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Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

The dark side of the current robust economy, etc.

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3. Highlight of Indicator for this Month

Adverse wind creeping up on the stable Asian economy (Toshikazu Kumagai, Senior Staff, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

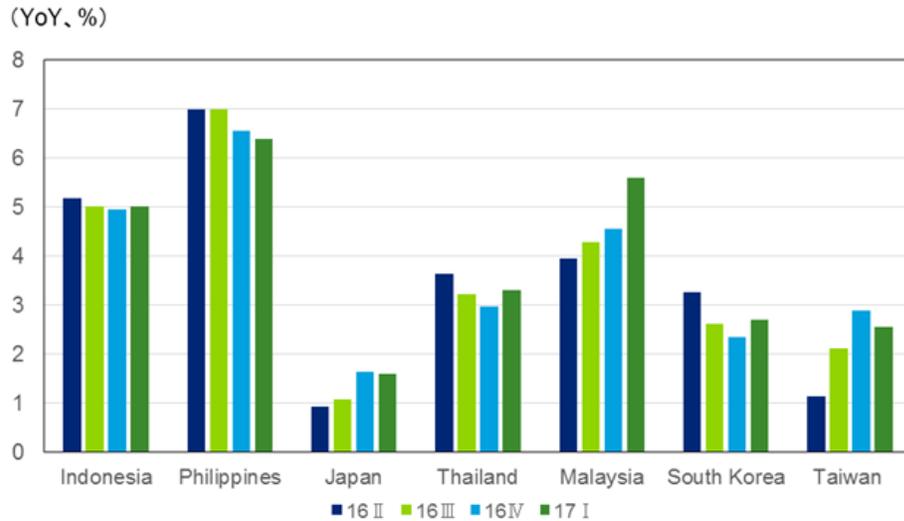
The economies of Southeast and East Asian countries saw overall stable growth in the January-March period (Chart 1). One of the contributing factors was strong export, which was supported by accelerated growth in China and the generally robust economies in advanced countries including Europe. Some countries observed improved domestic investment thanks to strong external demands.

Given these circumstances, in contemplating the future, the Chinese economy is a principal concern. While it is currently the highest priority to avoid deceleration in growth as a major political event is approaching in autumn, structural issues are piling up such as a real estate bubble, the shadow banking system, and the excess capacity problem. A view is spreading that, after President Xi solidifies his power base at the National Congress in autumn, he will work on these structural challenges in full –swing, causing a temporary impact on the domestic demands.

If you look at a proportion of the export to China to the gross domestic product (GDP) in Southeast and East Asian countries, Taiwan has a prominently high ratio, followed by South Korea, Malaysia, and Thailand (Char 2). Although it is necessary to consider indirect influences, if the Chinese domestic demands diminish, these countries will be largely affected first by decrease in the export to China.

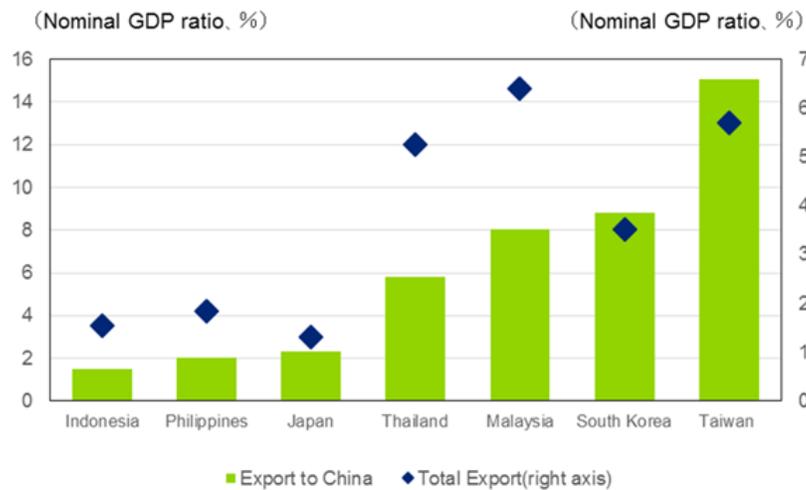
How long will the Asian economy be able to sustain this stable condition? After autumn, movements in the Chinese structural reforms require close attention.

Chart1 : Real GDP Growth



*(Source) International Monetary Fund (IMF), Executive Yuan of the Republic of China, Deloitte Touche Tohmatsu LLC. The 2017 1Q data is figures released by respective countries.

Chart2 : Export to China



*(Source) International Monetary Fund (IMF), Republic of China Ministry of Finance, Deloitte Touche Tohmatsu LLC.

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