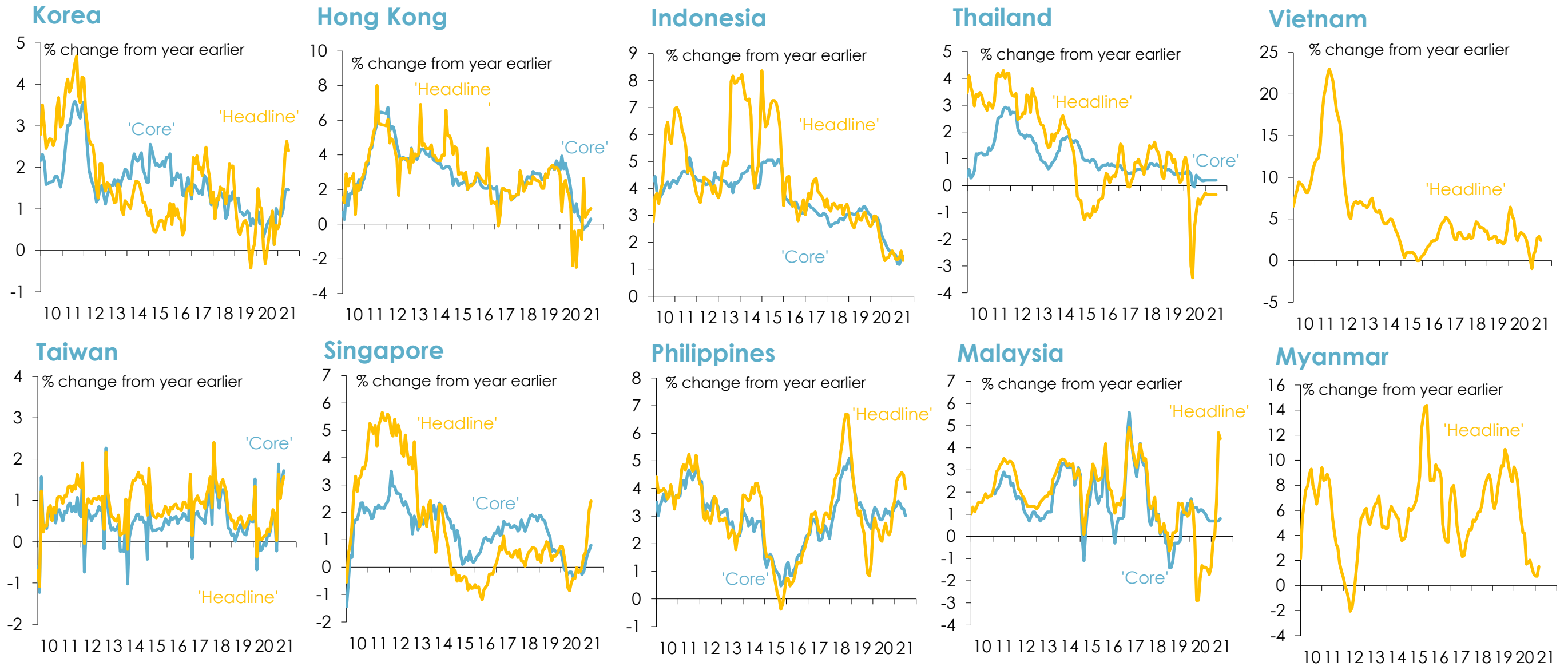


Philippines



Sources: national statistical agencies.

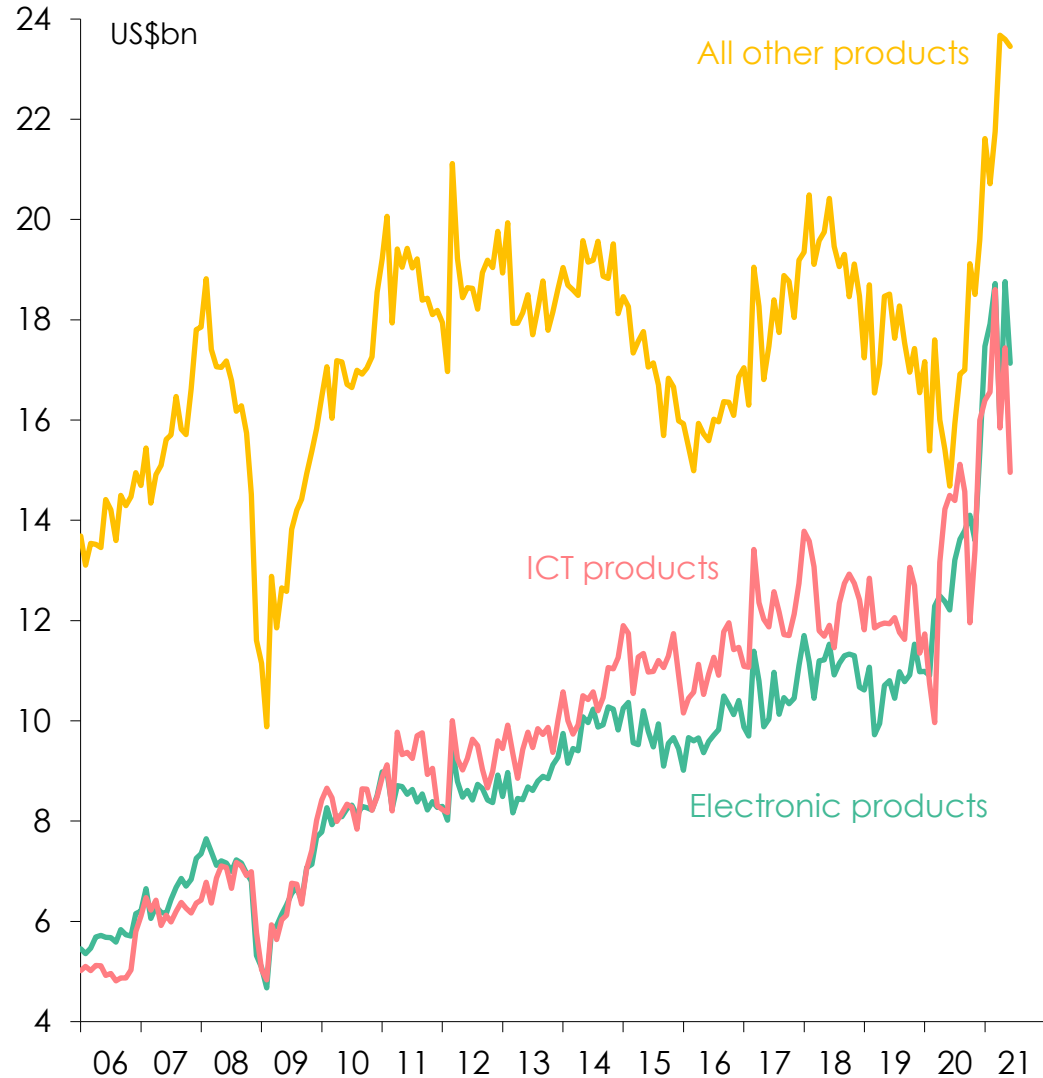
... but while this is also showing up in 'headline' CPI inflation, so far there is very little evidence of a pick-up in 'core' inflation



Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia excludes 'volatile foods' and changes in 'administered prices' (such as fuel subsidies, transport fares and electricity prices); in the Philippines it excludes rice, corn, meat, fish, cultivated vegetables and fuels; in Thailand it excludes fresh or raw food and energy; and in Malaysia it excludes fresh food and 'administered' prices. Vietnam and Myanmar do not publish measures of 'core' inflation. Sources: national statistical agencies and central banks.

Taiwan's worst drought in over fifty years is a major factor in the surge in prices of semi-conductor chips (and things which use them)

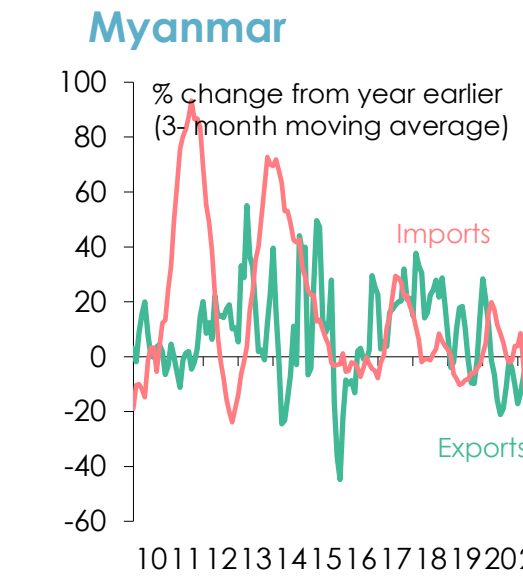
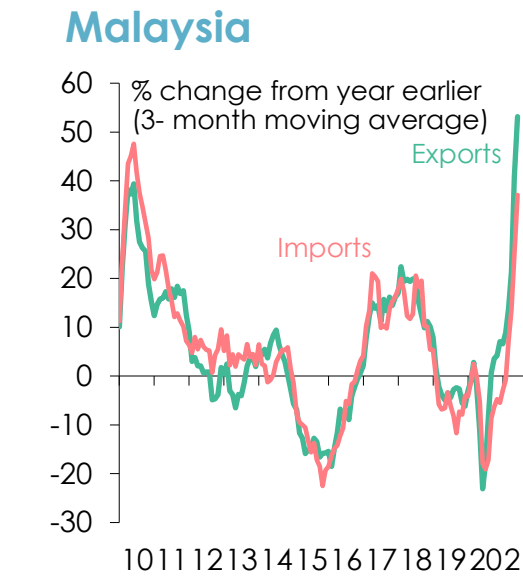
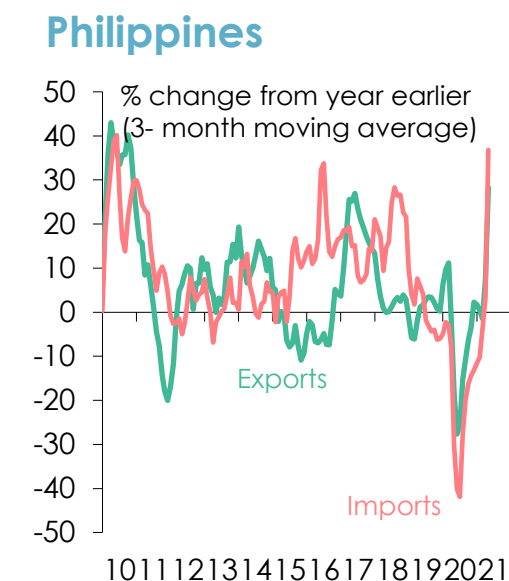
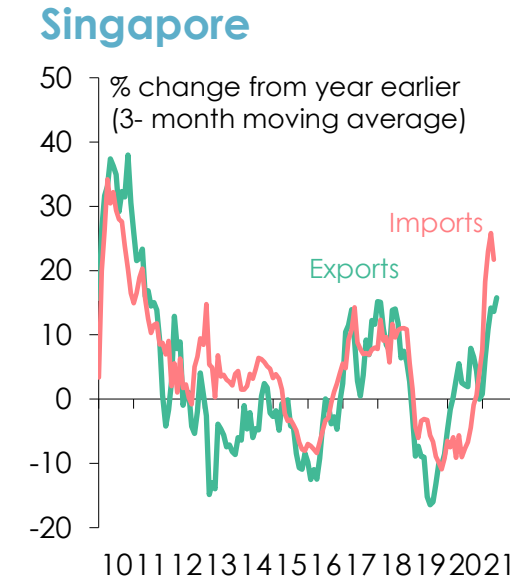
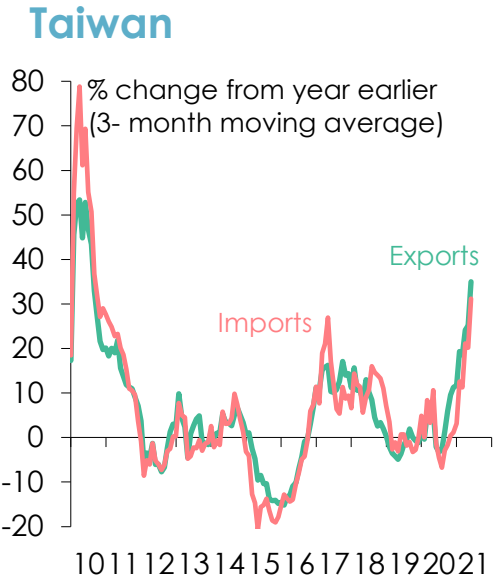
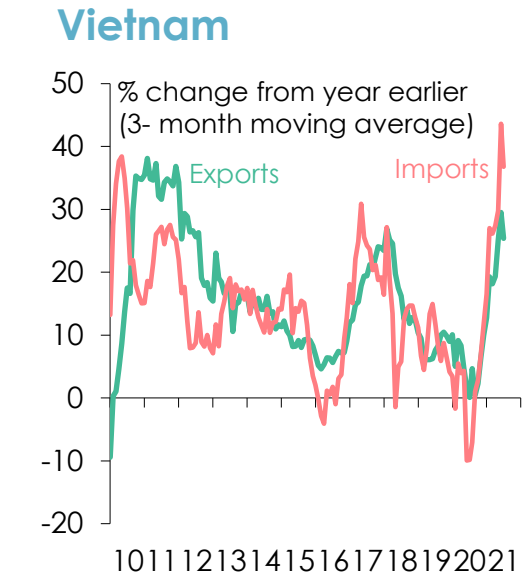
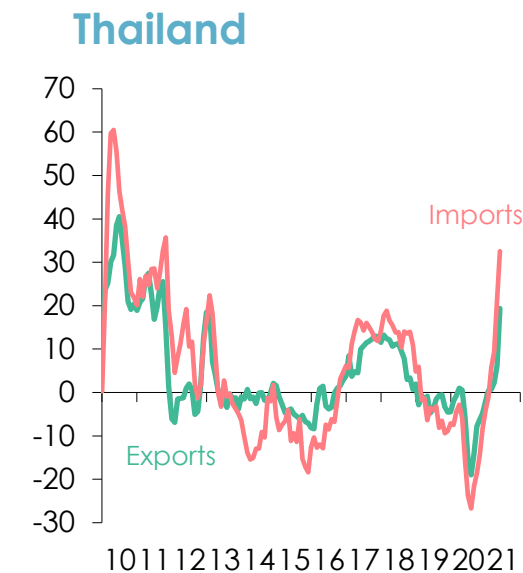
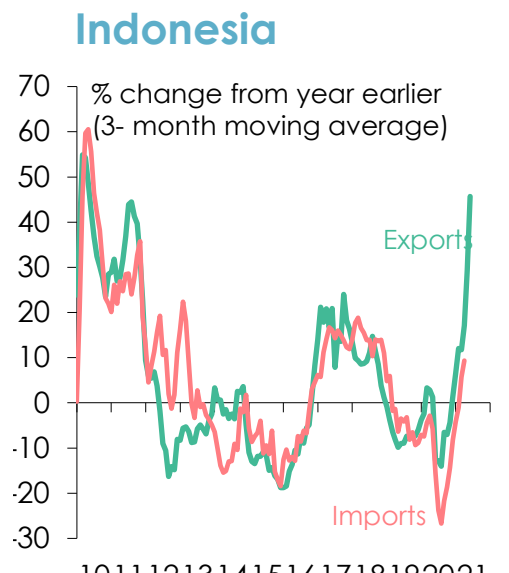
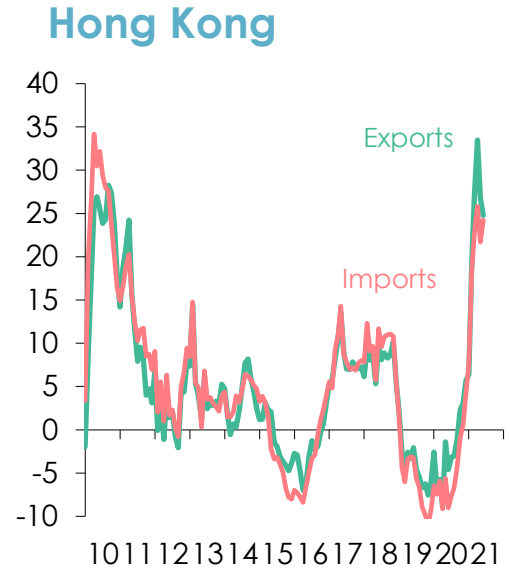
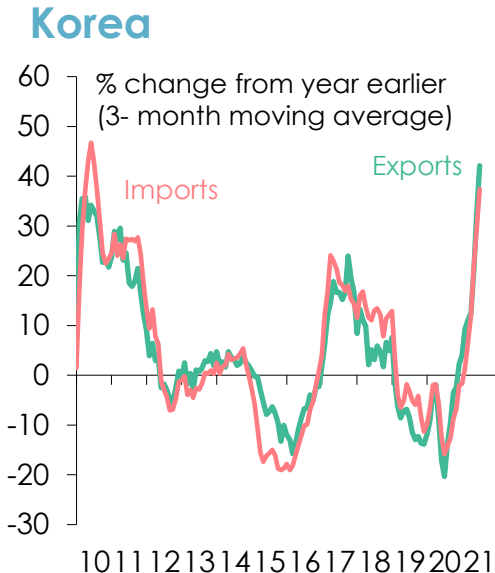
Taiwan export orders, by product



Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Source: Taiwan [Ministry of Economic Affairs](#).

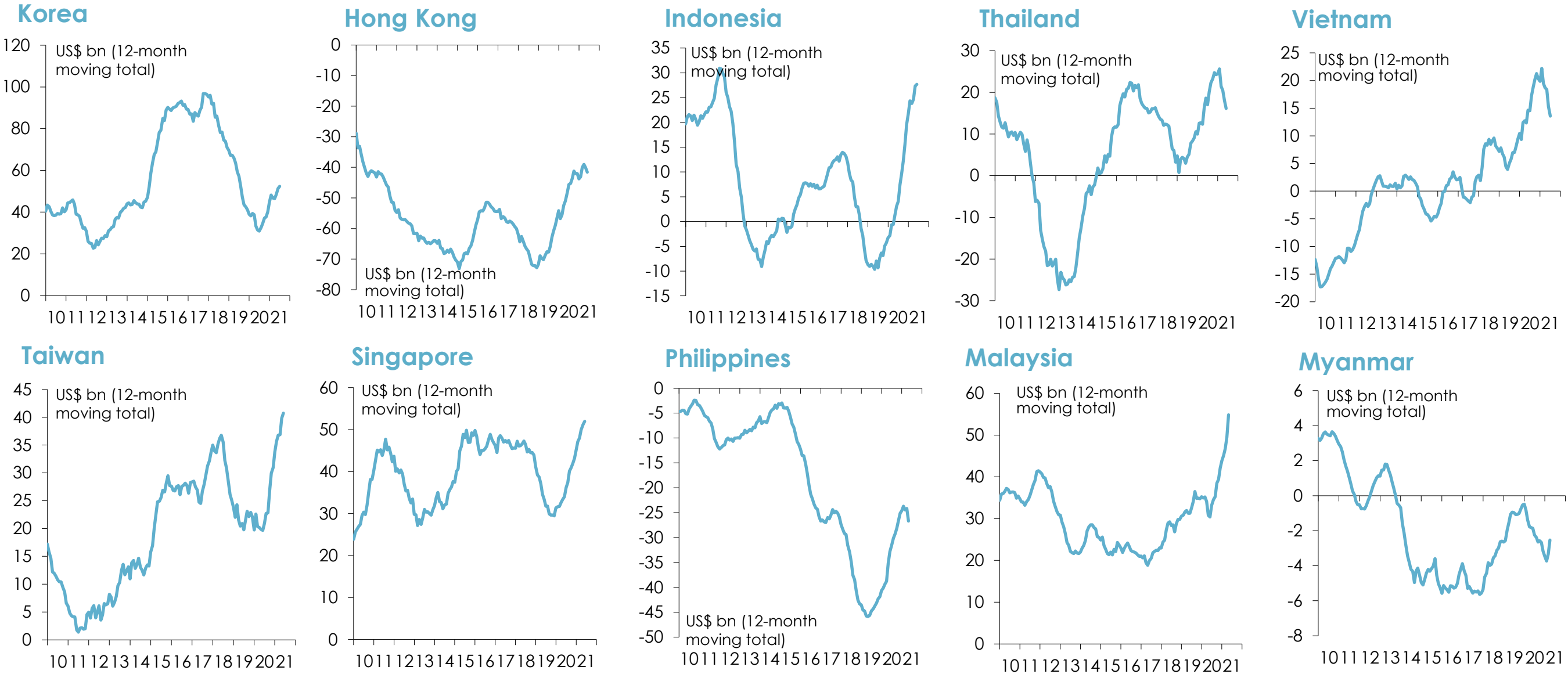
- ❑ Taiwan accounts for 63% of the US\$85bn global semi-conductor chip market
 - Korea accounts for 18%, and China 6%
 - one Taiwanese company, Taiwan Semiconductor Manufacturing Co (TSMC) has 54% of the world market, and United Microelectronics Co (UMC) a further 7% (Samsung accounts for Korea's 18%)
- ❑ Semiconductor fabrication plants ("fabs") use very large amounts of water to rinse chips during their manufacture – a typical fab uses 7½-15 million litres of water daily (and water in Taiwan is very cheap, less than US40¢/t)
- ❑ Taiwan has been experiencing its **worst drought in 56 years**, with the failure of monsoons to arrive last year and unusually low spring rains this year
 - reservoirs are down to less than 20% of capacity overall – with the Baoshan Reservoir which supplies TSMC's Hsinchu plant down to 7%
 - Taiwan's government has reduced water supplies to irrigated farmland, and to residents and businesses in three cities
 - 'fabs' have been asked to reduce their water consumption by 13%
 - water shortages are also constraining hydro-electricity production
- ❑ Taiwan's export orders have fallen by 6% from February's record high through May
 - a 20% fall in orders for ICT products more than accounts for this decline, and orders for electronic products have also declined by 8%
- ❑ The challenges facing Taiwan's chip manufacturers combined with the fire at Japan's Renesas plant in March are major factors behind the surge in chip prices

Most 'peripheral' Asian economies are highly leveraged to the global economy so they are benefiting from the recovery in world trade



Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates. Sources: national statistical agencies and central banks.

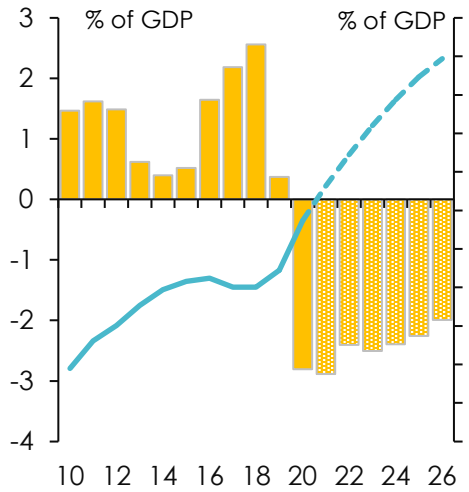
Most Asian economies have experienced improvements in their trade balances since the onset of Covid, although some are now turning around



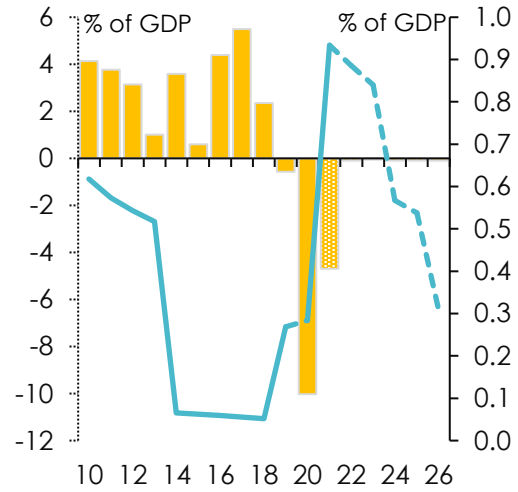
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates. Sources: national statistical agencies and central banks.

Asian governments, except for Singapore and Hong Kong, will be running large budget deficits for the next five years

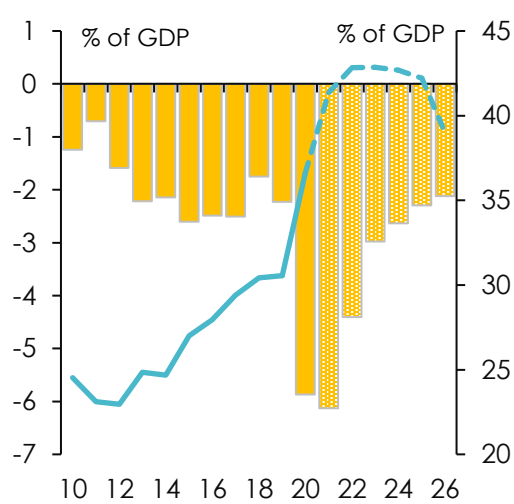
Korea



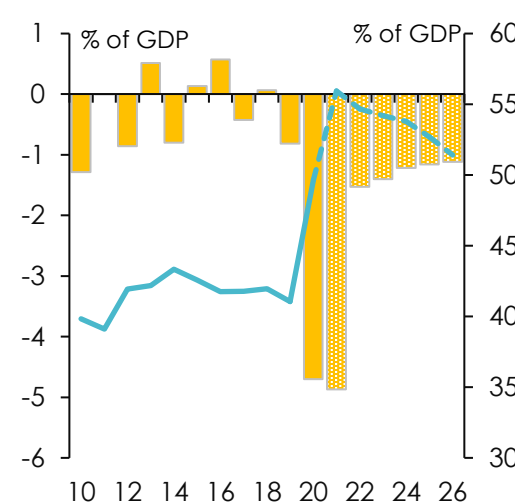
Hong Kong



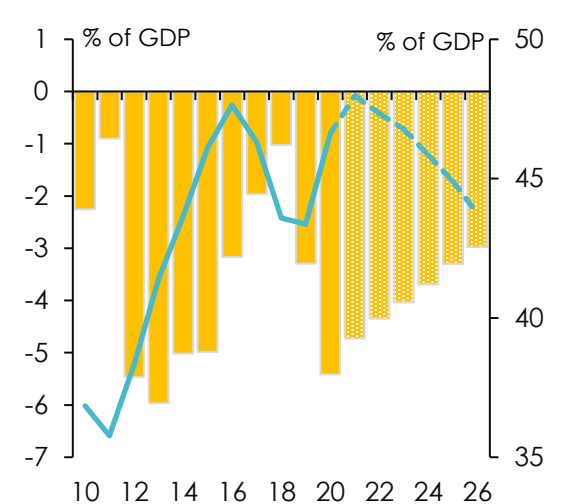
Indonesia



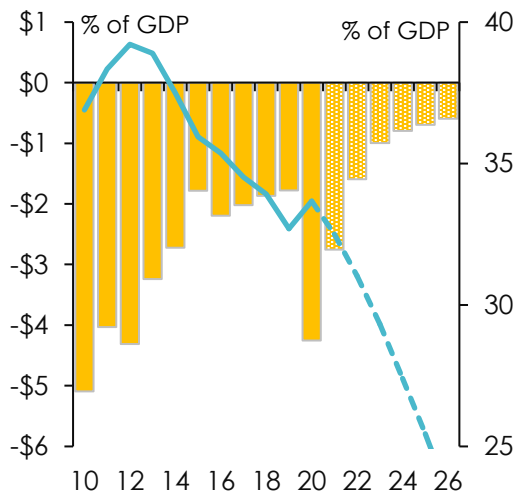
Thailand



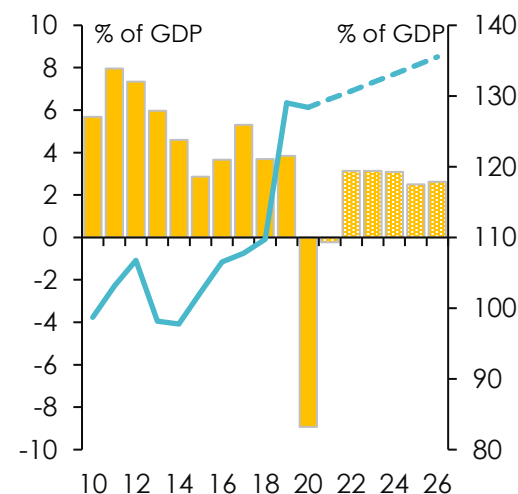
Vietnam



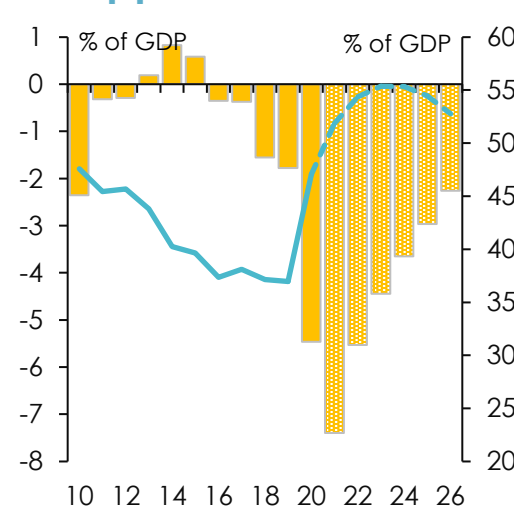
Taiwan



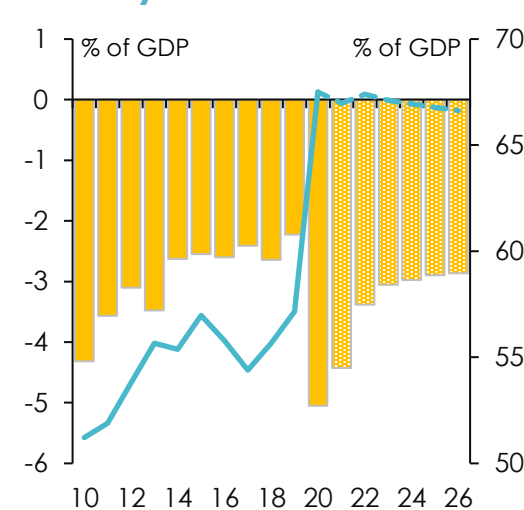
Singapore



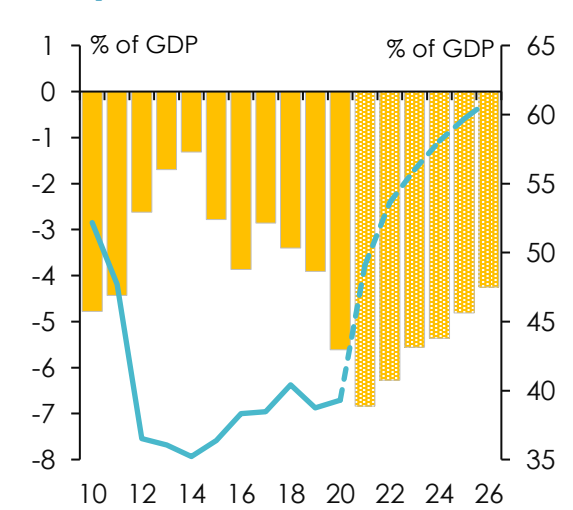
Philippines



Malaysia



Myanmar



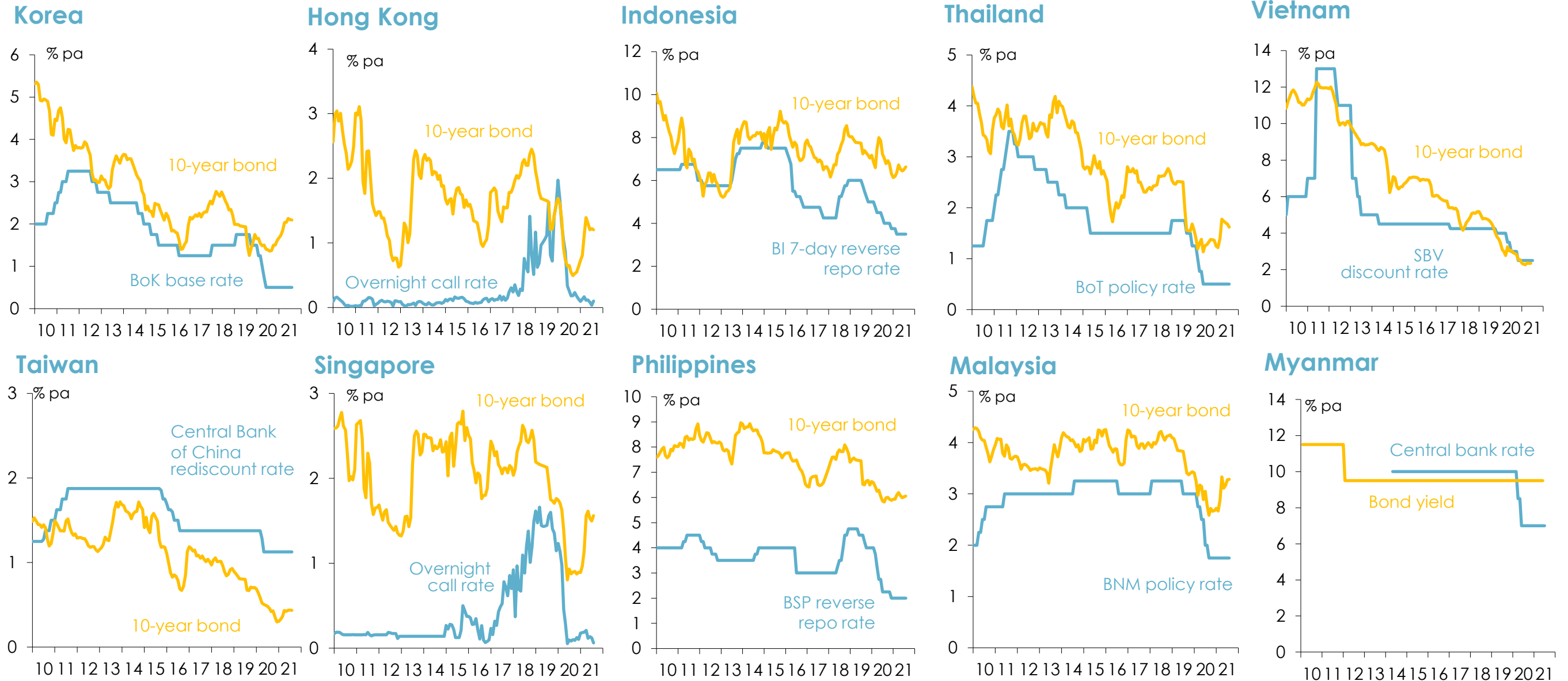
General government overall fiscal balance (left scale)



General government net debt (right scale)

Source: International Monetary Fund, *Fiscal Monitor*, and *World Economic Outlook*, April 2021. [Return to "What's New"](#)

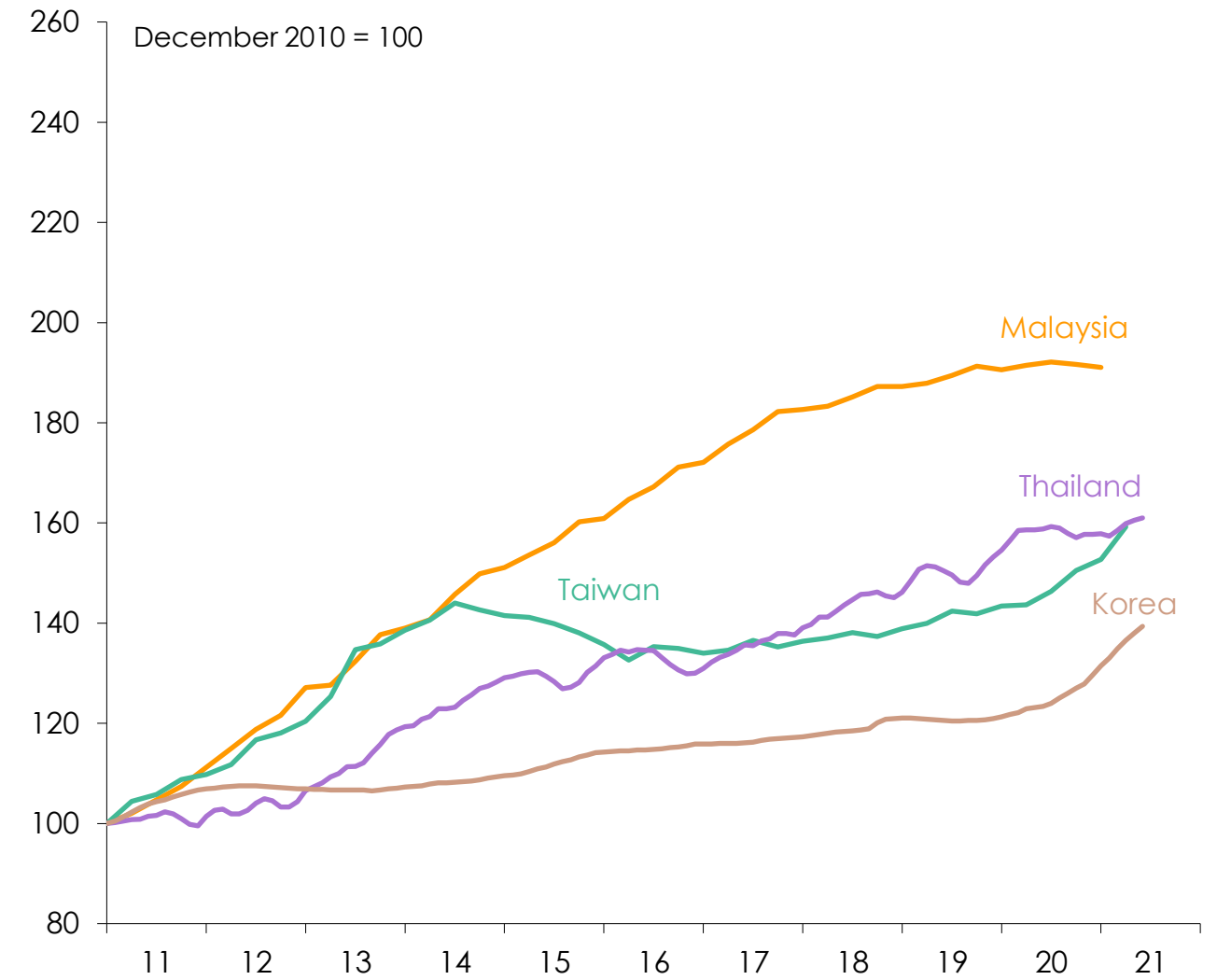
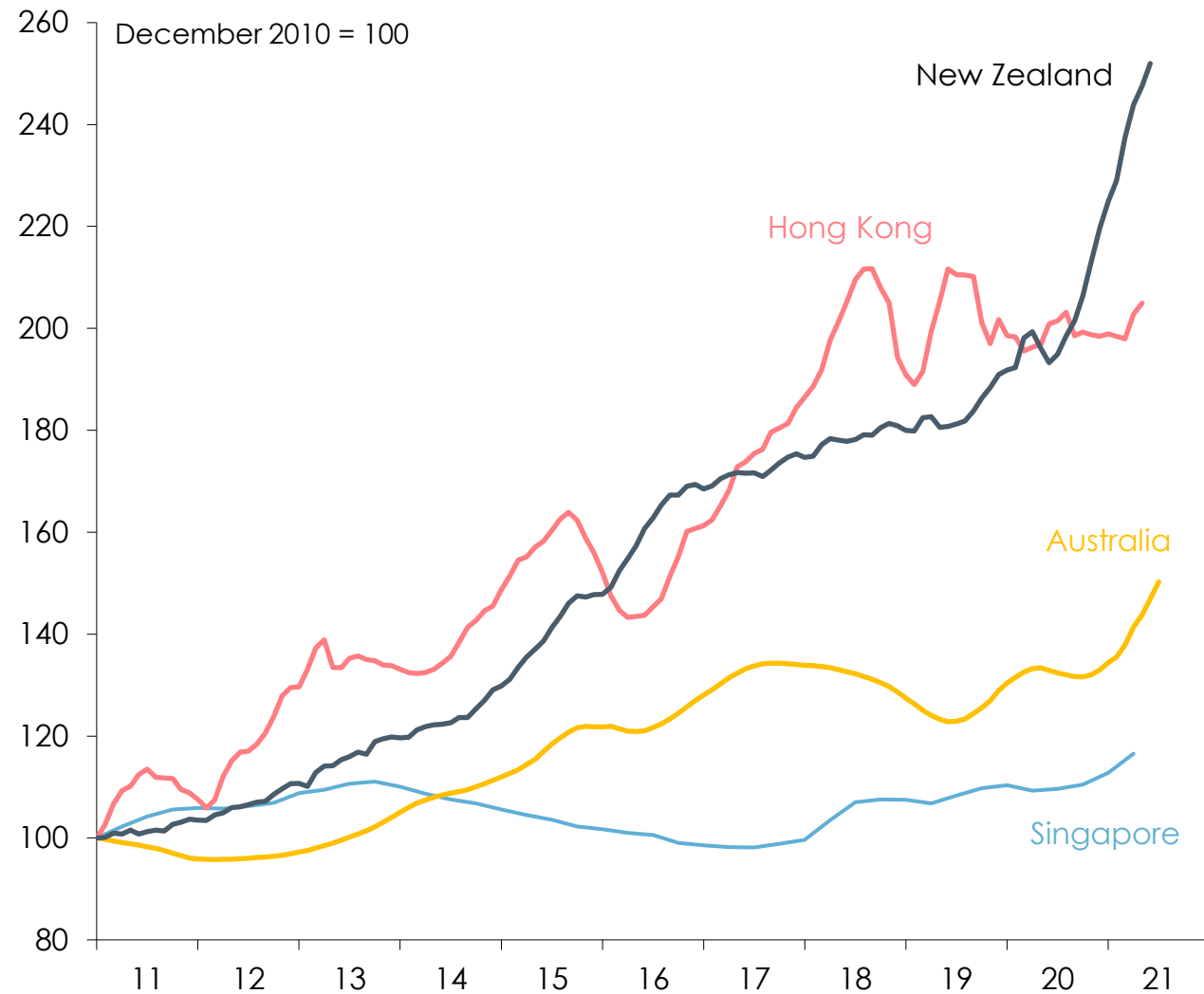
No Asian central bank has given any hint of any near- or medium-term tightening of monetary policy



Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, so HK interest rates track US rates very closely; the Monetary Authority of Singapore uses the (effective) exchange rate as its principal monetary policy instrument. Data are monthly averages up to July 2021. Sources: national central banks; Refinitiv Datastream.

As in other parts of the world, ultra-easy monetary policy has fuelled house price inflation – although some have deployed ‘macro-prudential’ tools

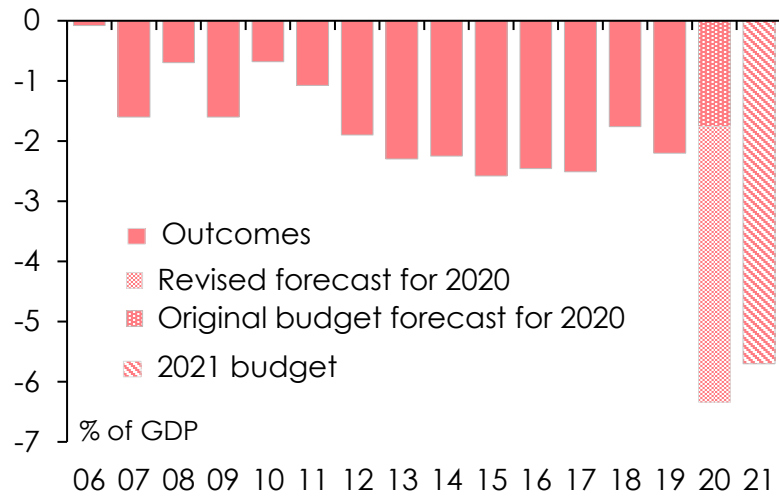
‘Peripheral’ Asia, Australia and New Zealand residential property prices



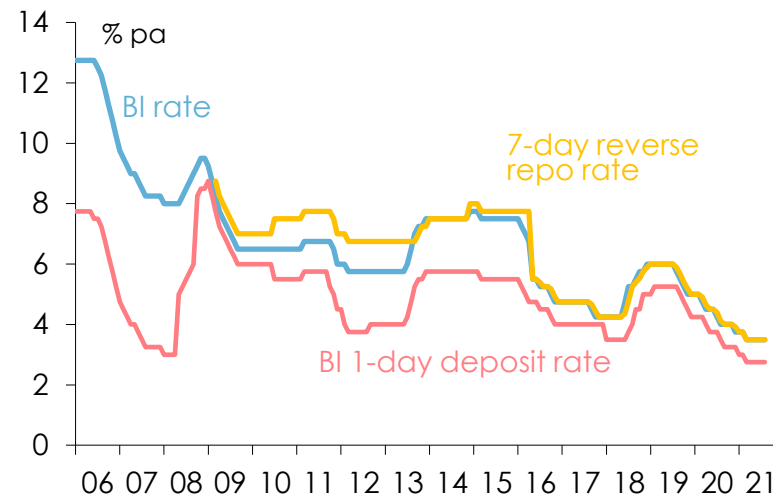
Note: House price indices shown in these charts are those published by [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [Kookmin Bank](#) (Korea); [Sinyi](#) (Taiwan); [Centaline](#) (Hong Kong); [Urban Redevelopment Authority](#) (Singapore); [Bank of Thailand](#); These indices have been chosen for their timeliness and widespread recognition; they do not necessarily all measure the same thing in the same way. For more comprehensive residential property price data see the quarterly database maintained by the [Bank for International Settlements](#). [Return to "What's New"](#).

Bank Indonesia's 'synergistic monetary expansion' policy looks like a version of 'MMT' – but it is unlikely to be inflationary

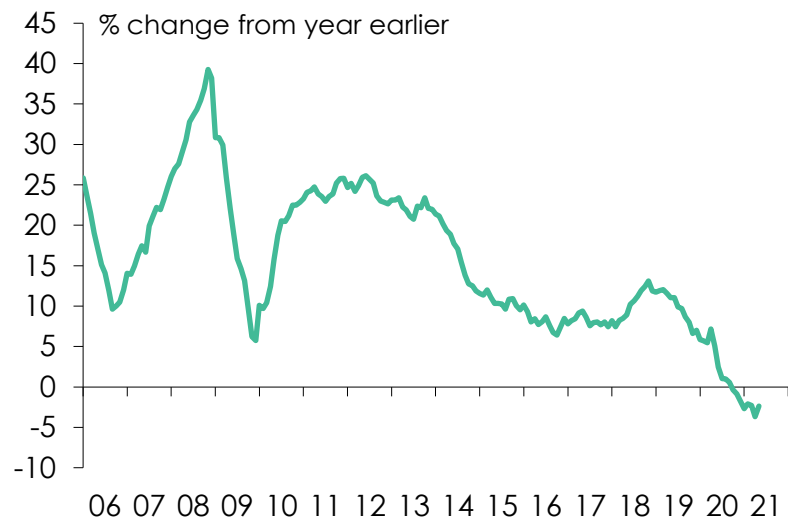
Indonesia budget deficit



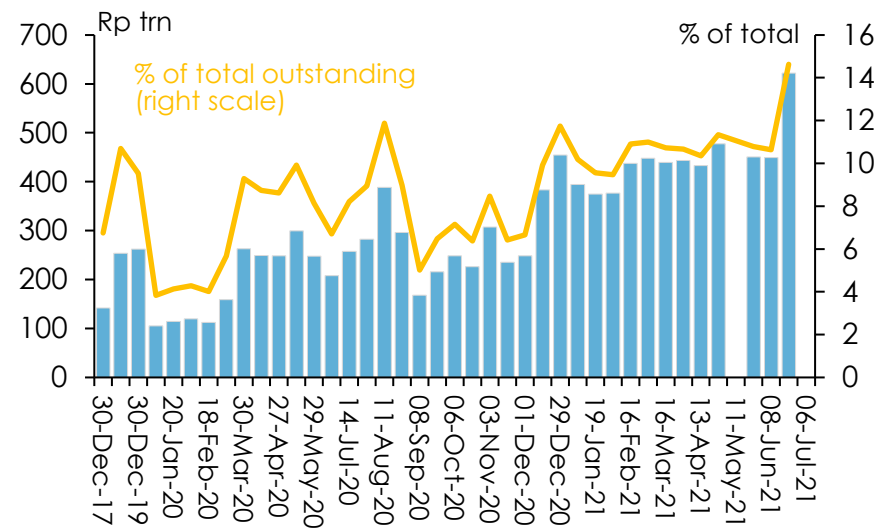
BI monetary policy rates



Bank lending



BI holdings of tradeable SBNs



- In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments on other bonds

 - BI calls this 'synergistic monetary expansion'
 - up to 15th June BI has purchased Rp 116trn of SBN in the primary market (cf. Rp 473trn in 2020)
 - BI has indicated that it will be a 'standby buyer' for up to one-quarter of government borrowing requirements through 2022
- This 'QE' isn't adding to inflationary pressure because bank lending to the private sector is contracting

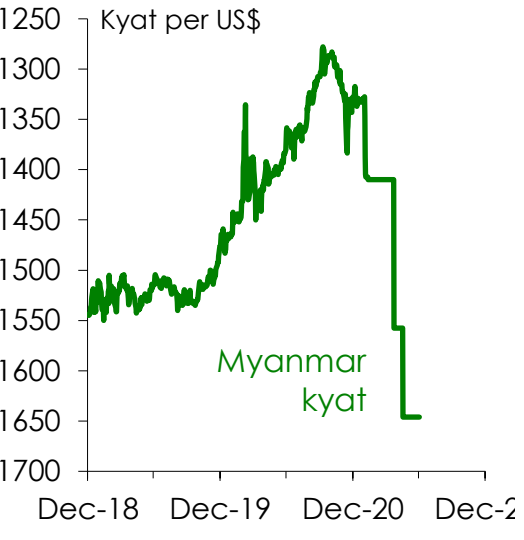
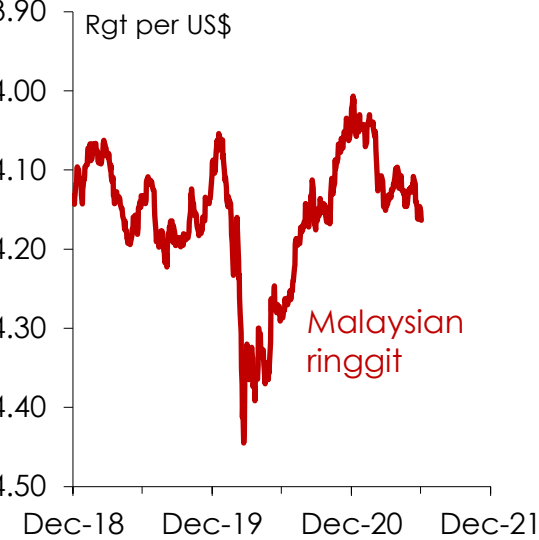
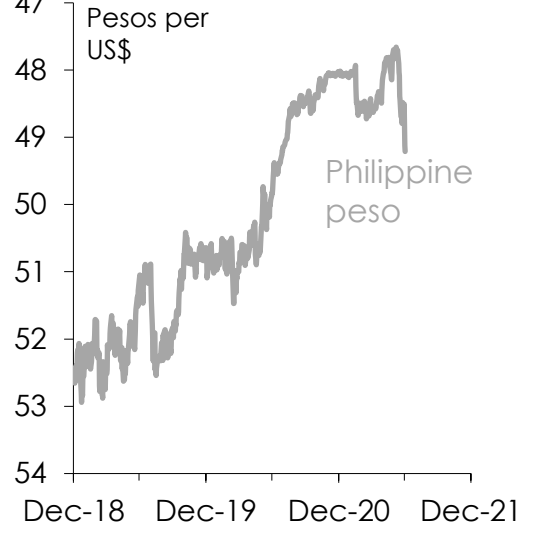
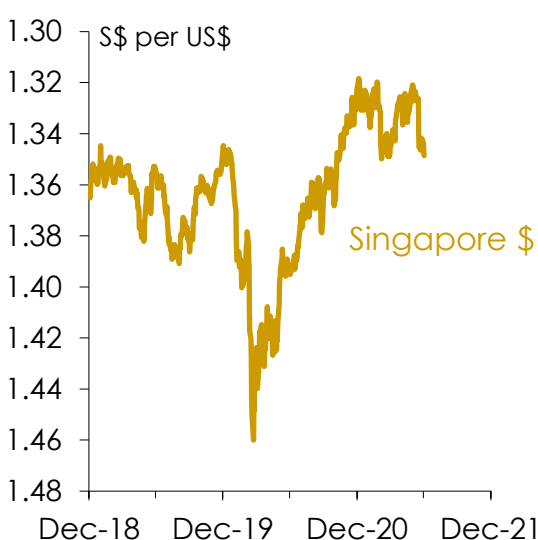
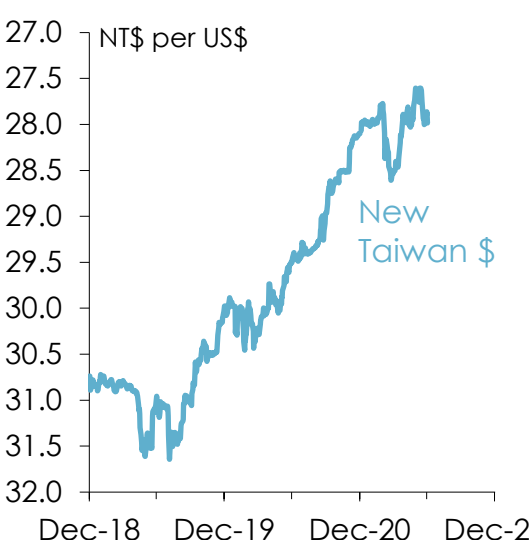
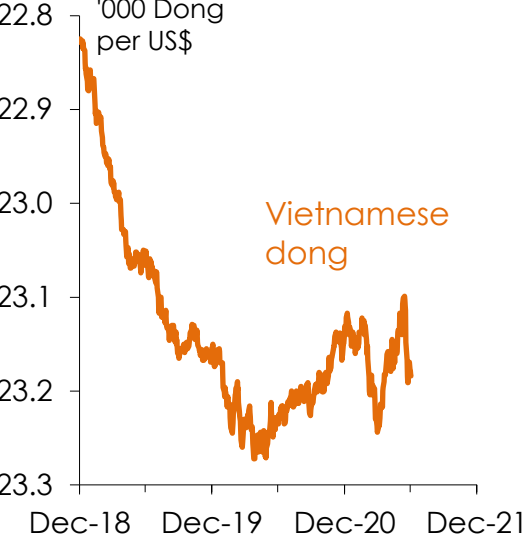
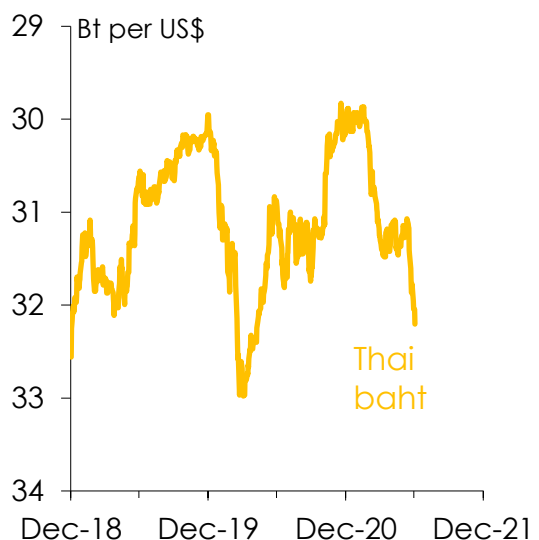
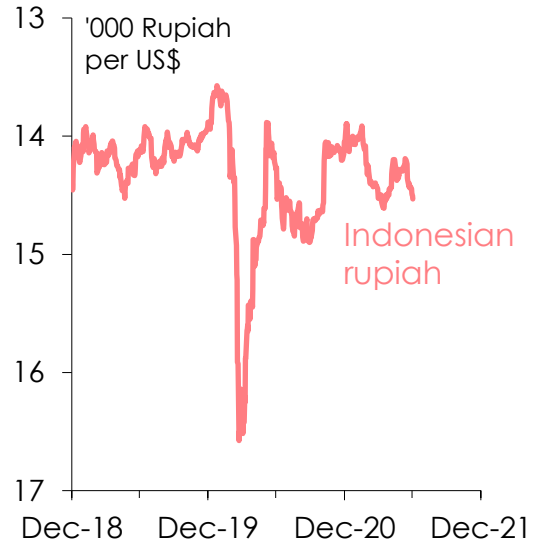
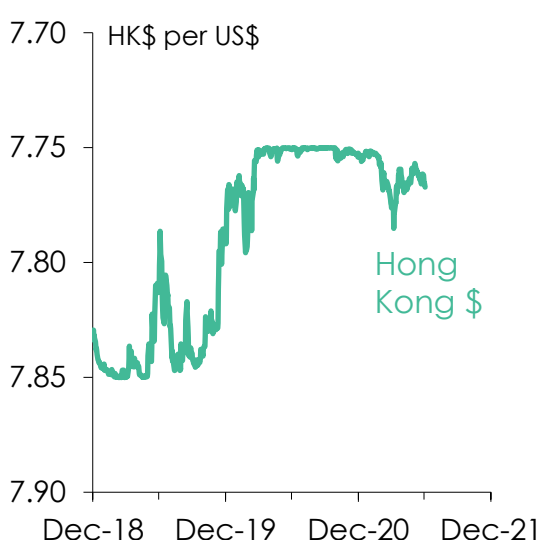
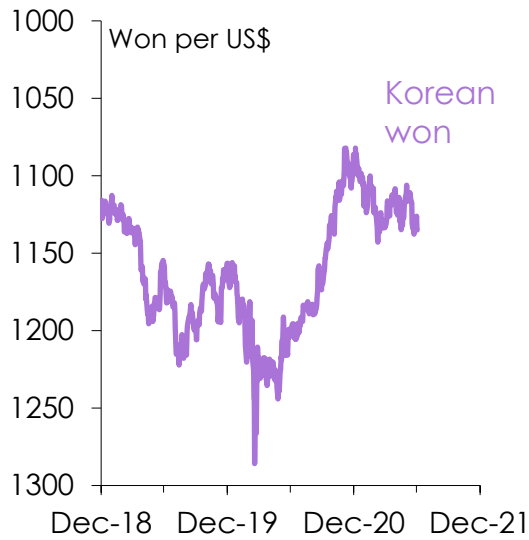
 - banks have absorbed 48% of the increase in Government bonds outstanding since the end of March last year, and BI 25%
 - BI's holdings of SBNs rose by Rp173trn (38%) over the latest fortnight, while banks' holdings fell by Rp144 trn (9%)
 - 'core' inflation at 1.4% in May is below BI's target
- Parliamentary debate on legislation to 'expand' BI's mandate which was to begin in August has been deferred to at least November

 - an earlier provision to give Ministers a role in determining monetary policy has been scrapped

Sources: [Indonesia Ministry of Finance \(Kementerian Keuangan\)](#); [Directorate of Government Debt Securities](#); Bank Indonesia.

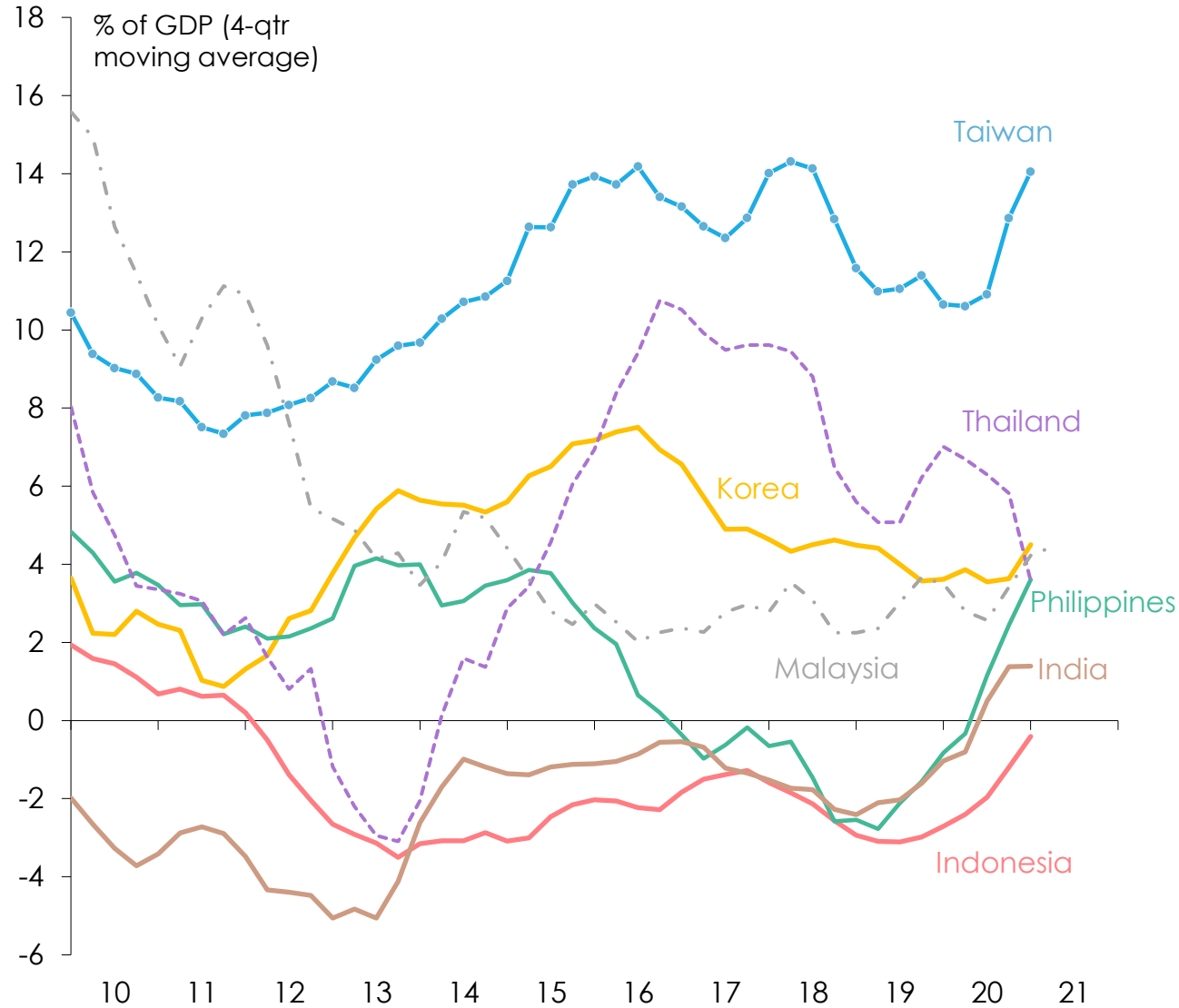
Asian currencies fell sharply during the 'panic' last March, then recovered over the following 12 months, but more recently have begun falling again

Asian currency exchange rates vs US dollar

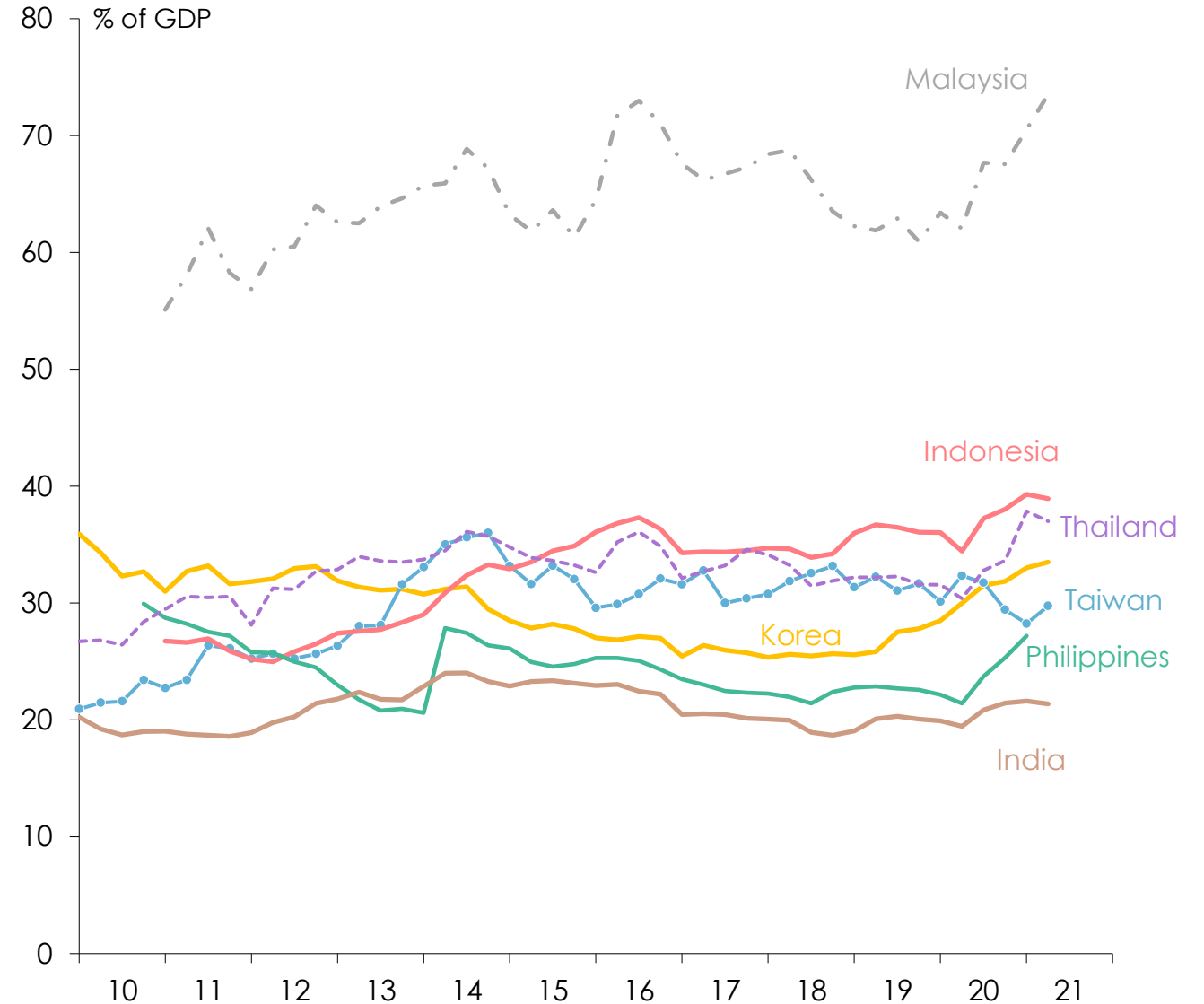


'Peripheral' Asian economies have reasonably sound external financial positions

Current account balances



External debt

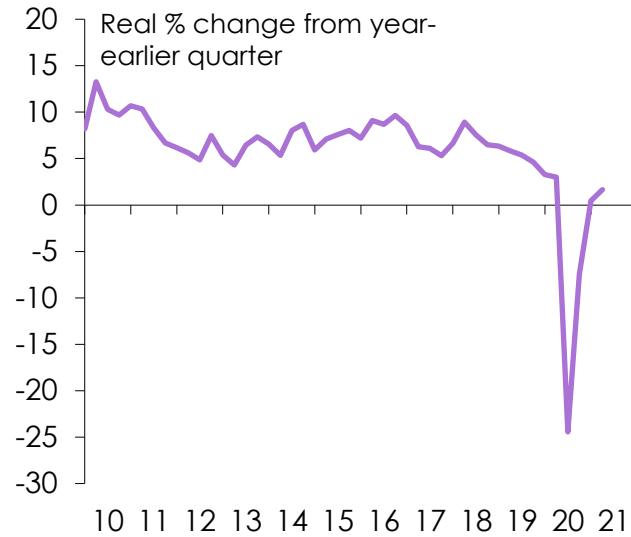


Note: External debt data not available for Vietnam. Sources: The World Bank; Refinitiv Datastream; Corinna.

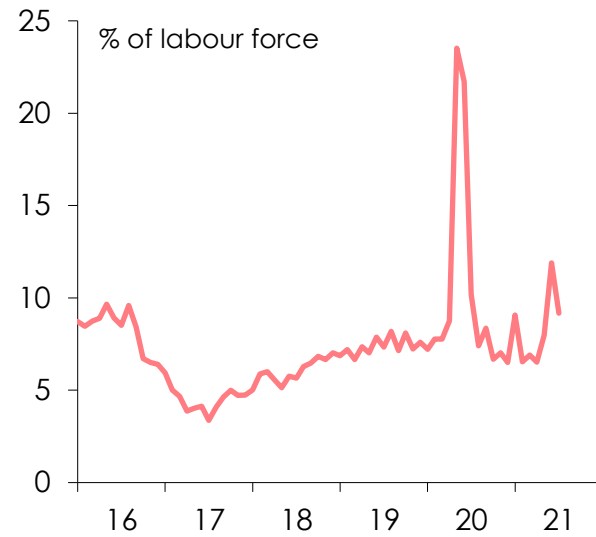
India

India had a particularly severe recession during Covid: and its now experiencing higher inflation, and deteriorating fiscal and external deficits

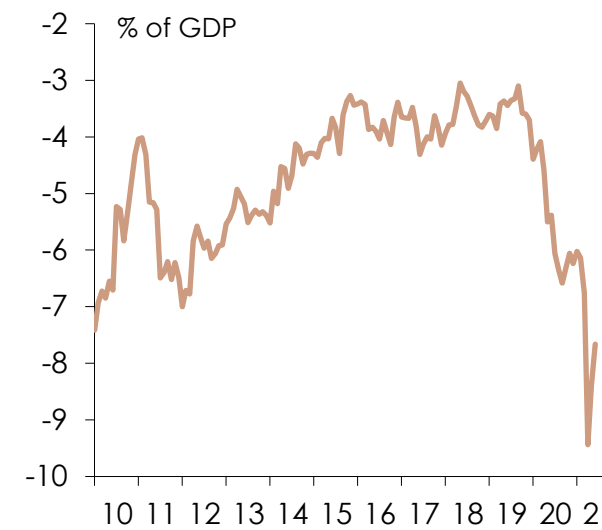
Real GDP growth



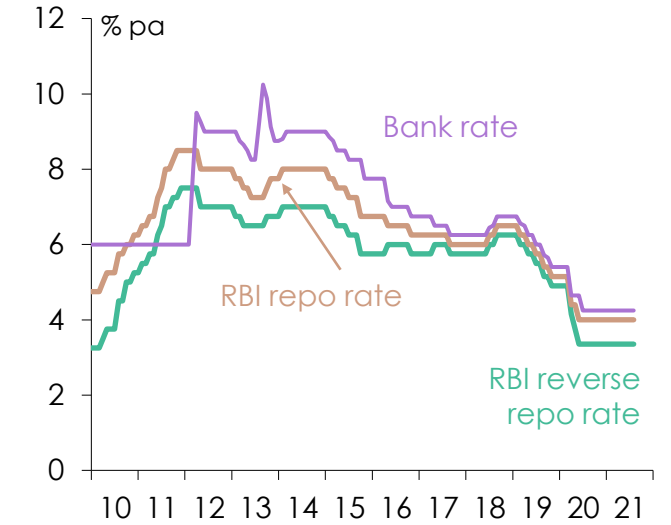
Unemployment



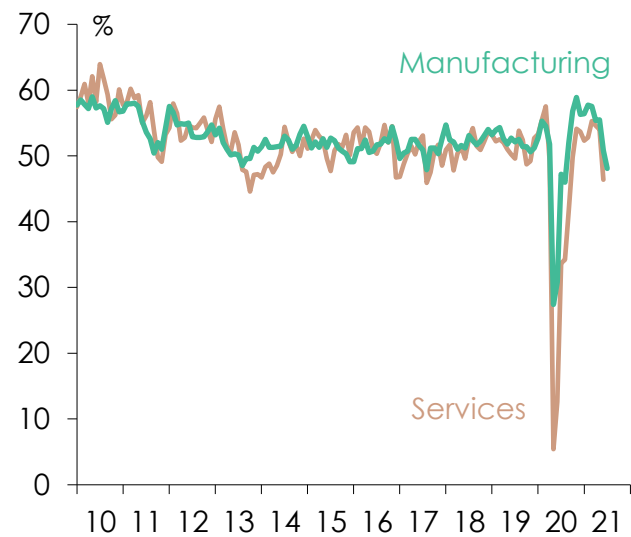
Fiscal balance



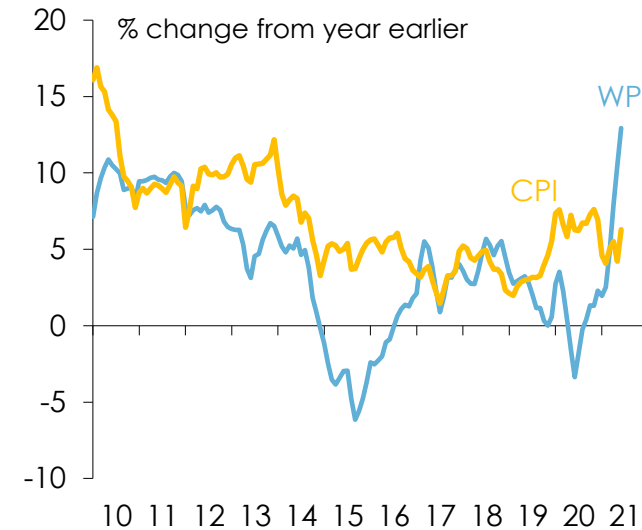
Interest rates



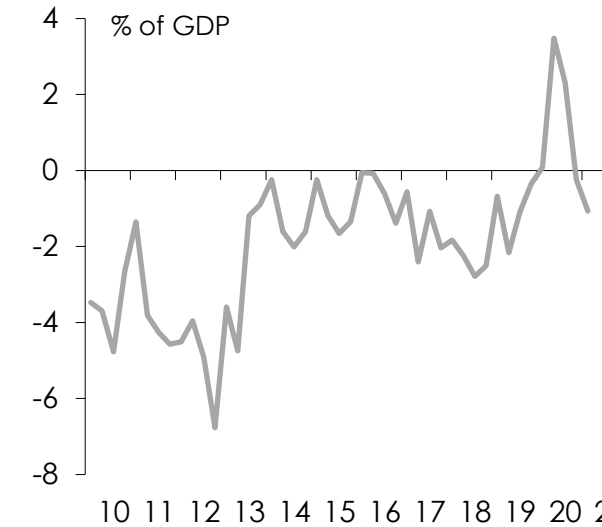
PMIs



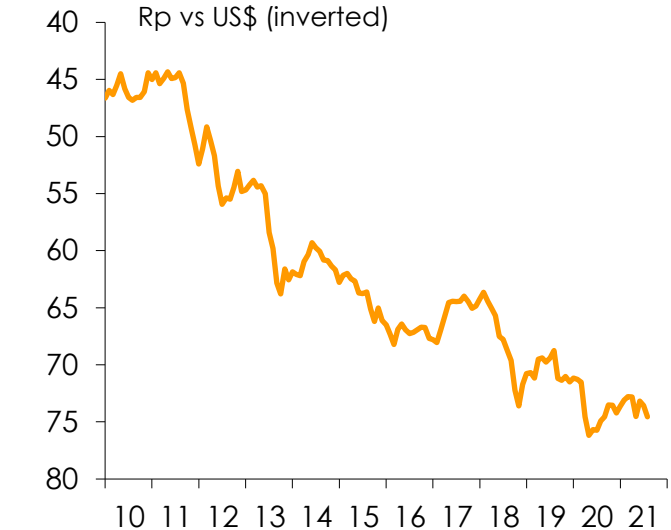
Inflation



Current account



Rupee vs US\$



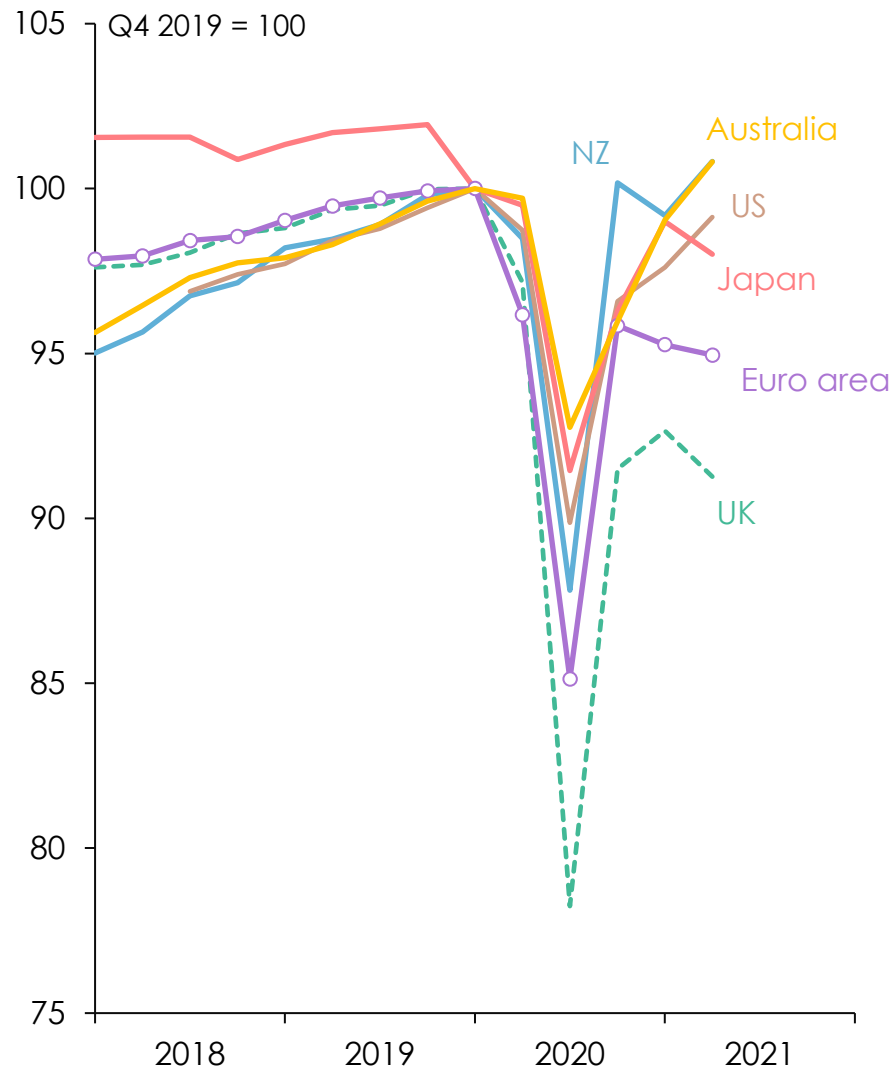
Narendra Modi is not a reformer

- ❑ **In raw political terms, Narendra Modi is India's most successful political leader since Indira Gandhi**
 - his Bharataya Janita Party (BJP) has won over 50% of the seats in the Lok Sabha (lower House) at the past two elections (in 2014 and 2019) – which no Indian Prime Minister has done since Rajiv Gandhi in 1984 (after his mother's assassination)
 - although the BJP has accomplished this without obtaining more than 40% of the vote – because the opposition parties have become so fractured
 - the BJP also rules outright or in coalition in 20 of India's 35 states (excluding Jammu & Kashmir)
 - the BJP has over 100 million members (more than the Chinese Communist Party's 95 million)
- ❑ **Modi is primarily a Hindu nationalist (as well as a populist in the Trump/Bolsonaro/Erdoğan/Orbán style)**
 - his political career began 50 years ago as a full-time worker for the Rashtriya Swayamsevak Sangh (RSS) or 'National Volunteer Organization' which has as its ideology 'Hindutva' (dating from the 1870s) which holds that India has “been invaded twice, by the Muslims and the British, and both invasions need to be repelled”
 - the BJP's main mission is a form of 'culture war', similar to those waged by right-wing populists in the US, Britain and other European countries, and Australia – as exemplified by recent changes to citizenship laws which specifically exclude Muslim immigrants from becoming citizens, or the fixation with the so-called 'love jihad' in which Hindu women are (supposedly) 'tricked' into converting to Islam by promises of marriage, etc.
- ❑ **Modi's government has accomplished only one significant economic reform – the introduction of a goods and services tax (GST) in 2017 to replace multiple federal and state sales and excise taxes**
 - other so-called 'reforms' including demonetization in 2016 and more recently proposed changes to the marketing and distribution of agricultural products have been botched
- ❑ **India remains as statist and protectionist under Modi as it ever was**
 - the centrepiece of the BJP's Aatmanirbhar Bharat ('self reliance') policy is US\$27bn of 'Production Linked Incentives' (PLI) subsidy payments to large manufacturers
 - India wasn't even able to join the (relatively undemanding) Regional Comprehensive Economic Partnership (RCEP) sponsored by China in November 2020

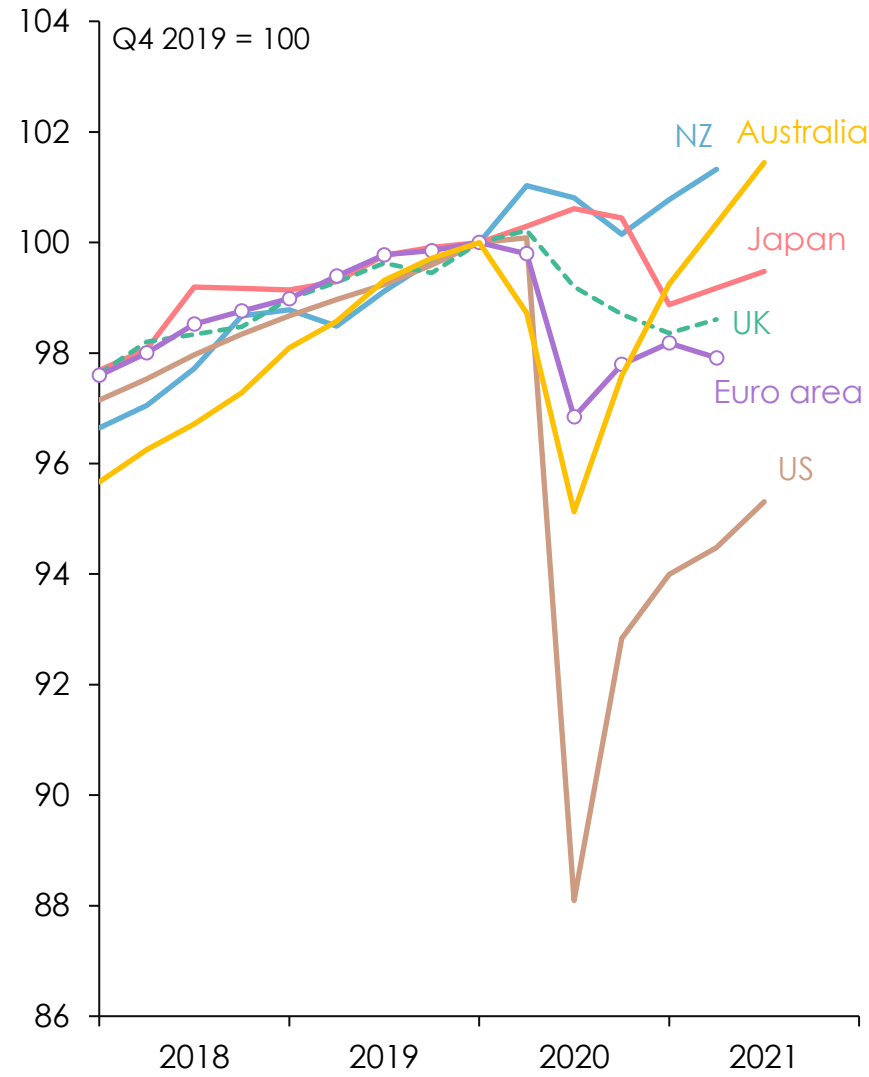
Australia and New Zealand

Australia and New Zealand have so far fared better (or less worse) than almost all other 'advanced' economies

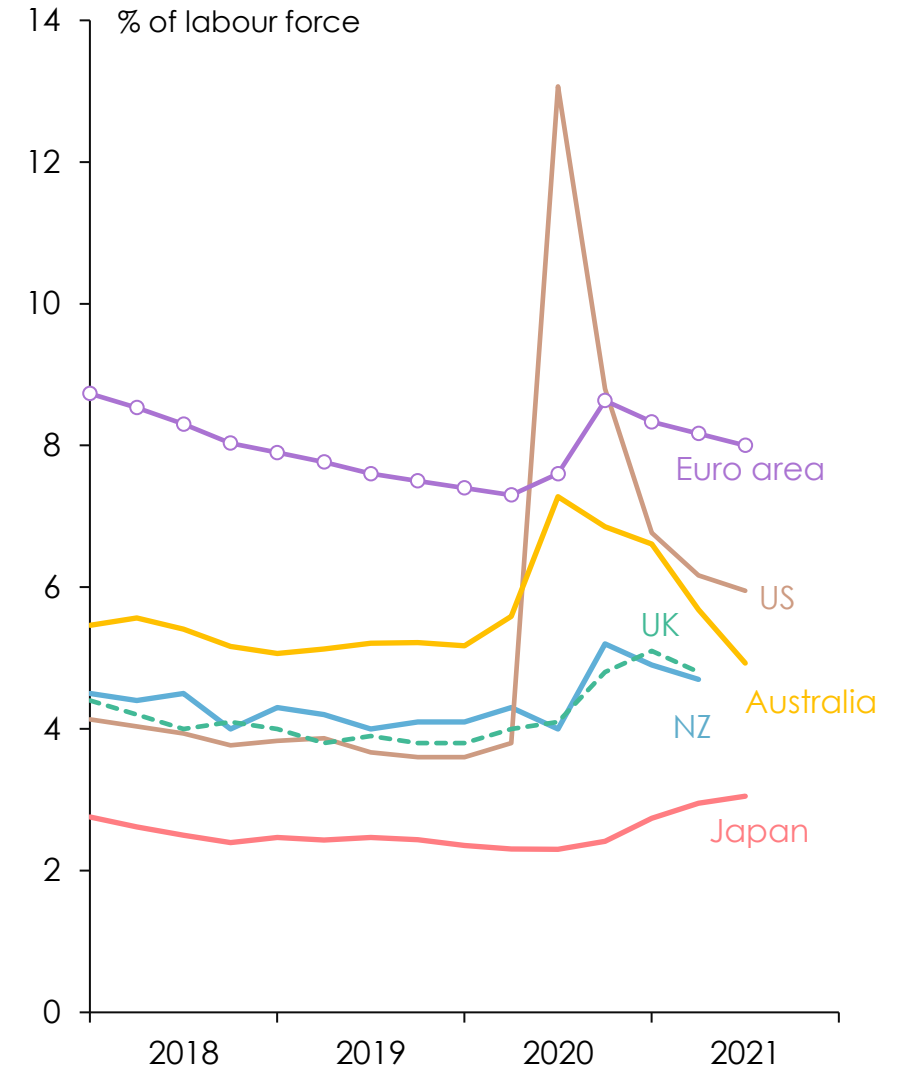
Level of real GDP



Employment



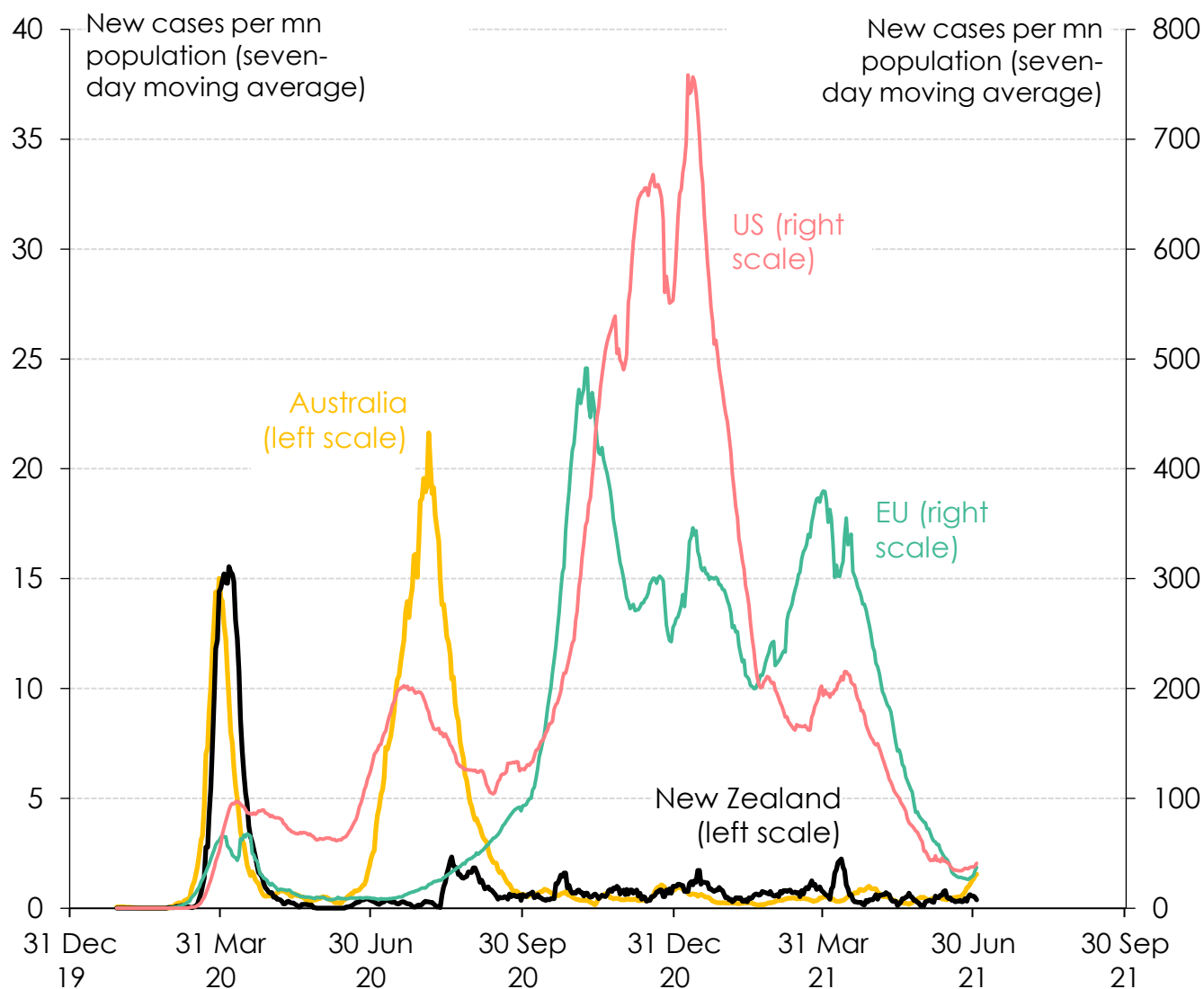
Unemployment



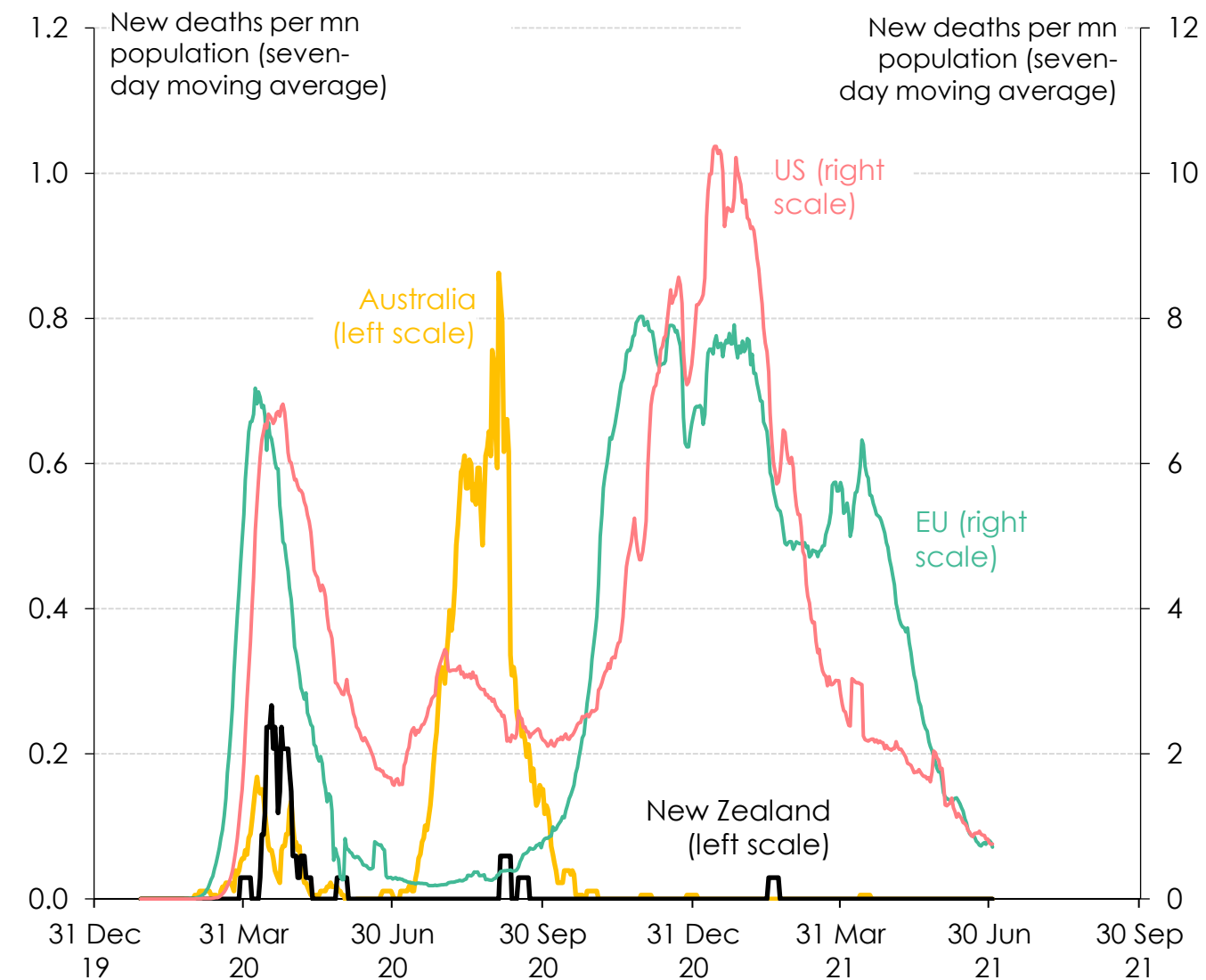
Sources: ABS; Statistics NZ; US Bureau of Economic Analysis; US Bureau of Labor Statistics; Japan Economic & Social Research Institute; Statistics Bureau of Japan; Eurostat; UK Office for National Statistics; Corinna.

... in large part because (being islands a long way from anywhere else) they have been very successful in suppressing the virus

New Covid-19 infections per million population



New Covid-19-related deaths per million population



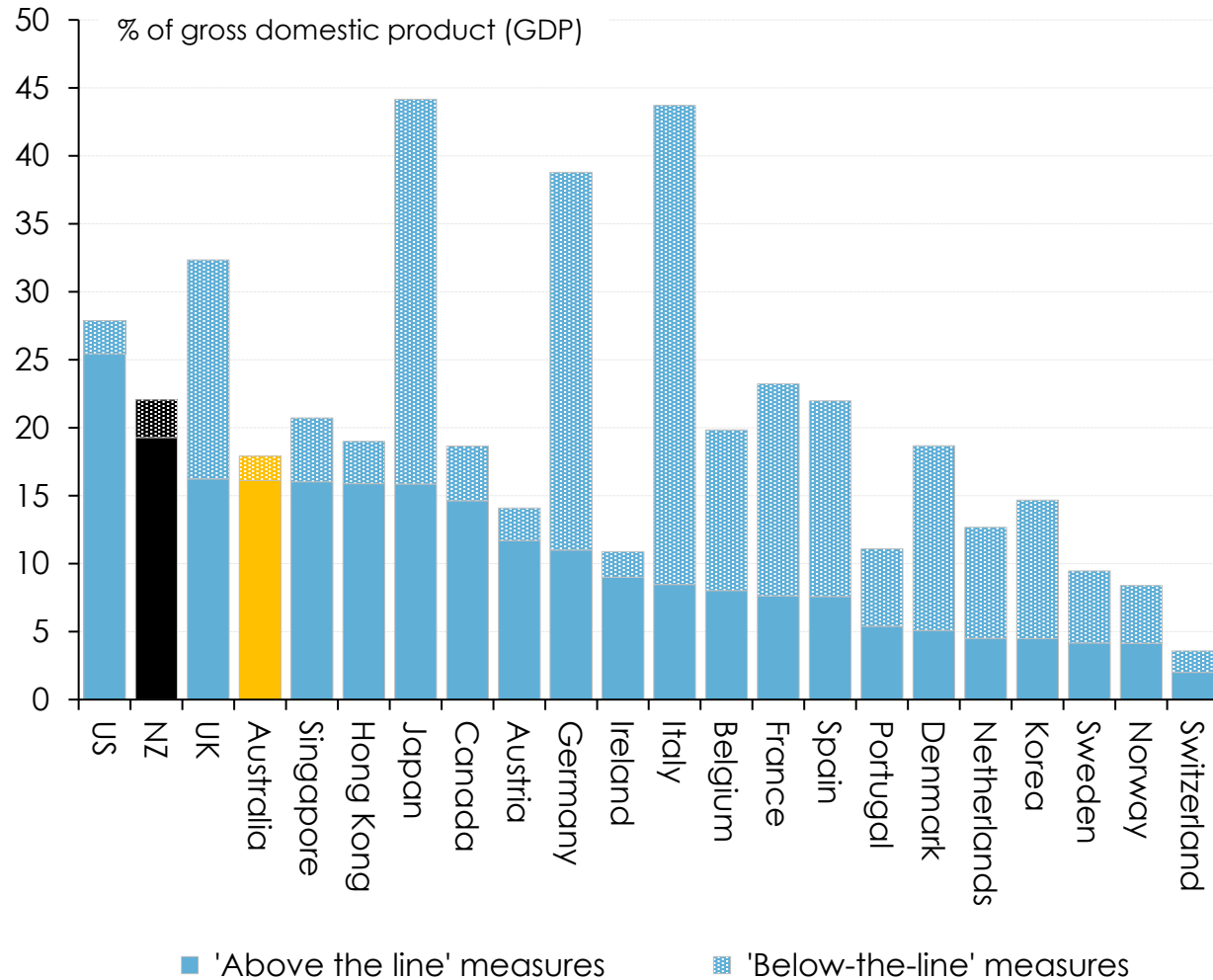
Note: Data up to 2nd July. Source: University of Oxford, [Our World in Data](#); Corinna.

Australia's border measures have been stricter than almost any other country (and certainly any democracy)

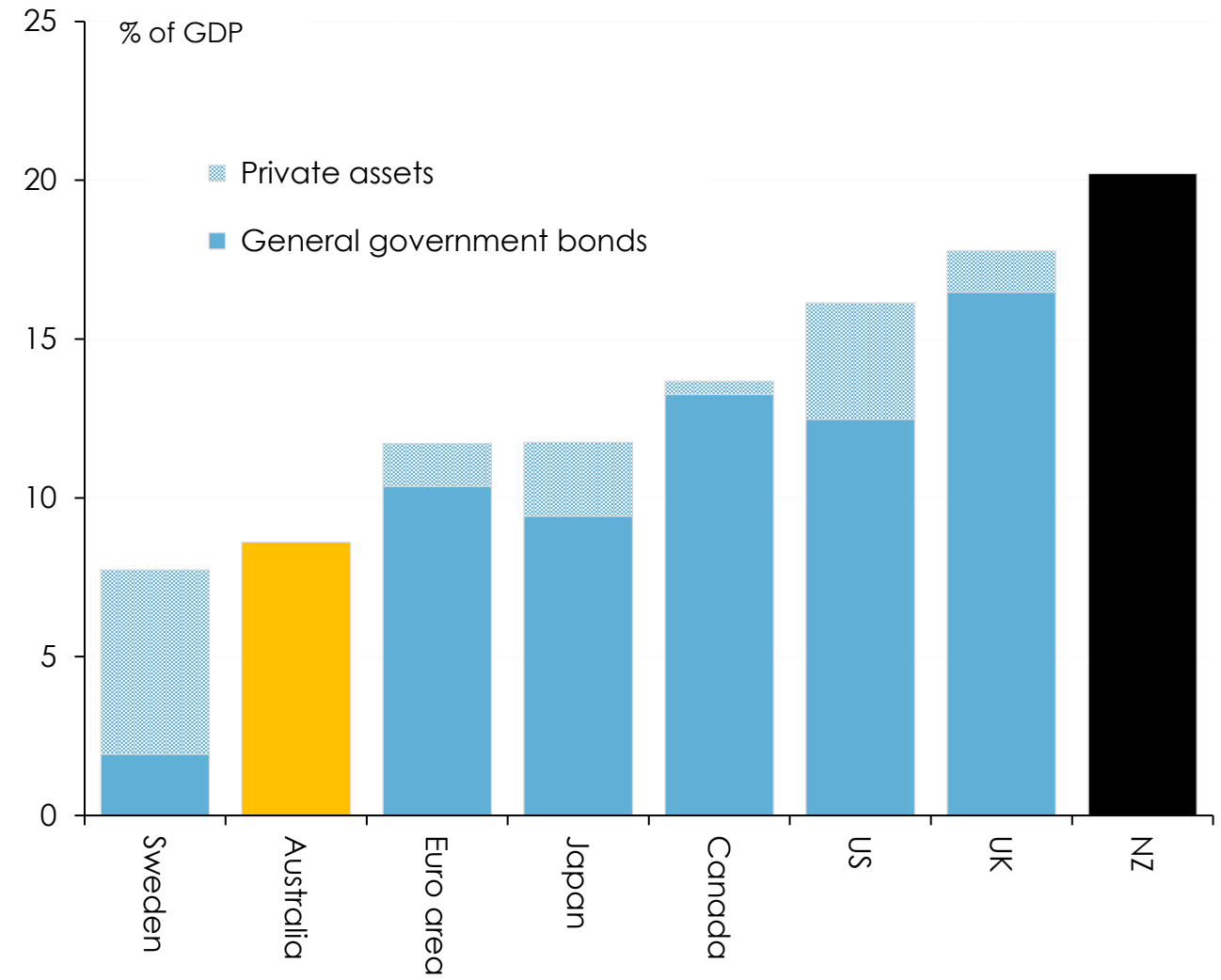
- ❑ Article 12 of the United Nations [International Covenant on Civil and Political Rights](#) (which Australia signed in 1972, and which it ratified in 1980) says
 - “everyone shall be free to leave any country, including his [sic] own” and “no-one shall be arbitrarily deprived of the right to enter his [sic] own country”
- ❑ Australia is [the only democracy in the world](#) not to have enacted this Convention into domestic law
- ❑ The ICCPR does include a couple of ‘get out’ clauses
 - Article 4 provides that “In time of public emergency which threatens the life of the nation and the existence of which is officially proclaimed [parties to this Convention] may take measures derogating from their obligations under [it] to the extent strictly required by the exigencies of the situation”, and
 - Article 12 provides that the rights to leave a country (or to move within it) “shall not be subject to any restrictions except those which are provided by law, are necessary to protect national security, public order, public health or morals or the rights and freedoms of others” – although this exclusion doesn’t apply to the above-mentioned right to enter one’s own country
- ❑ No other democracy appears to have availed itself of these ‘get-out’ clauses to the extent that Australia has
 - The Federal Court [decided](#) in May this year that the Federal *BioSecurity Act* over-rode any “rights of entry” into Australia that the ‘common law’ may otherwise confer on Australian citizens
- ❑ The widely-cited Oxford University index of the stringency of government Covid-related restrictions does not include outward travel bans or restrictions on citizens returning
 - according to [Toby Phillips](#), the Executive Director of the Oxford Government Response Tracker project, “we assumed countries would always let their own citizens return” and “we even wrote this into our training for data collectors, telling them to only focus on restrictions for non-citizens”
- ❑ Despite being highly unusual, Australia’s travel bans have been highly popular with voters
 - a [Newspoll](#) survey taken in May found that 73% of respondents agreed that “international borders should remain largely closed until at least mid-2022”

The Australian and New Zealand Governments also had very large fiscal policy responses, and the RBNZ did a lot of 'QE'

Fiscal policy responses to Covid-19 – selected 'advanced economies'



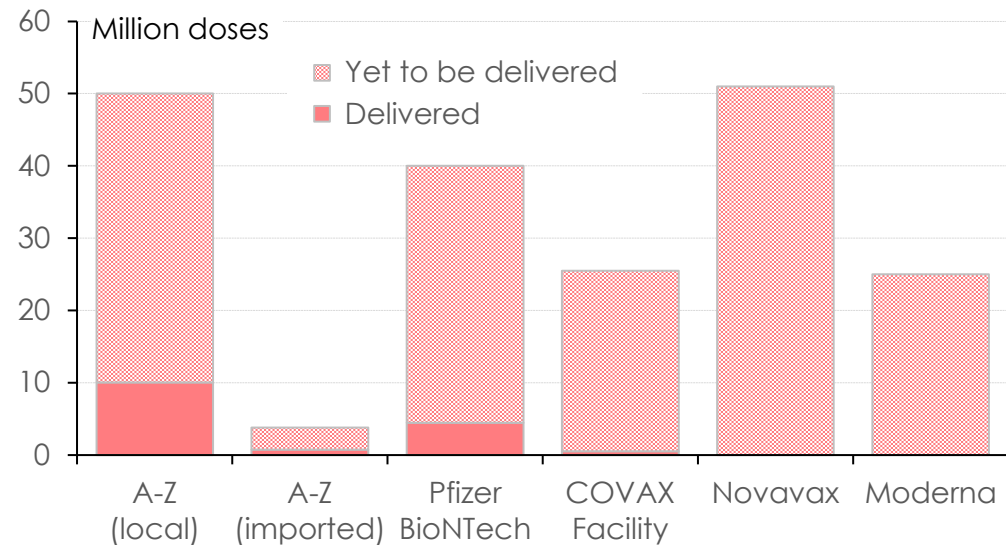
Central bank asset purchases since end-2019



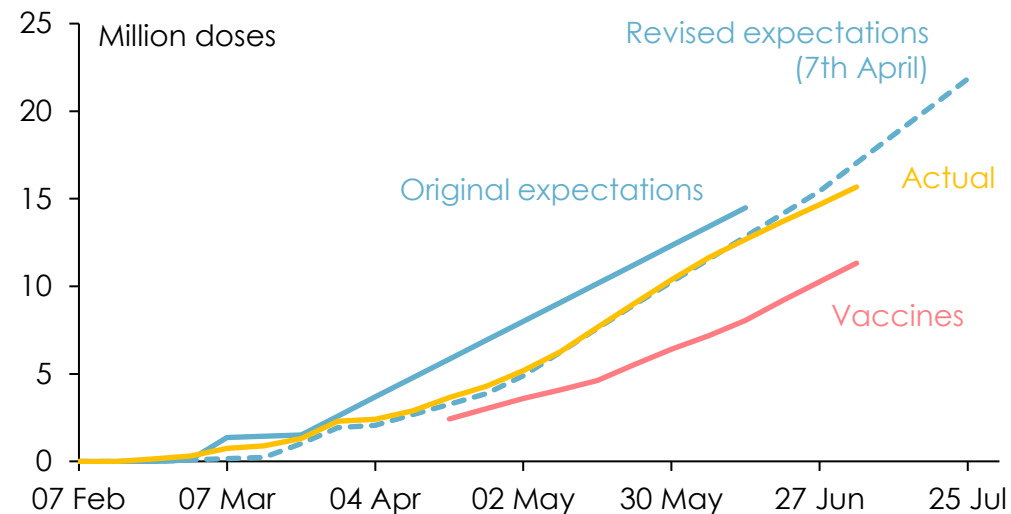
Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 17th March 2021. Sources: IMF, [Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic](#), April 2021; OECD, [Economic Outlook No. 109](#), 31st May 2021.

But Australia (and New Zealand) have lagged badly in getting their populations vaccinated

Australia's vaccine supplies



Original & revised expectations vs supplies

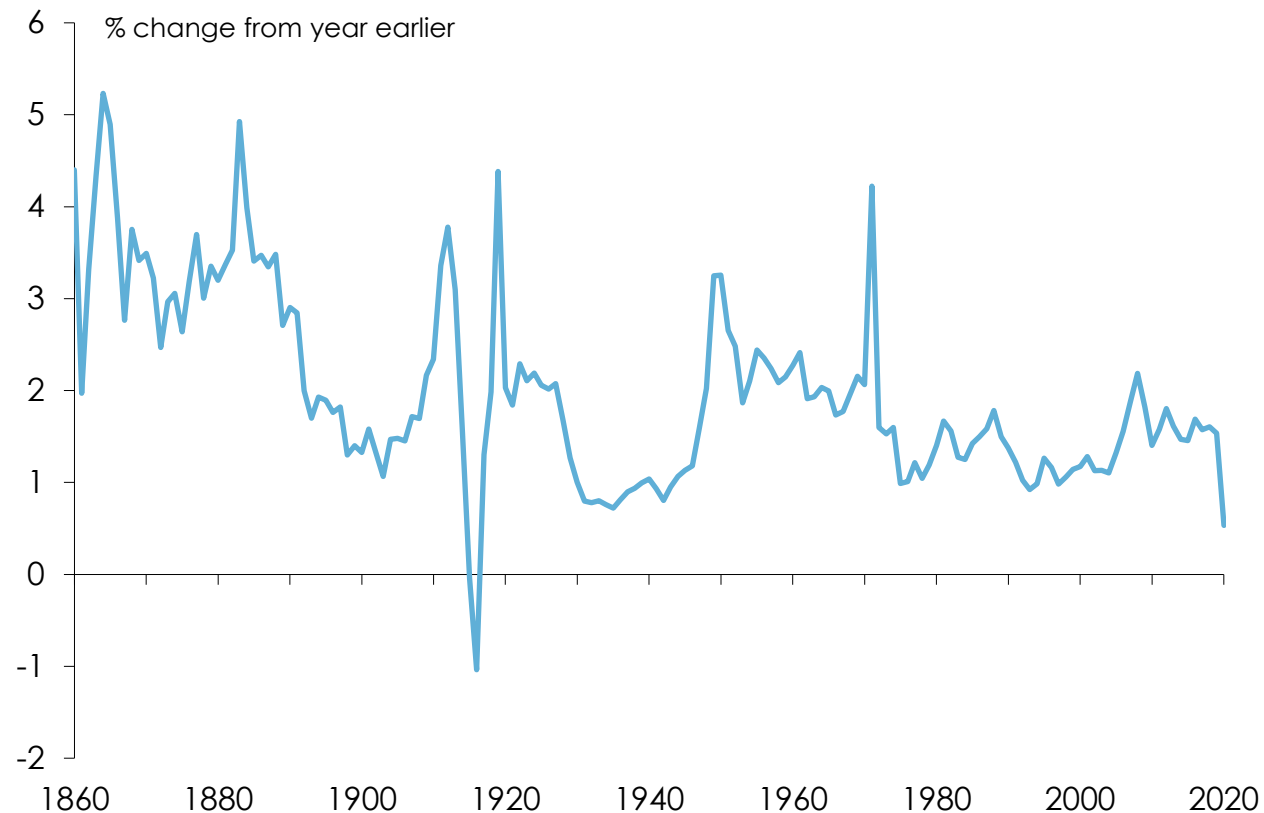


Source: <https://www.covid19data.com.au/vaccines>

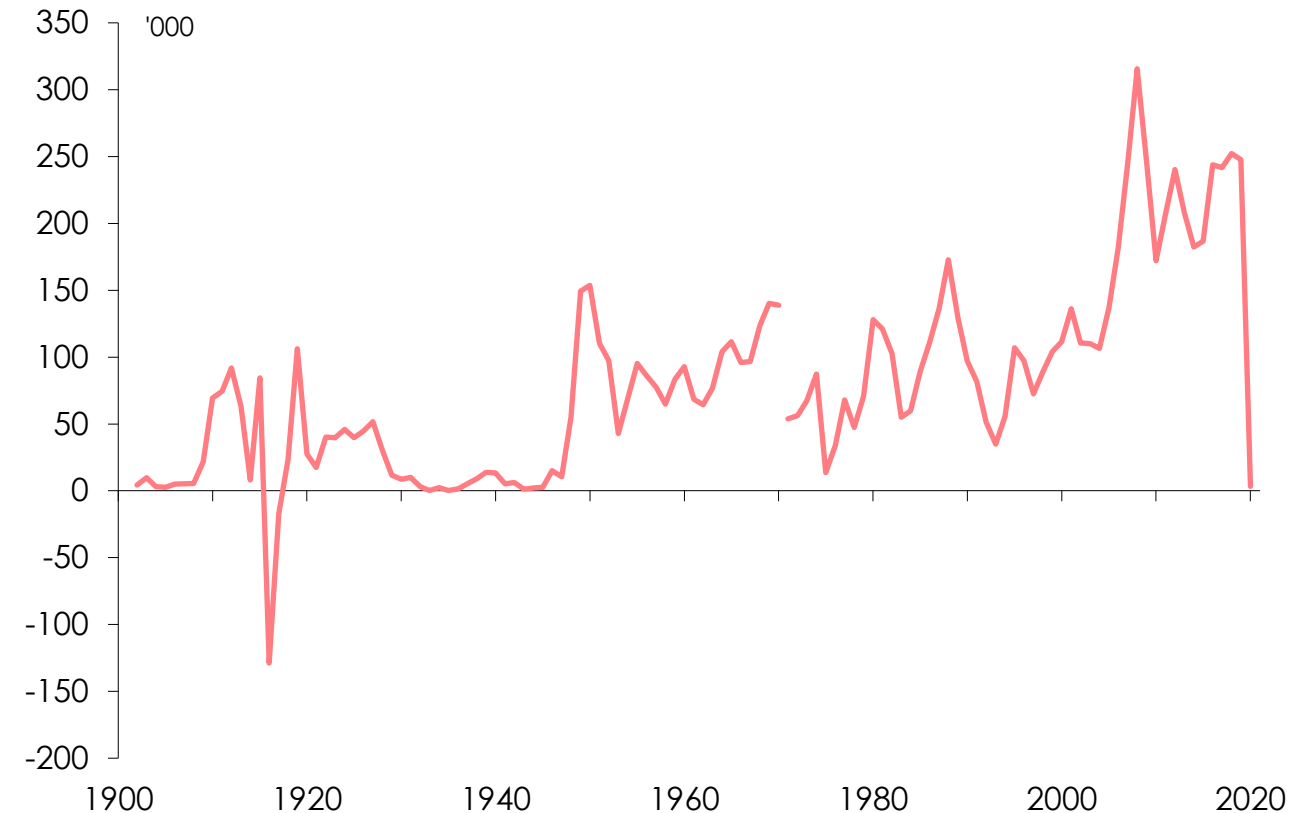
- ❑ **Australia originally put too many of its vaccine 'eggs' in the Astra-Zeneca 'basket'**
 - partly because the Astra-Zeneca vaccine was easier to store, and considerably cheaper, than the Pfizer vaccine
 - and partly out of a (misplaced, with the benefit of hindsight) concern over 'sovereignty' (ie the Astra-Zeneca vaccine could be manufactured in Australia, whereas mRNA vaccines like Pfizer and Moderna can't be)
- ❑ **Deliveries of the Astra-Zeneca vaccine were slower than expected**
 - partly because the EU, at Italy's behest, blocked the delivery of up to 3.1mn doses to Australia (although the EU denies that)
 - local production of the Astra-Zeneca vaccine has taken longer to 'ramp up' than expected – as of early May, less than half the originally expected 3mn doses had been produced; as of this weekend, local production is still 1mn doses behind the 'revised' schedule
- ❑ **Australia's success in suppressing the virus probably bred complacency on the part of the population about getting vaccinated**
- ❑ **Concerns about the risk of potentially fatal blood-clots as a side-effect of the Astra-Zeneca vaccine prompted the Government's medical advisors to warn against giving A-Z to people under 60**
 - advice that was also (ironically) coloured by the much lower infection rates in Australia (which thus meant a different 'balance of risks' against side effects than in countries with much higher infection rates)
- ❑ **Australia has a very high rate of 'vaccine hesitancy' which concerns about A-Z side effects 'played into'**

The closure of Australia's international border since March last year has resulted in the slowest population growth in 104 years

Australia's population growth, 1860 -2020



Net migration to Australia, 1900-20

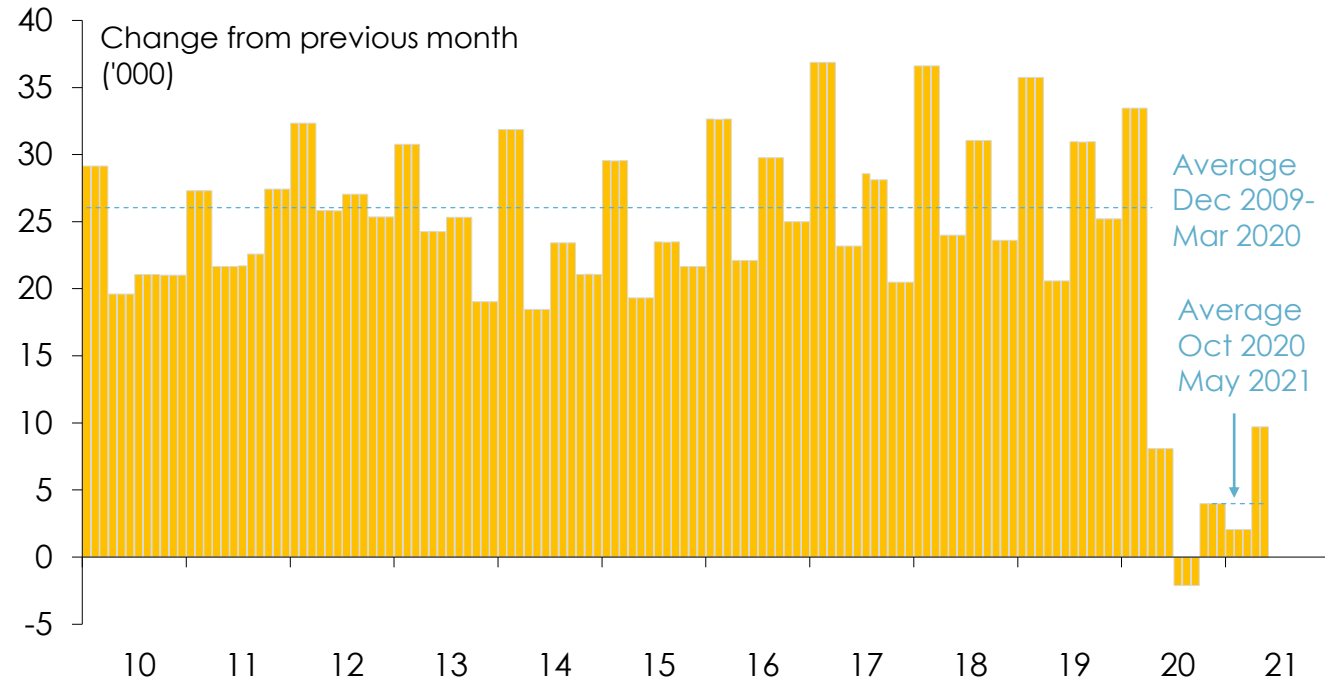


- ❑ Only 76K immigrants came to Australia in the last nine months of 2020, while 151K people departed permanently – implying a net outflow of almost 68,000 people
- ❑ As a result, Australia's population growth rate fell to just 0.5% over the year to Q4 2020, the slowest since 1916
- ❑ Slower growth in the working-age population does however mean that a given rate of employment growth results in faster reductions in the unemployment rate (all else being equal)

Note: The net migration data has a series break at 1971 due to definitional changes. Sources: ABS, [National, state and territory population](#), December 2020; [Historical Population](#), 2016; [Migration, Australia](#), 2019-20; [Demography Bulletin](#), 1923, 1940, 1950, 1960 and 1971; [Population and Vital Statistics Bulletin](#), 1912.

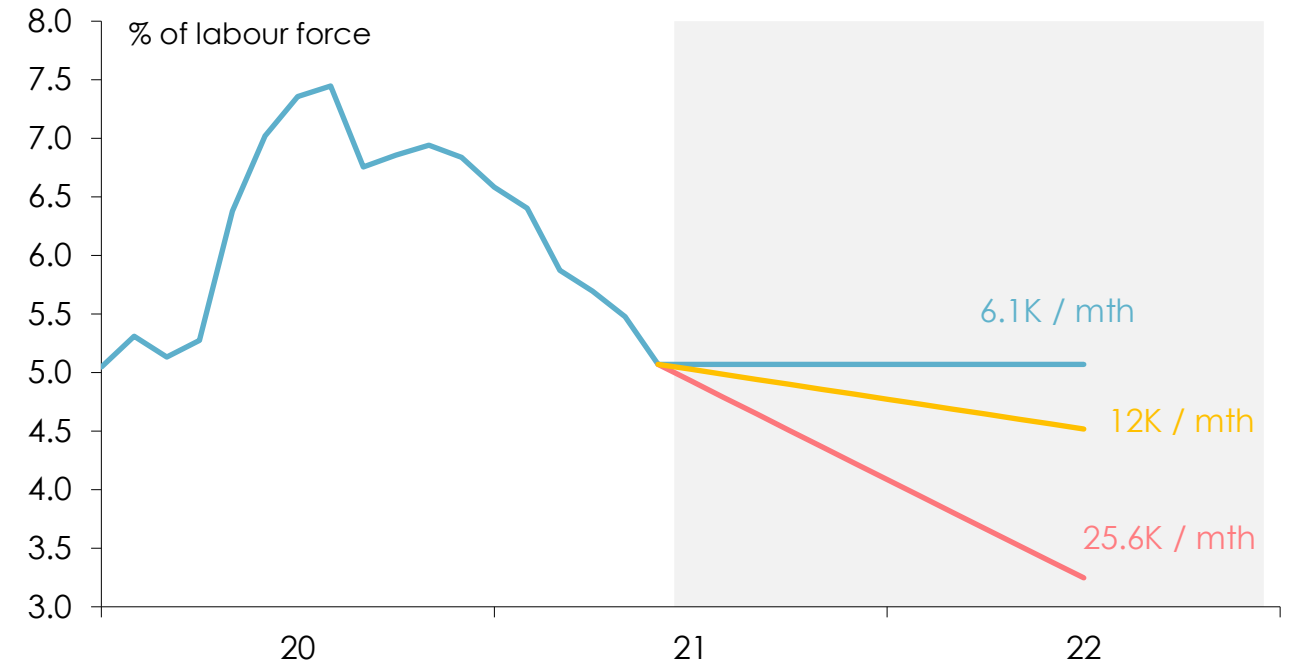
The closure of Australia's borders means that it's much easier to reduce unemployment for any given rate of jobs growth

Monthly growth in civilian working-age population



- Over the decade prior to the onset of Covid-19, the civilian working-age population (people aged 15 and over) grew by an average of 26K a month – meaning that 16½K new jobs a month, on average, were required to keep the unemployment rate constant (assuming an unchanged participation rate)
- But since last October, the working-age population has risen by an average of less than 5K a month – which means that anything more than 3K new jobs a month will result in a fall in the unemployment rate, all else being equal

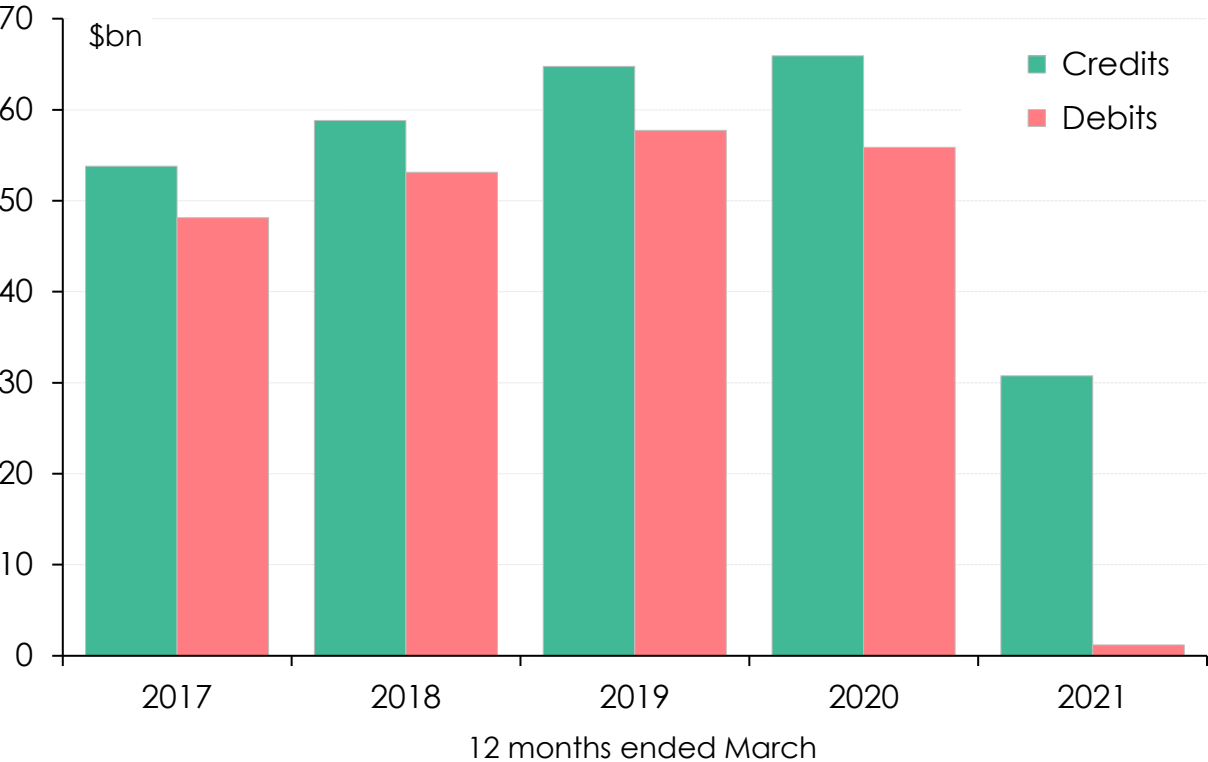
Unemployment rates for alternative rate of jobs growth



- Assuming the working-age population grows at the same rate as during the current quarter (ie 9.7K a month) and no change in the participation rate, employment growth of more than just 6.1K a month is sufficient to ensure further falls in the unemployment rate
- If employment continued to grow at half the pace so far this year unemployment would be down to 3¼% by June next year - 12K a month is all that's required to get to 4½% by next June

The ban on Australians (apart from Ministers & sportspeople) travelling abroad more than offsets the loss of spending by foreign tourists & students

Travel credits and debits



Over the four years to March 2020, Australians spent an average of \$54bn per annum on overseas travel – as against just \$1bn spend in that way over the 12 months to March 2021, ‘freeing up’ a large amount which appears to have been spent in other ways (electronics, household goods, clothes, cars etc.)

Net travel transactions

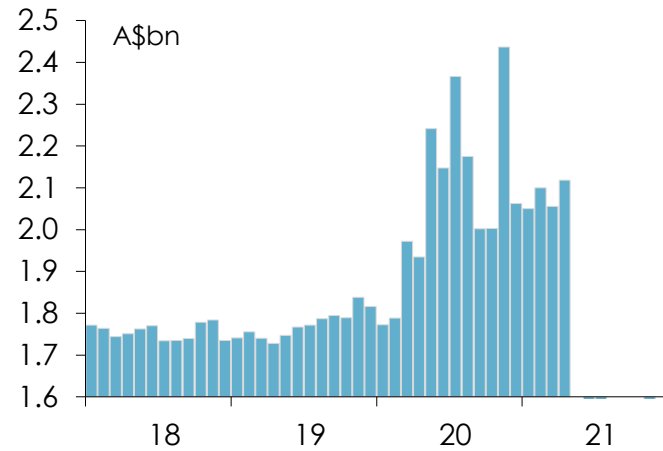


Despite restrictions, foreigners still spent \$31bn in Australia in the 12 months to March 2021 (cf. an average of \$61bn per annum over the previous four years) implying a *net gain* to Australia during 12 months to March this year of almost \$22½bn by comparison with the 2016-19 average – equivalent to about 1¼% of GDP

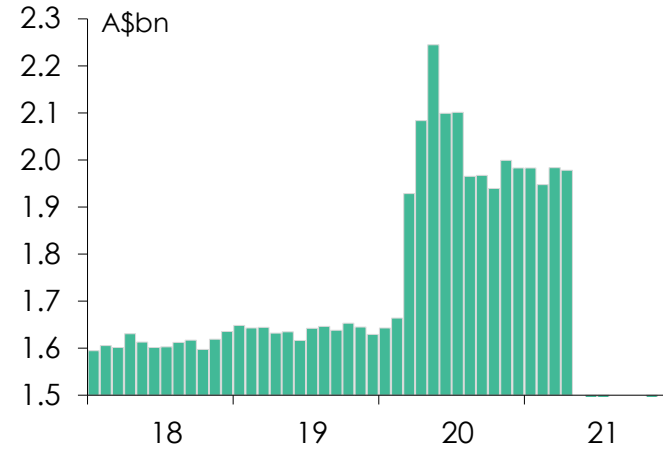
Source: ABS, [International Trade in Goods and Services, Australia](#), March 2021.

The >\$50bn per annum that Australians would have spent overseas if they'd been allowed to has instead been spent at home

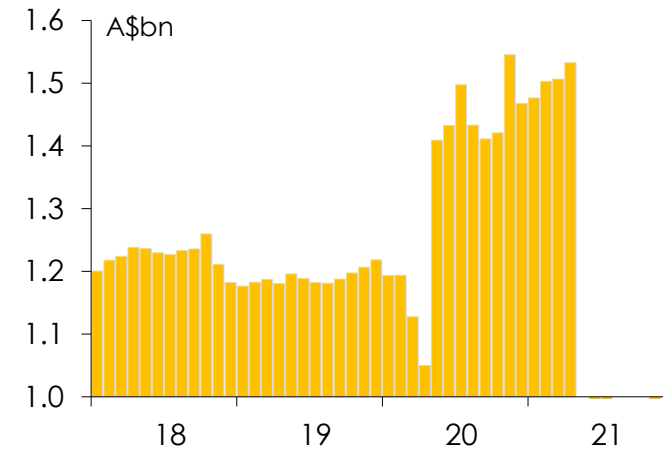
Electronic & electrical goods



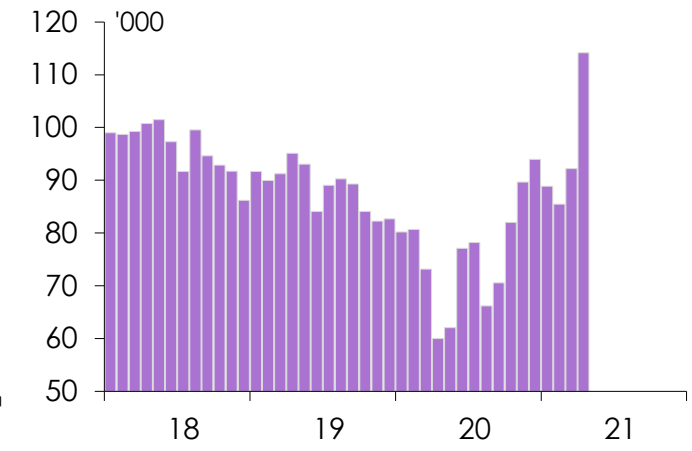
Hardware, building & garden supplies



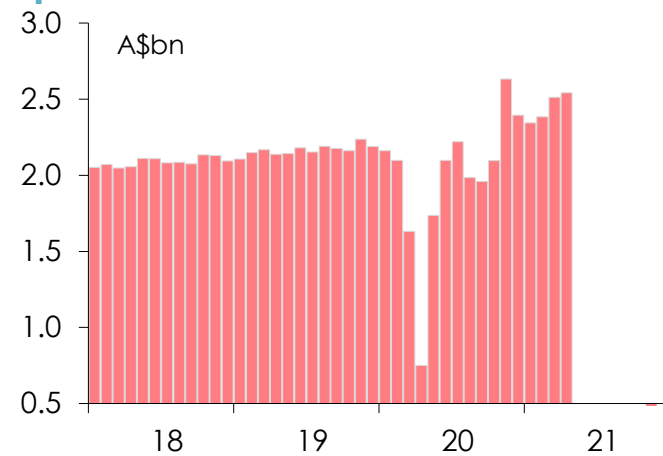
Floor coverings, furniture, housewares etc



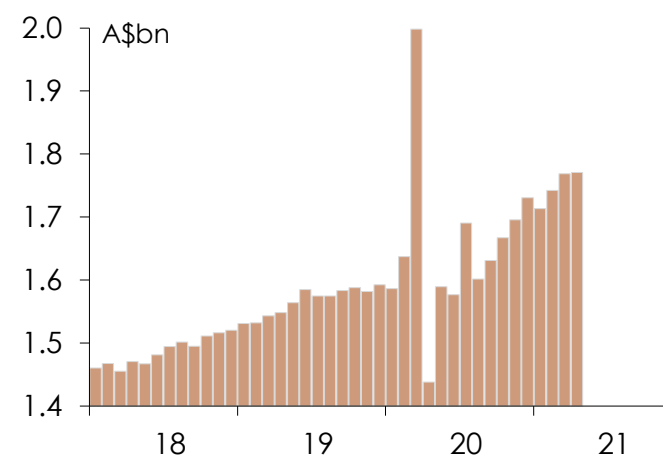
New motor vehicles



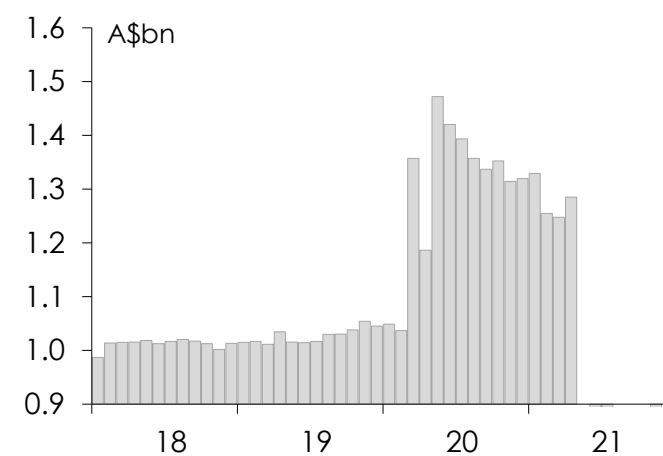
Clothing, footwear & personal accessories



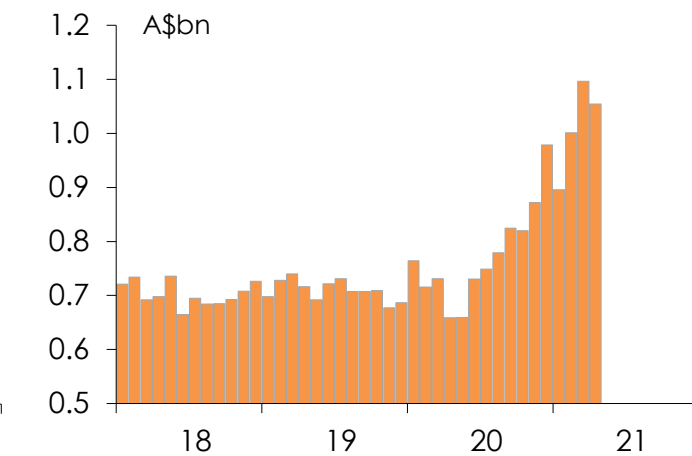
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



Renovations



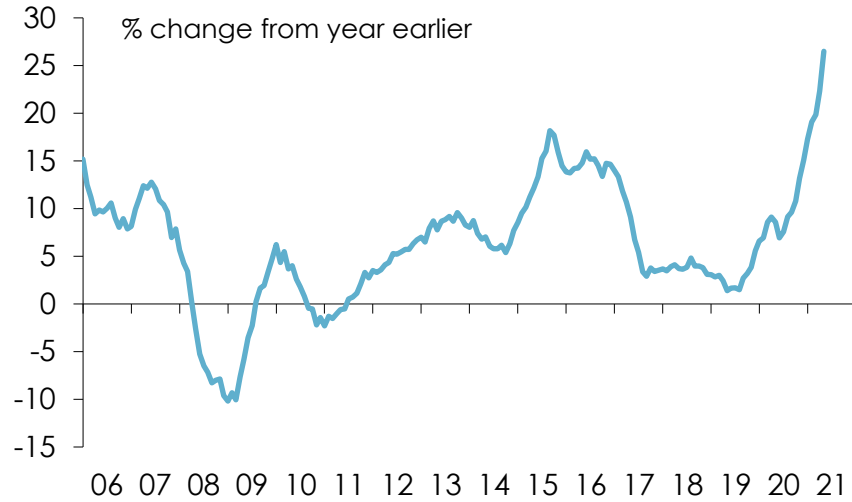
Note: First six charts (from left) are retail sales; new motor vehicles are numbers of vehicles sold; renovations are the value of alterations and additions to residential dwellings approved by local governments. Sources: ABS, [Retail Trade, Australia](#), April 2021; [Building Approvals, Australia](#), April 2021; Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of Vfacts data by Corinna).

Prolonged closure of Australia's international border increasingly looks like a new version of 'protectionism'

- ❑ The 'protectionism' which Australia practiced from the time of 'independence' from Britain in 1901 until the early 1990s used tariffs and quotas to force Australians to spend money which they would have preferred to spend on foreign-made goods (if they were free to do so) on Australian-produced goods instead
 - in the belief that this created jobs (particularly in manufacturing industry), reduced Australia's dependence on agriculture and mining, and enhanced our 'resilience' to external shocks (including in particular, wartime interruptions to foreign supplies of 'strategic' goods)
 - other 'advanced' economies began winding back their barriers to trade in manufactured goods after World War II, but Australia (and New Zealand) persisted with them, because other 'advanced' economies wouldn't also reduce their barriers to trade in agricultural commodities
- ❑ The end-result of Australia's persistence with high levels of 'protection' for its manufacturing industries was that they, and the economy more broadly, became increasingly inefficient, as productivity growth lagged behind the rates achieved in other 'advanced' economies
 - Australia's per capita GDP (a crude but widely-used measure of material living standards) declined from being (along with NZ and Argentina) the highest in the world in 1900, to being 26th in the world by the early 1990s
- ❑ Australia's border closures during Covid – which have been more comprehensive, and in place for longer, than in any other democracy – have much in common with Australia's earlier forms of 'protectionism'
 - they are in effect forcing Australians to spend at home on goods, money which they would have preferred, if they were free to do so, to spend overseas
 - and they are reducing the competition which Australians looking for work face from 'foreigners' (immigrants)
- ❑ As with the older forms of Australian 'protectionism', the new variant provides a short-term 'sugar hit' to the economy
 - but the longer this new variant of 'protectionism' remains in force, the more its longer-term costs and consequences will resemble those of the old sort

NZ's housing price boom has been fuelled by investors (a large proportion of them with very high LVRs) – but recent changes have had some impact

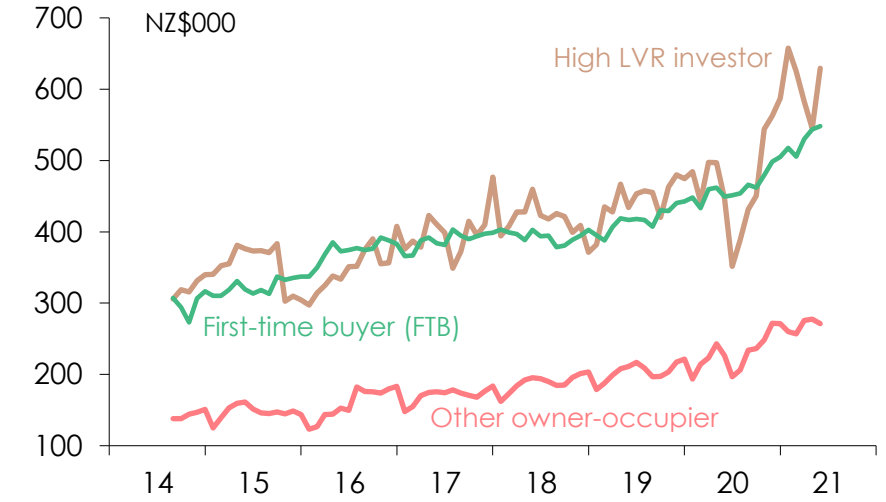
House price inflation



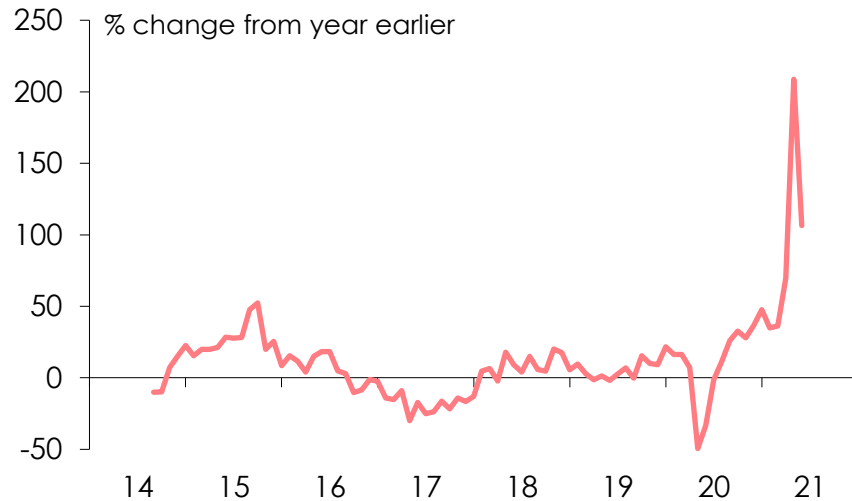
Lending to investors as pc of total



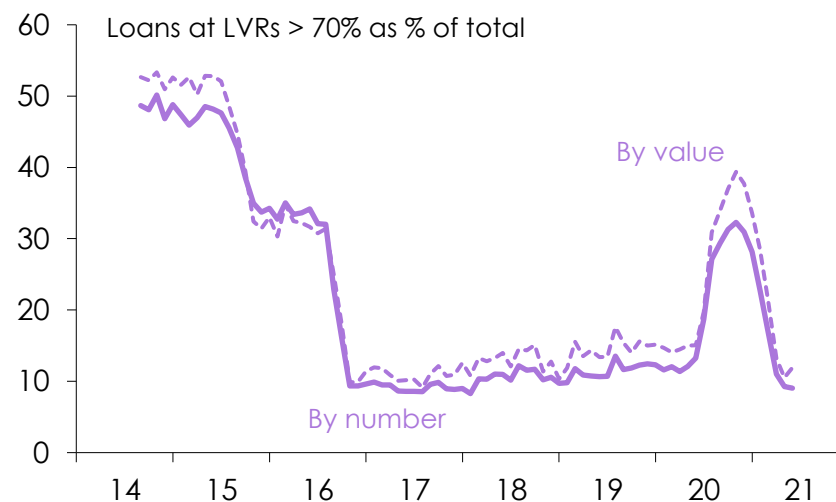
Average new mortgage



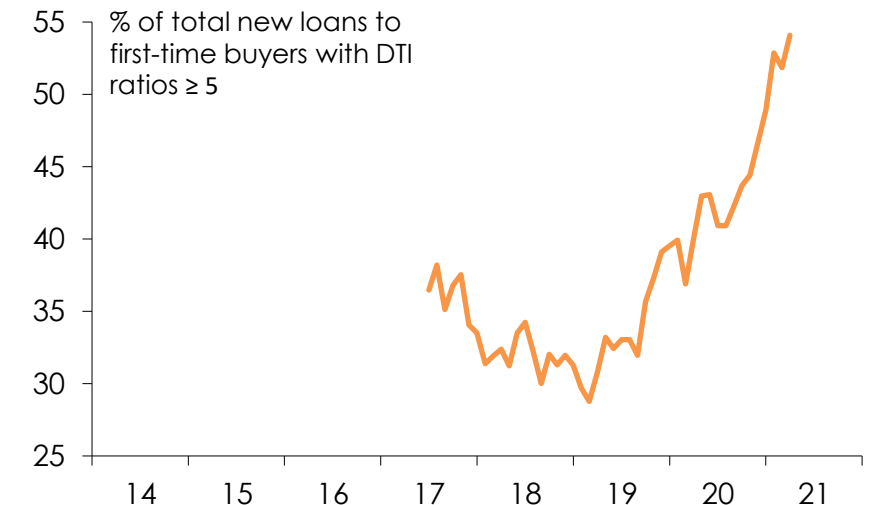
Mortgage lending growth



High-LVR loans to investors



Loans to FTBs at over 5 times income



Note: New Zealand's tax system allows 'negative gearing' (ie, investors can offset the excess of interest costs over net rental income against their other income for tax purposes) but does not impose any tax on capital gains, making borrowing for property investment more attractive in after-tax terms than in almost any other 'advanced' economy. Sources: [Real Estate Institute of NZ](#); Reserve Bank of New Zealand (Tables [C30](#), [C31](#) and [C40](#)). [Return to "What's New"](#).

The New Zealand Government and the RBNZ have acted forcefully to stem the rapid growth in house prices

- ❑ In February, the New Zealand Government formally extended the RBNZ's 'remit' to include house price sustainability
 - following which, the RBNZ tightened restrictions on high-LVR lending: no more than 20% of mortgage loans to owner-occupiers can be at LVRs > 80%, and no more than 5% of loans to investors can be at LVRs > 70% (reduced to 60% from 1st May)
- ❑ In March, the Government unveiled a series of measures to dampen investor demand for housing and encourage stronger growth in new dwelling construction ...
 - the period for which investment properties must be held before any profits upon sale become exempt from income tax (the so-called 'bright line test') will be extended from five years to ten years
 - interest on loans taken out to finance the purchase of investment properties will no longer be deductible for tax purposes against rental income, with effect from 1st October for properties purchased after 27th March, and after a four-year phase-in period for properties purchased before that date
 - 'new builds' will be exempted from these changes (ie investors who build new dwellings will still be able to claim interest costs as a deduction against rental income and will be able to sell them tax free after five years)
 - the income caps on eligibility for First Home Loans (which only require a 5% deposit) and First Home Grants (of NZ\$10,000) will be lifted (from NZ\$85,000 to NZ\$95,000 for single buyers, and from NZ\$130,000 to NZ\$150,000 for couples), as will the price caps on eligible homes in some markets (such as Auckland and Queenstown)
 - the Government will provide NZ\$3.8bn to accelerate the provision of residential infrastructure in new housing estates
- ❑ In May, the Government formally added debt serviceability restrictions (such as a debt-to-income limit on the size of new mortgages) to its 'macro-prudential tool kit'
 - the RBNZ's analysis of options suggests that a DTI limit would "primarily impact investors and higher-income owner-occupiers, who borrow at higher DTI ratios than average", and that such a limit "could be calibrated to exempt the large majority of first-home buyers" – whereas "restricting interest-only lending would be challenging to implement and enforce"
 - the Bank indicated that it will now discuss with lenders the feasibility of implementing such a tool, although that "does not indicate that [it has] any immediate plans to implement [it]"

The ~~elephant~~ dragon in the room

Xi Jinping's China is becoming increasingly assertive and belligerent in dealing with its neighbours

- ❑ Xi Jinping's [speech](#) in Tian'anmen Square on 1st July, marking the 100th anniversary of the founding of the Chinese Communist Party, was his most assertive yet indication of China's intentions
 - in a 5,169-word speech Xi used the phrase “rejuvenation of the Chinese nation” (中华民族伟大复兴) nineteen times
 - more than “socialism with Chinese characteristics” (中国特色社会主义) – 12 times, Marxism – 11 times, Communist Party (中国共产党) 11 times, or even Mao Zedong – only 4 times
- ❑ The “great rejuvenation of the Chinese nation” aka “the Chinese dream” (中国梦) is at the core of [‘Xi Jinping Thought’](#) (习近平思想) which he first articulated in a [speech](#) to the CCP Politburo Standing Committee on 15th November 2012, soon after becoming CCP General Secretary and President of China
 - what it means to Xi (and others) is putting squarely behind it China's “century of humiliation” at the hands of “imperialist and hegemonistic powers” and “the state of total disunity” that existed between 1842 (the end of the First Opium War) and 1949 (the CCP's victory in the Chinese civil war and the establishment of the People's Republic of China)
 - what it means in practice is the restoration of the [‘tributary system’](#) (中华朝贡体系) under which neighbouring states exhibited ‘symbolic obeisance’ to China, which reached its apogee during the Ming Dynasty (1368-1644) and early Qing (1644-1842)
- ❑ Xi said in his 1 July speech “The Chinese nation does not carry aggressive or hegemonic traits in its genes ... We have never bullied, oppressed, or subjugated the people of any other country, and we never will” (tell that to the Vietnamese!)
 - what China wants (especially in its own hemisphere) is ‘coercion without conflict’ (hence its ‘trade war’ on Australia)
- ❑ Note, however, China does not accept that Taiwan is ‘another country’ – Xi emphasized that “resolving the Taiwan question and realizing China's complete re-unification is a historic mission and an unshakeable commitment of the CCP – we must take resolute action to utterly defeat any attempt toward ‘Taiwan independence’”
 - Xi stressed the importance of “accelerat[ing] the modernization of ... the armed forces” and of “fully implement[ing] the Party's thinking on strengthening the military in the new era as well as our military strategy for the new era”, “tak[ing] comprehensive measures to enhance the political loyalty of the armed forces” and equipping the military with “greater capacity and more reliable means for safeguarding our national sovereignty, security and development interests”

China's behaviour towards Taiwan and India, and in the South China Sea, continues to worry its neighbours

Taiwan: 'Record number' of China jets enter air zone

13 April



Chinese J-10 fighters were among the Chinese aircraft (file photo)

NIKKEI Asia

Indonesia bolsters navy as China steps up incursions around ASEAN

China and India Move Tens of Thousands of Troops to the Border As Tensions Rise

BY JACK DUTTON ON 7/2/21 AT 10:53 AM EDT

Philippines flags 'incursions' by nearly 300 Chinese militia boats



This handout photo taken on April 27, 2021 and received from the Philippine Coastguard on May 5, 2021 shows Philippine coastguard personnel aboard their ship BRP Cabra monitoring Chinese vessels anchored at Sabina Shoal, a South China Sea outcrop claimed by Manila located about 135 kilometres (73 nautical miles) west of the Philippine island of Palawan

Malaysia scrambles fighter jets to respond to major incursion of its airspace by 16 Chinese aircraft

THE TIMES OF INDIA

China forces prepare for possible military invasion of Taiwan

ANI / Updated: Oct 18, 2020, 16:50 IST

China / Military

US spy planes make fewer flights over South China Sea as focus shifts: report

- Beijing think tank says the US military last month turned its attention to the East China Sea and was also diverted by Russian drills near Hawaii
- Report details an American anti-submarine patrol aircraft crossing the Taiwan Strait from north to south for the first time

PLA warplanes made a record 380 incursions into Taiwan's airspace in 2020, report says

Chinese aggression pushes Vietnam ever closer to Washington

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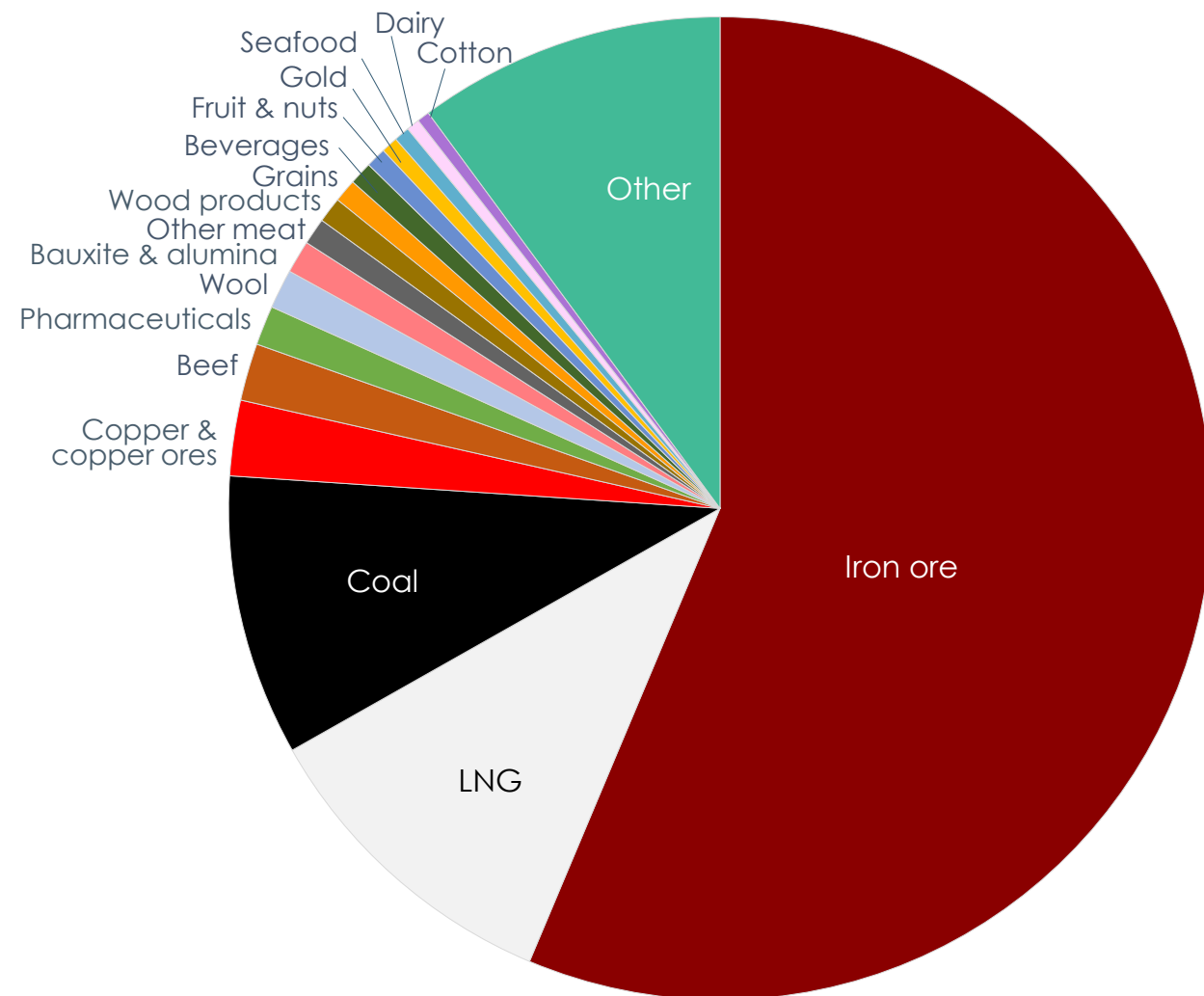


SAUL ESLAKE

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China is waging a 'trade war' against Australia – as a warning to other countries of the consequences of failing to toe the 'Beijing line'

Australia's merchandise exports to China, 2019-20

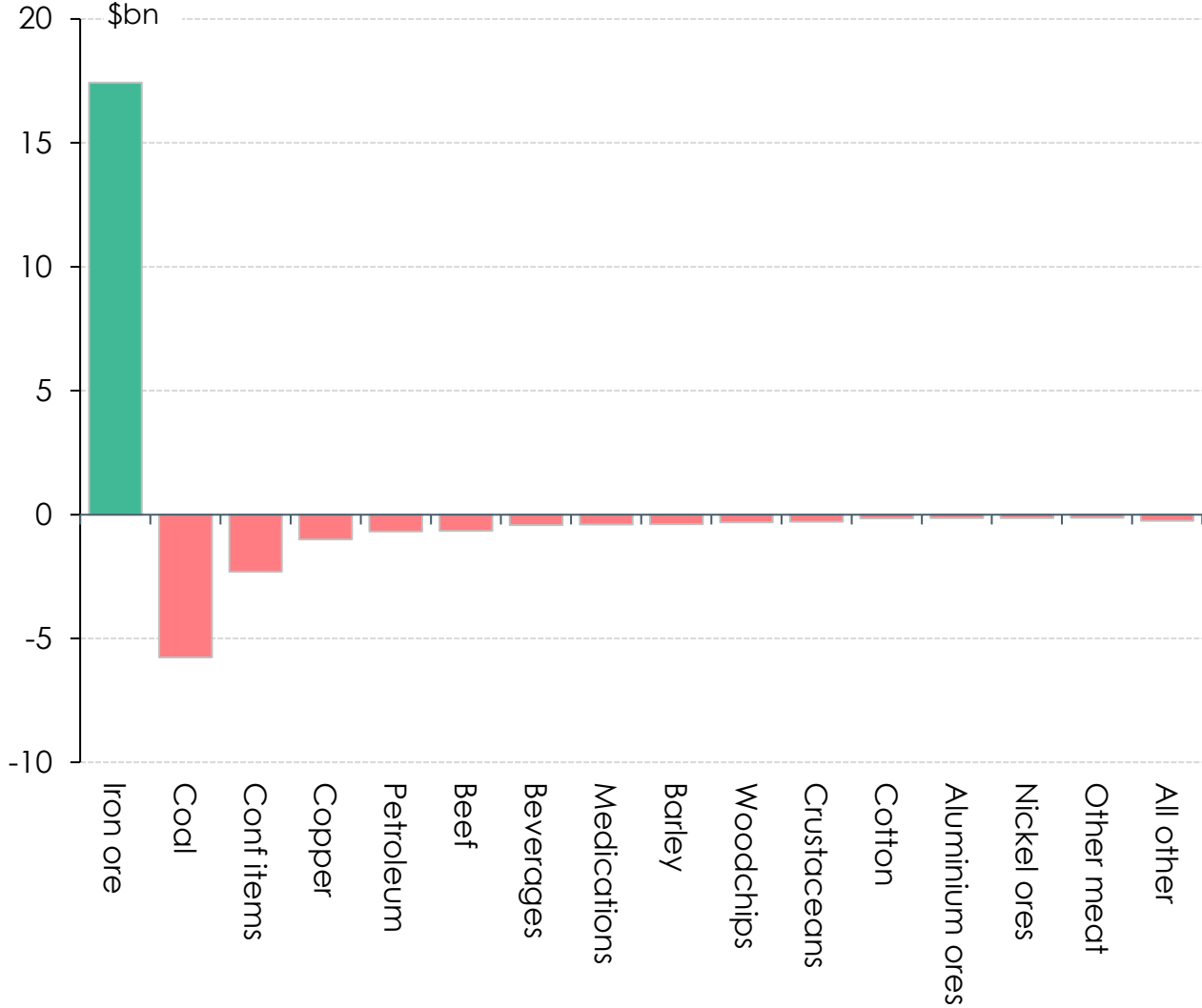
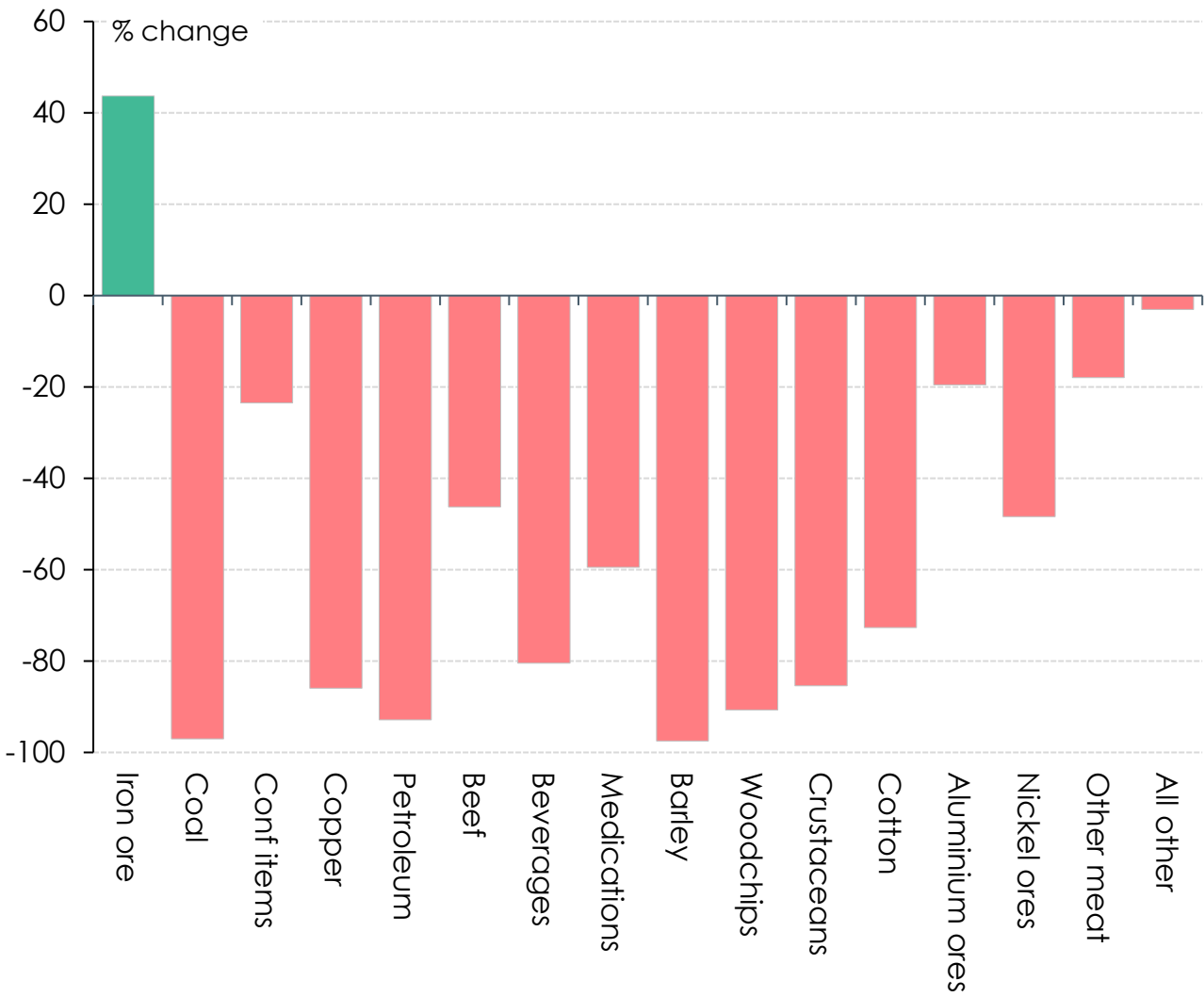


Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.
Sources: Australian Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#); Corinna.

- ❑ China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
 - of which iron ore & concentrates accounts for 56%
- ❑ China also accounted for 19% of Australia's services exports in CY 2019 of which tourism & education accounted for over 90%)
- ❑ China has no real alternatives to Australian iron ore in the near term – but it has been progressively expanding the range of other Australian products subject to discriminatory tariffs, “customs inspections”, quarantine issues or outright bans – including wheat, wool, copper ores, sugar, lobsters, timber, wine and coal
 - Australia's [exports of these products](#) to China have dropped from about \$25bn in 2019 to an annualized rate of about \$5½bn since the sanctions were imposed – although in many cases Australian exporters have been able to find alternative markets
 - last month's [Queensland Budget Papers](#) show China's imports of coal from Queensland dropped from 28.6Mt in the six months to April 2020 to just 2.8Mt in the six months to April 2021 – but about two-thirds of this was offset by increased exports to India, Japan and Korea
- ❑ In May China [indefinitely suspended](#) all activities under the 'China-Australia Strategic Dialogue' originally established in 2014 (although there haven't been any 'activities' since 2017)
- ❑ China is (in its own words) seeking to “strangle the chicken to warn the monkey” (杀鸡儆猴) – a message to other countries in the Asia-Pacific region as to the consequences for them of failing to do (and not do) as Beijing wants

Australia's iron ore exports to China rose 44% over the year to the six months ended April – but all other exports dropped by 41%

Change in Australian exports to China, six months to April 2021 compared with six months to April 2020



Source: Australian Department of Foreign Affairs and Trade, [Trade Statistical Pivot Tables - Country and commodity pivot table monthly](#); Corinna.

Conclusions

Conclusions

- ❑ **Most of 'peripheral Asia' has done well – by comparison with other regions (both 'advanced' and 'developing' or 'emerging') in suppressing the spread of Covid 19**
 - which has meant that 'peripheral' Asian economies have (mostly) experienced shallower recessions and quicker recoveries than other 'advanced' and 'emerging' economies
- ❑ **However 'peripheral' Asian countries have (with the exception of Singapore, but including Australia and New Zealand) has been very dilatory at vaccination their populations**
 - which means that they will 'open up' more slowly than other nations which have done a much better job with vaccination programs, and their (domestic) economic recoveries may fall behind other nations which can 're-open' more quickly
- ❑ **The more 'advanced' East Asian economies are highly leveraged to the global economy (and especially to trade in manufactured goods) which will provide some offset to slower domestic recoveries**
 - but they are also experiencing the same 'upstream' inflation pressures as in North America and (to a lesser extent) Europe – and for the same reasons (supply chain disruptions, especially semiconductor chips)
 - and some (Cambodia, Philippines, Thailand, New Zealand, HK and Malaysia) have large exposures to tourism
- ❑ **'Peripheral' East Asian governments and central banks haven't (for the most part) provided as much fiscal or monetary policy support for economic activity as their counterparts in 'advanced' economies**
 - although Indonesia is experimenting with what looks a lot like a variant of 'modern monetary theory'
- ❑ **Most 'peripheral' East Asian nations have reasonably sound external financial positions especially by comparison with other 'developing' economy regions**
- ❑ **India's economy has had a particularly severe Covid experience**
 - and Narendra Modi is not the 'reformer' he is widely perceived externally to be
- ❑ **Australia and New Zealand may not look so good relative to other 'advanced' economies this time next year**
 - because of their reliance to date on ultimately unsustainable suppression strategies and their poor vaccination rates
- ❑ **China's increasing bellicosity and assertiveness in the region is a major source of uncertainty and risk**

Important information

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.

Corinna Economic Advisory is a partner (with Llewellyn Consulting, of 1 St Andrews Hill, London EC4V 5BY) in Independent Economics.

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