

## Economic Expansion Update Paper

The recent developments in China and change in regional monetary outlook poses a threat to East Asia's economic expansion. Strained trade relations between China and the United States have sent ripples throughout the region. With high levels of uncertainty and a new round of tariffs this September, corporations have had their profits cut and investors have become less willing to invest.<sup>1</sup> Certain Chinese manufacturers have reallocated resources to other countries, including Vietnam and Cambodia, to avoid increasing operation costs.<sup>2</sup> However, developing East Asian and Pacific countries have "limited absorptive capacity due to relatively small size and inadequate infrastructure" which restricts manufacturers' ability to relocate.<sup>3</sup> However, tensions between these two countries may ease in the coming months. U.S. President Donald Trump and Chinese Vice Premier Liu He agreed on "Phase 1" whereby the U.S. agreed to not raise tariffs in exchange for several concessions including full market access of China's financial services industry, an end of currency manipulation, guaranteed spending on U.S. farm commodities, and stricter Chinese enforcement mechanisms for intellectual property.<sup>4</sup>

Hong Kong is an essential piece to the Chinese economy. China uses Hong Kong's currency, equity, and debt markets to attract foreign investment. Of the £52 billion raised globally by Chinese companies, £28 billion originated from Hong Kong.<sup>5</sup>

1 "Economic Update: South East Asia." ICAEW, Accessed October 19, 2019.  
<https://www.icaew.com/technical/economy/economic-insight/economic-insight-south-east-asia>.

2 "To Dodge Trade War, Chinese Exporters Shift Production to Low-Cost Nations." The Business Times, The Business Times, June 27, 2019.  
<https://www.businesstimes.com.sg/government-economy/to-dodge-trade-war-chinese-exporters-shift-production-to-low-cost-nations>.

3 "East Asia Pacific Economic Update, October 2019: Weathering Growing Risks." World Bank. Accessed October 19, 2019. <https://www.worldbank.org/en/region/eap/publication/east-asia-pacific-economic-update>.

4 Rapoza, Kenneth. "Trade War Update: China's Back Is Up Against The Wall." Forbes. Forbes Magazine, October 18, 2019.  
<https://www.forbes.com/sites/kenrapoza/2019/10/18/trade-war-update-chinas-back-is-up-against-the-wall/#53f8ee521ac1>.

5 Bradley, Charlie. "South China Sea Crisis: Why Hong Kong Protests Could Damage Xi's Military Ambitions." Express.co.uk. Express.co.uk, September 30, 2019.  
<https://www.express.co.uk/news/world/1184500/south-china-sea-crisis-hong-kong-china-beijing-military-world-war-3-spt>.

However, a bill favoring a Communist Party of China (CPC) agenda and the government's heavy-handed intervening of protests has caused political unrest.<sup>6</sup> These developments have distorted the city's image as a stable economic hub, discouraging the foreign direct investment that flows into China. Losing this channel could destabilize parts of the Chinese economy and redirect investment elsewhere out of the region.<sup>7</sup>

Distinct from previous years where economists worried about rising interest rates, central banks in the region have pivoted their position in 2019. Malaysia's Bank Negara lowered its interest rate in May by 25 basis points--the first cut since July 2016. Similarly, the central banks of the Philippines, Indonesia, and Thailand have lowered interest rates in hopes of stimulating their economies.<sup>8</sup> These overarching domestic policy changes reflect a greater regional concern over decelerating economic growth. Although lowering interest rates may spur economic activity, this runs a greater risk of vulnerabilities in the financial system.

6 Patten, Chris, Gerald Yu, Kien Choong, Ron Jacob, Godfree Roberts, Carl Buzawa, and Qwai Lo. "China's Hong Kong Problem by Chris Patten." Project Syndicate, September 30, 2019.  
<https://www.project-syndicate.org/commentary/hong-kong-demonstrations-china-problem-by-chris-patten-2019-09>.

7 "Is China Using Protests to Chip Away at Hong Kong's Economic Freedoms?" South China Morning Post, August 30, 2019.  
<https://www.scmp.com/economy/article/3025103/china-using-hong-kong-protests-chip-away-citys-economic-freedoms>.

8 Ng, Thiam Hee, Pravakar Sahoo, Alok Sheel, Andrew Sheng, Adam Triggs, M. Chatib Basri, David Murakami, et al. "Why Are Interest Rates Falling in Southeast Asia?" East Asia Forum, October 10, 2019.  
<https://www.eastasiaforum.org/2019/10/10/why-are-interest-rates-falling-in-southeast-asia/>.