

**Box 2.2**

**Private consumption expenditure as an engine of growth  
in the Asian emerging market economies**

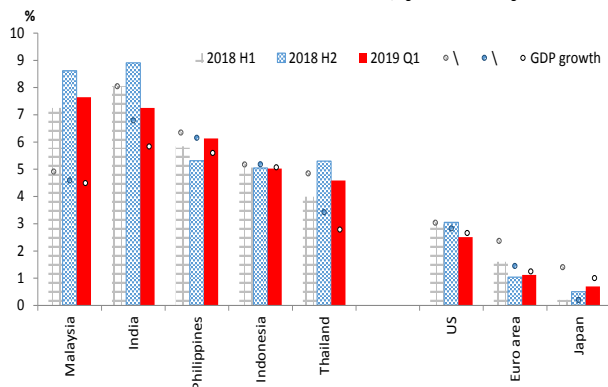
The Asian emerging market (EM) economies have been facing increasing headwinds since the second half of 2018 due to weaker global economic growth and uncertainties stemming from US-Mainland trade tensions. Yet, despite the worsened export performance, domestic demand especially private consumption expenditure (PCE) continued to hold up, and overall economic growth of these economies were better than the major advanced economies. This box article briefly examines the recent performance of PCE in selected major Asian EM economies.<sup>(1)</sup>

**Recent performance of Asian EM economies**

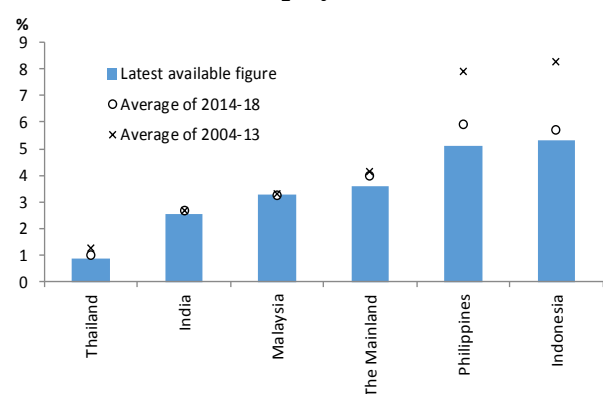
Trading and manufacturing activities in Asia have generally deteriorated since the second half of 2018. Total merchandise exports of the selected major Asian EM economies as a whole deteriorated from a visible year-on-year growth of 12.3% in US dollar terms in the first half of 2018 to a more moderate growth of 6.9% in the second half, and further to a modest decline of 0.7% in the first half of 2019. Likewise, industrial production in many Asian EM economies worsened. Industrial production in the Philippines and Thailand saw progressive deterioration from strong year-on-year growth in the first half of 2018 to year-on-year declines in recent months, while that in other Asian EM economies recorded moderating growth.

On the other hand, PCE in most of the selected Asian EM economies showed improvement over the course of 2018, and grew by more than 5% in real terms for the year as a whole (*Chart 1*). In fact, PCE has emerged as a significant growth driver in many Asian EM economies in recent years, more so since the second half of 2018 when the export performance of these economies was hard hit by the global economic slowdown and intensifying trade tensions (*Table 1*).

**Chart 1: Growth of real PCE, year-on-year (%)**



**Chart 2: Unemployment rate (%)**



Sources: National Bureau of Statistics of China, CEIC, Datastream, the World Bank.

(1) The selected Asian EM economies in this box article include the Mainland China, India, Indonesia, Malaysia, the Philippines and Thailand.

**Box 2.2 (Cont'd)****Table 1: Contribution of PCE to GDP growth**

	Contribution (% pts)					Growth of real GDP, year-on-year (%)				
	2017	2018	2018		2019	2017	2018	2018		2019
			H1	H2				H1	H2	
China, the Mainland <sup>#</sup>	3.9	5.0	n.a.	n.a.	4.2	6.8	6.6	6.8	6.4	6.4
India	3.7	4.8	4.5	5.0	4.1	6.9	7.4	8.0	6.8	5.8
Indonesia	2.7	2.7	2.7	2.7	2.8	5.1	5.2	5.2	5.2	5.1
Malaysia	3.7	4.4	4.0	4.8	4.3	5.7	4.7	4.9	4.6	4.5
Philippines	4.1	3.8	4.0	3.7	4.2	6.7	6.2	6.3	6.1	5.6
Thailand	1.5	2.3	2.0	2.7	2.2	4.0	4.1	4.8	3.4	2.8
<i>Advanced economies</i>										
Japan	0.6	0.2	0.1	0.3	0.4	1.9	0.8	1.4	0.2	1.0
Euro area	1.0	0.7	0.9	0.6	0.6	2.4	1.9	2.4	1.4	1.2
US	1.8	2.1	2.1	2.1	1.7	2.4	2.9	3.0	2.8	2.7

Note: <sup>(#)</sup> Contribution of private and government consumption expenditure combined are shown due to unavailability of breakdown. Real GDP growth in 2018 H2 is estimated using the average growth in Q3 and Q4 weighted by the nominal GDP of the respective quarters.

Sources: National Bureau of Statistics of China, CEIC, Datastream.

**Favourable factors supporting private consumption expenditure**

There have been both structural and cyclical factors underpinning the relatively solid growth and thus rising importance of PCE in the Asian EM economies over the past decade.

In the aftermath of the Global Financial Crisis in 2008, there have been calls for rebalancing the Asian EM economies from export-led growth to domestic demand-driven or consumption-led growth.<sup>(2)</sup> The exports-to-GDP ratios of the selected Asian EM economies dropped by various extent, with their five-year averages falling from a range of 21% in India to 109% in Malaysia during 2004-2008, to a range of 20% in India to 71% in Malaysia during 2014-2018. On the contrary, the PCE-to-GDP ratios in these economies were generally on the rise during the past decade, except for Indonesia and Thailand. Compared to the pre-crisis level, Malaysia marked a significant rise from 45% in 2007 to 57% in 2018, while the Mainland China and India also saw a moderate increase (from 37% to 39% in the former and from 56% to 59% in the latter). The PCE-to-GDP ratio of the Philippines has been the highest among the selected Asian EM economies, hovering around 73% since 2007. The rising importance of domestic demand particularly PCE relative to external demand implies that spillover from external shocks will become less severe. This is particularly so for economies with large domestic markets.

Moreover, there have been significant progress in financial inclusion in the Asian EM economies in the past few years, as documented by the Asian Development Bank (2017) and the International Monetary Fund (2019).<sup>(3)</sup> As analysed by Bhattacharya and Patnaik (2015) of the World Bank, households and firms are expected to benefit from the improved financial

(2) See for example, Akyüz (2011), “The Global Economic Crisis and Trade and Growth Prospects in East Asia”, Asian Development Bank Economics Working Paper Series No. 242. The figures quoted in the paragraph are sourced from the World Bank and CEIC.

(3) Jahan et al. (2019), “The Financial Inclusion Landscape in the Asia-Pacific Region: A Dozen Key Findings”, IMF Working Paper WP/19/79. Also, Asian Development Bank (2017) “Accelerating Financial Inclusion in South-east Asia with Digital Finance” detailed the national policy and progress in Indonesia and the Philippines to accelerate financial inclusion.

**Box 2.2 (Cont'd)**

inclusion and increase their current spending, either by borrowing or reducing current savings, thereby leading to faster growth in PCE than in the overall economy.<sup>(4)</sup>

Cyclical factors in the labour market and the property market have also helped underpin the current stable growth in PCE in some Asian EM economies. The latest unemployment rates in many Asian EM economies stayed at decade lows (*Chart 2*), with continued increases in real wage.<sup>(5)</sup> Specifically, thanks to improving labour productivity, the Mainland continued to post a notable wage growth of 8.7% in real terms in 2018. Real wage of Indonesia, Thailand and Malaysia registered increases of 1.4%, 0.6% and 0.5% respectively.<sup>(6)</sup> Increases in real residential property prices, ranging from 0.1% in Indonesia to 6.6% in the Philippines in 2018, may have also played a role in supporting PCE in some Asian EM economies.<sup>(7)</sup>

**Concluding remarks**

Looking forward, lingering uncertainties brought about by trade tensions and subdued economic performance of the advanced economies would continue to weigh on production and trading activities in Asia. Nevertheless, domestic demand particularly PCE in the Asian EM economies as a whole is likely to expand further, providing some cushioning effect.

In addition, the governments of some Asian EM economies have introduced various measures to boost consumption. In India, the Goods and Services Tax rates levied on a wide range of commodities, including digital camera, movie ticket and uncooked vegetable, have been reduced since January 2019. In Malaysia, the sales tax with fewer goods being covered has been implemented since September 2018. In Thailand, the government approved various measures for improving public welfare benefits for low-income workers and reducing tax for domestic travel and various goods in April 2019.

The Asian EM economies contributed around 60% of global economic growth over the past five years. With the foreseeable shift of economic gravity from the West to the East, the Asian EM economies are set to become an even more important engine for global growth in future.

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(4) Bhattacharya and Patnaik (2015), “Financial Inclusion, Productivity Shocks, and Consumption Volatility in Emerging Economies”, *The World Bank Economic Review*, Vol.30, No.1, p.171-201.

(5) Global Wage Report 2018/19 of the International Labour Organization noted that real wages in EM economies increased more rapidly than those in advanced economies over the period 2006-2017, with the highest real wage growth recorded in Asia and the Pacific.

(6) The real wages of Indonesia, Malaysia and Thailand are estimated by deflating the nominal wage by consumer price index, based on CEIC data. The nominal wage in Malaysia refers to the average payroll in the sector of wholesale, retail, motor vehicle and services. For the Philippines, Asian Development Bank noted in the report of Asian Development Outlook 2019 (April 2019) that steady remittances amounting to 9.7% of GDP from overseas Filipinos helped underpin the private consumption in 2018, alongside the low unemployment rate and a personal income tax rate cut.

(7) Based on real residential property price statistics of the Bank for International Settlements.