

Box 2.2

Can domestic demand of selected Asian economies provide support to growth?

After the Global Financial Crisis of 2008, many Asian economies faced growth moderations of varying degrees. Demand conditions in the advanced economies have remained sluggish, adding downward pressures to the merchandise trade performance of these Asian economies, most of which are externally-oriented. Over the last few years, these Asian economies have strived to rebalance their growth model by strengthening domestic demand, so as to cushion the adverse impacts arising from the external headwinds. This note briefly examines the latest domestic demand performance of selected Asian economies⁽¹⁾, with an attempt to shed some light on the region’s growth prospects.

Growth in emerging and developing Asia moderated from an average of 9.5% per annum in 2003-2007 to 7.6% per annum in 2009-2014. In 2015, emerging and developing Asia slowed further to register an estimated 6.6% growth, and their production activities and goods exports slackened sharply to notable year-on-year declines, marking the poorest performance since 2009 (*Chart 1*). But on the other hand, their domestic demand exhibited remarkable resilience, which helped cushion the visible setback from external demand, thereby sustaining a moderate economic performance (*Chart 2*).

Chart 1 : Asia’s exports of goods weakened further in 2015, dragged by sluggish demand conditions in advanced economies

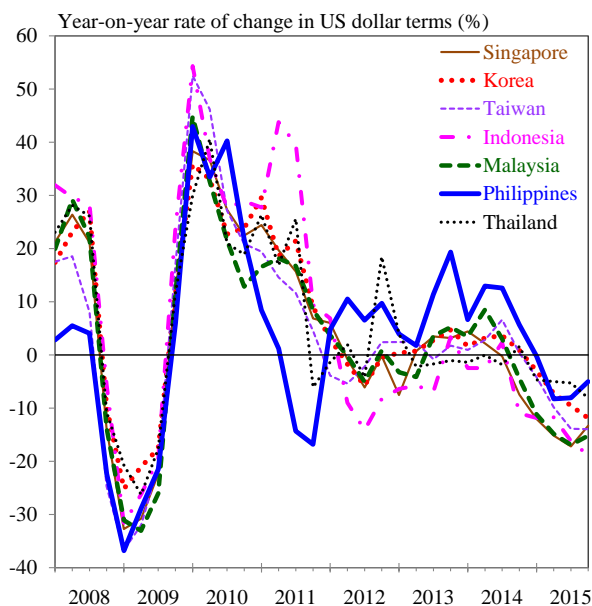


Chart 2 : Resilient domestic demand helped cushion export-dependent Asian economies

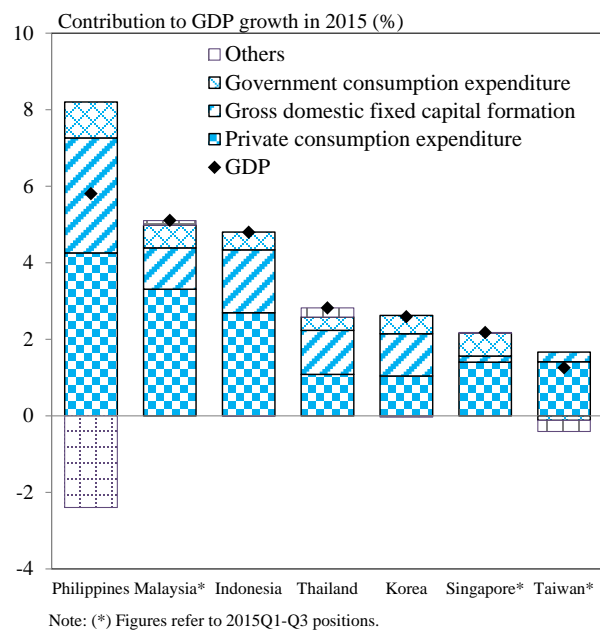


Table 1 shows that domestic demand in the selected Asian economies generally expanded steadily or saw pick-ups in growth in 2015, notwithstanding the concomitant GDP growth slowdown. Within the components of domestic demand, private consumption expenditure (PCE) has been a key growth engine. In fact, PCE grew at a faster year-on-year rate than overall economic growth during 2015 in such economies as Singapore, Taiwan, Malaysia, the Philippines and Indonesia. The relatively solid PCE growth reflected the interplay of various favourable factors, including steady labour market conditions with low or falling unemployment rates (*Table 2*); lower borrowing costs under the ultra-low global interest rate environment; and lower oil prices in the past year or so, which were tantamount to terms of trade improvement and an increase in consumer spending power.

(1) The Asian economies covered in this article include Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand.

Box 2.2 (Cont'd)

As for gross domestic fixed capital formation, although this component is typically volatile, investment spending in the Philippines, Indonesia, Thailand and Malaysia still registered visible growth during 2015, conceivably reflecting the support from higher infrastructure investments amid growing urbanisation in these economies. Meanwhile, many economies saw accelerated growth in their government spending, which should have also provided an important buffer against external shocks.

Table 1 : Year-on-year rates of change in domestic demand components (%)

	GDP		Domestic demand ^(^)		Private consumption expenditure		Gross domestic fixed capital formation		Government consumption expenditure	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Philippines	6.1	5.8	5.3	8.2	5.4	6.2	6.8	14.0	1.7	9.4
Malaysia ^(*)	6.0	5.1	5.9	5.5	7.0	6.3	4.8	4.1	4.4	4.8
Indonesia	5.0	4.8	4.6	5.0	5.2	5.0	4.6	5.1	1.2	5.4
Thailand	0.8	2.8	#	2.8	0.6	2.1	-2.4	4.7	2.1	2.2
Korea	3.3	2.6	2.4	2.9	1.8	2.1	3.1	3.8	2.8	3.3
Singapore ^(*)	2.9	2.2	0.5	3.2	2.5	4.1	-1.9	0.7	0.1	6.4
Taiwan ^(*)	3.9	1.3	3.0	1.7	3.3	2.6	1.8	1.1	3.6	-0.8

Notes: (^) Excluding change in inventories.

(*) As full-year detailed data are not yet available, figures in 2015 refer to Q1-Q3 positions.

(#) Change within $\pm 0.05\%$.

Table 2 : Favourable labour market conditions are conducive to consumption spending

	Unemployment rate		
	Average (2003-2007)	Average (2009-2014)	Latest available figure
Philippines	10.0%	7.1%	5.7% (3-month ending October 2015)
Malaysia	3.5%	3.2%	3.3% (November 2015)
Indonesia	10.0%	6.7%	6.2% (August 2015)
Thailand	1.8%	0.9%	0.7% (December 2015)
Korea	3.5%	3.4%	3.4% (December 2015)
Singapore	3.0%	2.2%	1.9% (Q4 2015)
Taiwan	4.3%	4.6%	3.9% (December 2015)

Looking ahead, domestic demand, led by consumption spending, should continue to play a key role in buttressing Asia's economic growth. This is further complemented by the plans and reforms set forth by many Asian economies to bolster growth, on the back of accommodative monetary and fiscal policies. Indeed, the IMF in January projected GDP growth in emerging and developing Asia in 2016 to expand steadily by 6.3%, which if attained would represent a key stabilising force to the global economy, contributing around 60% of the world's GDP growth.

Nonetheless, various external uncertainties would add downside risks to the economic outlook for Asia as a whole. This includes, amongst others, the possible repercussions of the US future interest rate moves on consumption and investment sentiments; businesses' concerns on the still-bleak global economic prospects; as well as the potential strains on households' financial positions from more volatile global financial conditions amid a substantial build-up of household debt in Asian economies over the past years. Needless to say, any sizable negative external shocks to the Asian region would not bode well to the Hong Kong economy, given our close economic ties with neighbouring economies. We will monitor closely Asia's economic situation and stay vigilant to any potential adverse impacts on the Hong Kong economy.